



# Garfield Weston

FOUNDATION



## AN INSIGHT INTO THE FUTURE OF CHARITY FUNDING IN WALES





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### Acknowledgements

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Many people have helped to make this research possible. We are indebted to the agencies in Wales which were willing to provide information, including Phil Fiander, Director of Programmes, WCVA; John Rose, Wales Director, Big Lottery Fund; Gerallt Llewelyn Jones, Managing Director, Menter Mon; Liza Kellett, Chief Executive, Community Foundation in Wales; Helen Mary Jones, CEO, Youth Cymru; Victoria Winckler, Director, The Bevan Foundation.

WCVA is also to be thanked for making data from the All Wales database of charities available.

Special gratitude is due to the 289 voluntary organisations which took part in the survey, and particularly to those which also agreed to further interviews, in spite of the demands on their time and resources.

The charity survey was designed and led by Cass Business School and conducted by Wavehill. A sample of small to medium-sized charities in Wales, working in community, youth and welfare, was interviewed by telephone, in English or Welsh as requested. Wavehill also carried out in-depth follow-up interviews with a sub-set of survey participants.

A copy of the Executive Summary in Welsh can be downloaded from the Foundation's website [www.garfieldweston.org](http://www.garfieldweston.org)

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### About the Garfield Weston Foundation

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The Garfield Weston Foundation, which commissioned the research, is a family-founded, grant-making trust which has been supporting charities across the UK for over half a century and makes grants over £58 million annually. In recent years the Foundation noted a decline in the number of applications from some regions, despite these being areas of apparent need. This research is the second that the Foundation has commissioned to provide evidence and insights to inform the Foundation's work in a specific region – the first of which was the North East of England. This research will inform the Foundation's activities and it is hoped that it is a useful resource for other grant makers and their work in Wales.

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### About CGAP at Cass

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CGAP@ Cass is a consortium of researchers at, or linked to, Cass Business School, City University. It is dedicated to advancing understanding of giving and philanthropy, and to sharing and disseminating knowledge in philanthropy research, policy and practice. CGAP's current programme looks at the contribution of charitable trusts and foundations, individual and corporate giving, as well as philanthropy education, and the emerging challenges of the new institutions and modes of giving and philanthropy. The work builds on an initial joint award from the ESRC, Cabinet Office and Scottish Government to a set of partner universities and institutions. For further information see [www.cass.city.ac.uk/research-and-faculty/centres/cgap](http://www.cass.city.ac.uk/research-and-faculty/centres/cgap)

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### About Wavehill Ltd

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Wavehill was established in 1993 and provides specialised research and consultancy services to clients across the UK from its offices in West Wales, Bristol and London. The team of 25 researchers and consultants undertake research and evaluation to improve programmes, schemes and projects for the benefit of the people and communities they are designed to support. This work includes advising national government (having undertaken a significant number of contracts for the Welsh Government), Local Authorities, Partnerships, as well as Regional and National statutory and third sector organisations. For more information see [www.wavehill.com](http://www.wavehill.com)

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### Author

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Cathy Pharoah is Visiting Professor of Charity Funding and co-Director of the Centre for Charitable Giving and Philanthropy at Cass Business School, City University. She has a long track record of research in voluntary sector income and specialises in funding trends.

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### Contributors

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Yasmin Jennings is a Consultant at Wavehill Ltd. She has over six years' experience of delivering research and evaluation within the public and voluntary sectors across a broad range of fields including health and social care, education, volunteer support, and equality and diversity.

Oliver Allies is Director and Senior Consultant at Wavehill with over 14 years of experience in delivering research and evaluation on behalf of the voluntary sector, public sector and private sector.

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## EXECUTIVE SUMMARY

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### Context and aims

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At a time when government spending cuts are widely affecting the voluntary sector, and funding pressures on local frontline charities are increasing, this research explores what might underlie lower than expected numbers of applications from Wales to large charitable funders. With a focus on small-medium sized organisations (i.e. income of £3 million or under) in community, youth and welfare, the research looked at the impact of funding cuts on income and services and how organisations are addressing the issues arising from the changing funding environment. It aims to provide an evidence base to inform the work of funders interested in supporting and strengthening the charitable sector in Wales.

### Key messages

- in a climate of uncertainty with local government re-organisation, changes to public funding, squeezed budgets and growing service demands, small-medium sized charities lack the dedicated resources, drive and skills development needed to tackle the funding changes affecting their longer-term ability to deliver services.
- bigger organisations are coping better with the changing funding context, while many small-medium charities have taken few tangible steps towards shifting from traditional public support to new ways of working; they need to become more pro-active and engaged in identifying and seeking help with growth and development needs.
- charities require support to make the transition from public sector to independent, diverse funding.

### Main findings

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**Planning and development vacuum** The vast majority (87%) of organisations receive funding from at least one government source, and around one-third (32%) had experienced a decrease in income, with 36% anticipating a future decrease. However, amidst the pressures of service increase and environmental uncertainty, just over half were reviewing or changing their funding mix, although overall 65% had experienced an increase in service demand. Just 31% had increased income generation resources, and many need guidance around planning in a situation of uncertainty.

**Middle-band most at risk** Organisations in the middle of the sample, with income between £50k - 200k were most likely to report decreases in income and reduced resources for fundraising.

**Low level of organisational needs identification** While nearly four-fifths said their funding mix was not right for what they wanted to do, few have begun to identify action they need to take to change their service delivery and funding models. Despite noting a problem, only 20% identified a need for more fundraising resource including time, and there was little demand for other kinds of help.

**Potential for greater income diversification** Organisations have a diverse range of income streams, with an average of six different funding sources but, other than public sector funds, few provide a substantial or main income. Although the majority receive income from individual giving, only 21% saw it as a main source. There is clear potential to strengthen fundraising from private sources.

**Better practice in full-cost recovery** Just 54% said they aimed for full-cost recovery and there is ongoing confusion in this area. This was a particular challenge for organisations used to having core costs covered by public sector grants, and many seemed unaware that some of the major foundations are increasingly offering core support. There is scope for greater clarity on unit costs by fund-seekers and recoverable costs by funders.

**New funding models held back by lack of drive and expertise** Only 10% mentioned trading as a main income source, and there is little evidence of new entrepreneurial development with the exception of providing training services, where activities are embryonic and somewhat tentative.

**Wider approach to fundraising from trusts and foundations** Organisations tend to approach 'like-minded' foundations whose funding criteria or people they know. This is reinforcing inflexibility and narrowing funding options with 69% believing they should receive public funding.

**Lack of internal and external expertise** Most organisations felt they had sufficient resources to maximise income-generating potential in relation to culture, knowledge and networks, but many lacked finance, expertise and staff

time. Few organisations had sought external help other than the existing voluntary sector infrastructure which is geared to public funding. This leaves a fundraising expertise and support gap which urgently needs to be addressed if the sector is to thrive.

**Gaps at Board level** Although 75% of organisations said their Board was involved in fundraising, many Trustees are not engaged at a strategic level and most organisations said that income generation was led by opportunity. Building Board level fundraising expertise and recruiting on a skills-basis may help organisations to move forward in seeking alternative sources of income in a strategic way.

### Recommendations

The main recommendation for charities is the need to be more pro-active in seeking alternative approaches to raise income and to be creative about how they run their services. There are ways in which funders and others can support their development:

- funders to provide development grants for a wide range of organisational growth needs such as training and skills development, change management, business planning and development, budgeting, costing, communications, market research, marketing, Board skills audit;
- funders to review information on eligibility criteria and accessibility to small-medium organisations in Wales;
- funders to give clearer guidance on what is included in 'core costs' and the levels appropriate to include in funding applications;
- funders to work with infrastructure bodies to ensure they can provide full, up-to-date and accessible information on a range of funding opportunities, and signpost organisations on to other relevant sources;
- infrastructure bodies to be equipped to meet demands for new kinds of development, training and enterprise support.

### Details of the study

To achieve a balanced picture, the research had four strands:

- a review of existing documentation and research;
- a 20-minute survey administered to 289 charities;
- follow-up interviews with a representative sample of 23 survey participants;
- in-depth interviews with six senior staff from sector infrastructure agencies in Wales.

The organisational survey sample included registered charities with an annual income of £3 million or under, in the front-line areas of community, youth and welfare. The research was conducted in Welsh and English according to preference. An above average response rate of 48% was achieved.

## 1. INTRODUCTION

### Context for the research

Driven by the pressures of austerity and government policy, the funding of the voluntary and community sector in Wales has been in transition for some time. Many organisations face a reduction in the public sector funding that has been the traditional basis of their capacity to deliver services. In the midst of declining budgets and a more competitive environment, however, there is a great expectation that the sector will continue to address social issues. The sector is experiencing a heightened need for services at a time of growing risk to its ability to serve the most vulnerable groups in society.<sup>1, 2</sup> However, in spite of these funding pressures, several large charitable funders are experiencing lower than anticipated levels of funding applications from some areas, prompting concern about the future availability of support from the voluntary and community sector. Wales is one area where the quantity of applications to trusts and foundations<sup>3</sup> appears behind some other parts of the UK. Garfield Weston Foundation decided to commission a study to inform future work in Wales, following a similar project looking at the impact of the changing economic and policy environment on the funding of small and medium-sized voluntary organisations in North East England<sup>4</sup>.

Cathy Pharoah, Professor of Charity Funding and co-Director of CGAP at Cass Business School, London was asked to carry out this research, working in partnership with Wavehill, Aberaeron, Ceredigion, which conducted the majority of the research work. The study aimed to explore how changes in the funding environment are affecting small to medium-sized organisations, how organisations are responding, and to inform foundations on how they might help strengthen the funding base for future services.

### Issues and focus

Explanations for lower than expected levels of funding applications could lie both in the changes in the funding environment itself, in the way in which these are internally experienced and addressed by organisations and in local patterns of need. Some factors are more under organisations' direct control than others. Wales has areas of very high deprivation, particularly in the Valleys of south east Wales, and its economic output per head is the lowest of the countries of the UK. (See Appendix) The voluntary sector has received both EU and government funds as part of their anti-poverty strategies. The research was designed to encompass both the effect of reducing public funding on sector income as well as organisational factors such as the possibility of shrinking fundraising capacity due to pressure on resources, low levels of organisational expectation or aspiration, ability to survive in a more competitive statutory funding environment as contracts for welfare provision are increasingly open to new private and public suppliers, or lack of access to appropriate market information. If small to medium frontline organisations are struggling under such pressures, a key issue for funders is how the provision of local services will be affected in the longer-term and how they might support sustainable transitions.

<sup>1</sup> NCVO (2013) Counting the Cuts, The impact of spending cuts on the UK voluntary and community sector – 2013 update.

<sup>2</sup> Joy, I and Hadley S (2012) When the going gets tough: Charities' experiences of public services commissioning, New Philanthropy Capital.

<sup>3</sup> From this point on in the report the term 'foundations' will be used for convenience to refer to 'trusts and foundations'

<sup>4</sup> Garfield Weston Foundation (2014). 'An Insight Into The Future of Charity funding in the North East'. [www.garfieldweston.org/\\_common/updateable/documents/fd7fd16c-4649-4a7f-a543-afe950f347c5.pdf](http://www.garfieldweston.org/_common/updateable/documents/fd7fd16c-4649-4a7f-a543-afe950f347c5.pdf)



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## 2. METHODOLOGY

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### General objectives of the research

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The aims of the research were to provide a profile of small to medium-sized organisations in community, youth and welfare in Wales, understand the specific issues they are facing in relation to future sustainability and identify gaps where charitable foundations could help build resources. Specific research topics included:

- organisations' income, activity, geographical remit, and funding sources;
- current funding experience, outlook and mix;
- trends in service demand;
- strategic and organisational approaches to fundraising and income generation;
- internal and external barriers to, and support for, raising funds;
- role of Board and trustees in income generation; and
- resources for change and new initiatives.

### Research approach

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To ensure rounded perspectives, the research took a mixed methods approach with four phases:

- a desk-based review of key policy contexts and research on the sector in Wales;
- interviews with senior executive staff in six voluntary sector infrastructure agencies;
- a structured telephone survey of a sample of 289 voluntary and community organisations; and
- semi-structured interviews with 23 representative survey participants.

### Survey samples and response rates

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The research focus was small-medium registered charities in Wales providing front-line services in community, youth or welfare. These are high-needs activities often located in the most deprived areas, and vulnerable to changes in public spending. Only charities with an annual income of £3 million or under were included: as the research focus was on funding, organisations with no monetary income were excluded. The sample population had two components, consisting of organisations that had had contact with Garfield Weston Foundation since 2010, and a further sample meeting the selection criteria that had had no previous contact with GWF. This sample was chosen randomly from the WCVA All Wales Database of Voluntary Organisations. Telephone interviews were used to help ensure quality information, and maximise responses from small or 'hard-to-reach' organisations. After filtering out non-contactable organisations (i.e. incorrect contact details and those unavailable in the fieldwork period) 600 organisations were contacted, of which 289 participated in the survey, a satisfactory response rate of 48%. To explore issues in greater depth, follow-up semi-structured interviews were held with 23 participants sampled purposively to cover a range of funding experience and expectation.

### Structure of the report

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The findings are organised into sections by research themes, each drawing on relevant data from across the four strands of research. The report begins with a look at the funding climate, briefly describes the features of the sample, and then subsequent sections deal with recent experience and outlook, funding sources, demand, funding mix, approaches to income generation, resources for change, and finally conclusions and implications for next steps.

### 3. THE FUNDING CLIMATE AND THE SURVEY ORGANISATIONS

#### Issues affecting funding demand in Wales

Charities in Wales have been experiencing radical change to their funding base with the share of income derived from all public sector sources<sup>4</sup> falling from a substantial 47% in 2008 to just 33% in 2013.<sup>5</sup> This reflects a cut in direct grants from the Welsh Government, and more cuts in government funding are under way.<sup>6</sup> There are almost 9,000 registered charities in Wales, with a total income of £1.2 billion, and according to WCVA income has flat-lined since 2009.<sup>7</sup> This indicates that so far there has been little growth in alternatives to public sector funding within the sector. Any future growth in government funding will depend on the ability of the sector to win contracts for statutory service delivery (2014 Third Sector Scheme)<sup>8</sup>, but stakeholders interviewed in this research expressed reservations about capacity within the sector to take on large government contracts, and felt that sector organisations may struggle in a procurement system of which few have experience. As one infrastructure body said,



*It has taken the recession to bring the need for voluntary sector provision back into focus, but we need to ask ‘are they really ready to be a major player?’ There is a need to think more about how transfers will be managed and facilitated.”*

The research further indicated that public service contracting is not always an attractive alternative route for organisations, who are afraid of pressure to provide services at a low cost, and concerned about the viability of local authority contracts as a longer-term and reliable income-generating strategy. One service-providing organisation said,



*We’re reluctant to go down the route of delivering contracts for the local authority - a three year deal with the Big Lottery won’t be cancelled, but a local authority contract can be.”*

Together these issues of reluctance or capacity to enter the new contract environment raise a significant concern over how small to medium-sized organisations in particular will maintain income and services over the coming years and the impact of service reductions on communities and beneficiaries with high levels of need. There are likely to be particular problems in the rural areas which constitute a large part of the Welsh landscape, and where communities are more likely to experience isolation and lack of access to services. They have a higher number of voluntary and community organisations per head of population, and organisations tend to have lower average incomes than their urban counter-parts. An additional source of statutory funding to voluntary organisations in the Valleys of south east Wales has been EU structural funds targeted at rural development.<sup>9,10</sup>

Local re-organisation is also influencing the funding available to local organisations. The Welsh Government’s Communities First anti-poverty funding programme was radically re-aligned in 2013, with reduced funding and a re-grouping of eligible areas into larger geographical clusters which meant there was less dedicated funding for smaller areas. Another challenge to local funding may come from the proposal to reduce the number of local authorities in Wales from 22 to six, which is likely to lead to further pooling of public resources.<sup>11</sup>

<sup>4</sup> Income from Welsh Government, national government, local government and Health Board and Europe.

<sup>5</sup> WCVA (2011, 2013, 2014) Third Sector Statistical Resource.

<sup>6</sup> Minister for Communities and Tackling Poverty, February 2015. See [www.govopps.co.uk/6-6m-for-voluntary-organisations-in-wales](http://www.govopps.co.uk/6-6m-for-voluntary-organisations-in-wales)

<sup>7</sup> The latest in a series of WCVA surveys reports that the 33,000-plus voluntary groups in total across the country had an income of around £1.6 billion in 2012 - the same as in 2009.

<sup>8</sup> Welsh Assembly Government (2014) Third Sector Scheme p7

<sup>9</sup> Reid, K., and Mordaunt, J. (2009). Sustainable funding for the Welsh rural voluntary sector: issues of networks, legitimacy and power. In: ARNOVA, 19-21 Nov 2009, Cleveland, Ohio.

<sup>10</sup> [www.wcva.org.uk/funding/europe/structural-funds-programmes-2014-2020](http://www.wcva.org.uk/funding/europe/structural-funds-programmes-2014-2020) accessed 12/02/2015

<sup>11</sup> Sir Paul Williams (2014) *Commission on Public Service Governance and Delivery*

Voluntary organisations in Wales now urgently need to address the funding gap left by reduced or re-aligned public sector funding, and develop alternative routes to long-term sustainability in funding and service provision. For organisations whose existence has been traditionally predicated on the availability of public sector grants, this is a major change with far-reaching implications for traditional ways of working. Government has made some ring-fenced loan finance available<sup>12</sup>, but experience elsewhere in the UK has shown that both contract and social finance are as yet relatively inaccessible to smaller-scale charitable organisations. As the research will show, the Big Lottery is a significant funder for small-medium organisations in Wales, though other charitable foundations which could potentially make an important contribution appear to have a much smaller role. This report aims to provide an insight into the challenges faced by small-medium charities in changing their funding base, and what might help them build sustainable alternatives.

### Small-medium organisations in community, youth and welfare

#### Service Areas and Activities

This study is concerned with organisations providing services directly to the public (often termed 'frontline' services) in the three broad sectors of youth, community and welfare. These sub-sectors are working to complement, and address gaps in, existing state provision. Often located in areas of greatest social need, they are hard hit when statutory spending cuts are made.

The three sectors were defined for the purposes of the study in the ways listed in Table 4.1 below. The greatest proportion of respondents (43%) was found to consist of welfare organisations. Around one-third (34%) of the organisations surveyed were working within the community sector. Organisations working with young people made up the smallest proportion, with 27% of organisations identifying this as their main focus.

**Table 3.1: Respondent profile – main sector (%)**

Sub-Sector	%
<b>Welfare</b> children, families, carers, older people, women, learning disabilities, physical disabilities, minorities, housing and accommodation, homelessness, physical and mental health, advice and advocacy, domestic violence	<b>43%</b>
<b>Community facilities and development</b> transport, community centres and buildings, associations, clubs and groups	<b>34%</b>
<b>Young people</b> at risk, sport and recreation, youth groups and clubs, education and training, employment, personal health and well-being, advice	<b>27%</b>

Base: All respondents (n=289): total exceeds 100% as some respondents selected more than one answer.

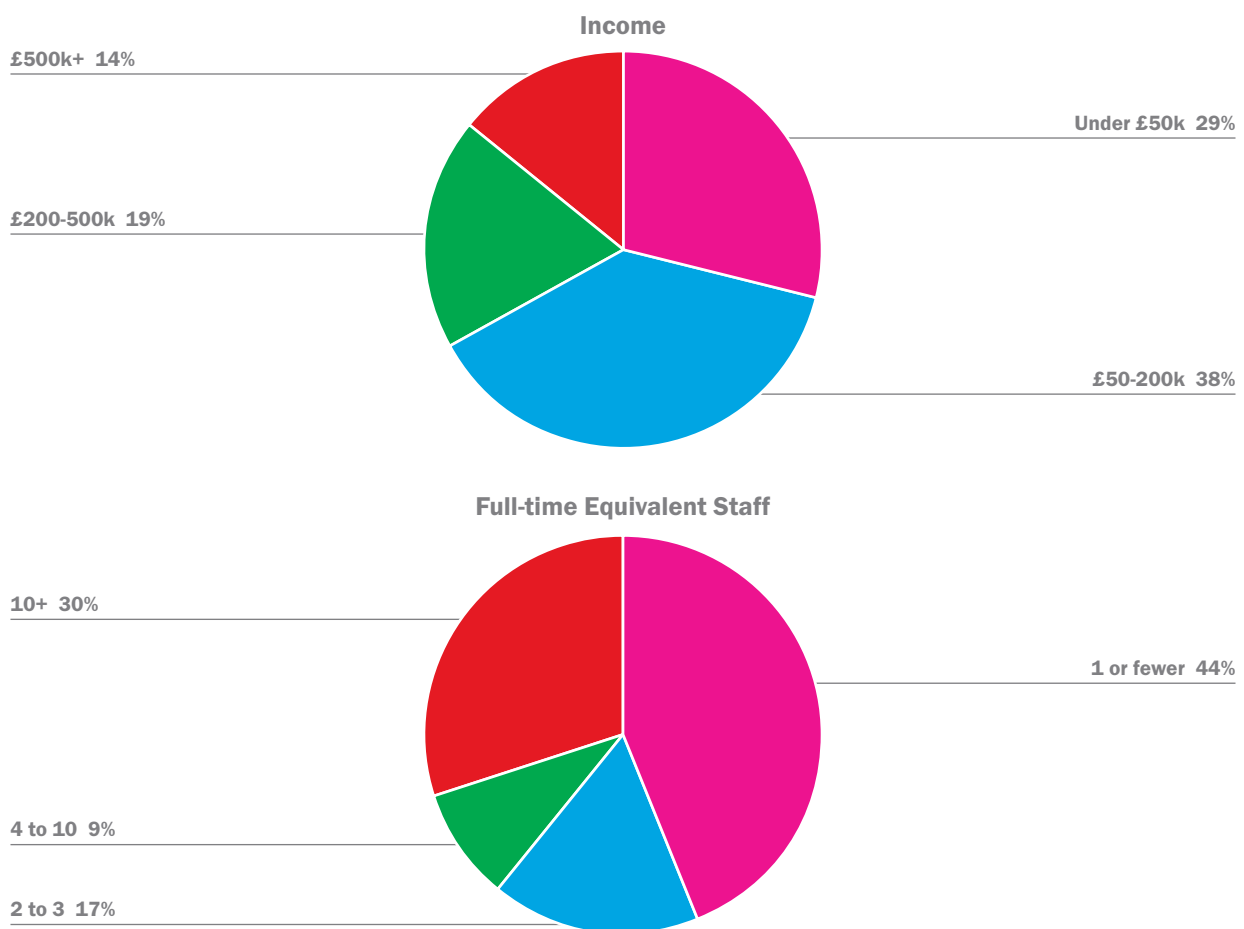
<sup>12</sup> a new £20 million Community Investment Fund (2014) targeting health and social care, education, training and employment support, and children's services. The Welsh Government's Wales Micro-business Loan Fund (2013) has also ear-marked £1 million for the voluntary sector.

### Size and income

The sample broadly fell into three relatively equal income segments. (Figure 3.1) The one-third (33%) of respondents with incomes of more than £200k includes 14% with an income of over £500k.

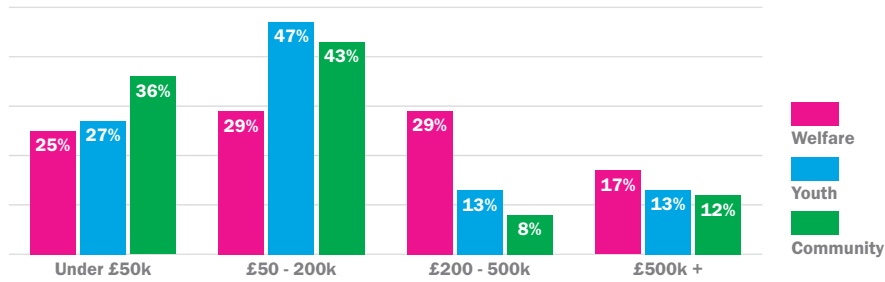
Scale of organisation was found to be related to type of services provided. Figure 3.2 shows how the larger organisations (incomes of over £200k and £500k) are more likely to be providing welfare services (46% together), than youth (26%) or community (20%). Organisations in the middle band (between £50k - 200k) were more likely to be providing youth services, while those in the lowest band (under £50k) most likely to be providing community services. This means that to an extent the sustainability of provision of different services is dependent on the health and sustainability of organisations operating at particular income scales. Reflecting income distribution, around one-third (30%) of organisations had ten or more full-time equivalent (FTE) staff.

**Figure 3.1: Respondent profile - income bands and FTEs**



Base: All respondents (n=289)

Figure 3.2: Income band by main service area

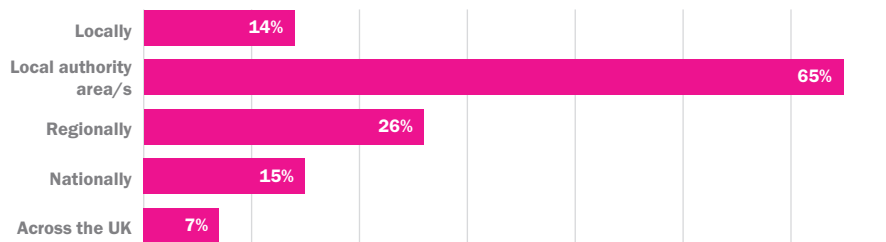


Base: All respondents (n=289)

### Geographical spread

There are 22 local authorities in Wales, many with small populations of 70,000 people (e.g. Blaenau Gwent, Anglesey, Ceredigion). The initial intention was to survey areas of highest deprivation, but as the location of charities does not necessarily reflect areas of service delivery it was more straightforward to sample the whole of Wales. Findings confirmed the achievement of a local focus in the sample, with roughly two-thirds (65%) serving specific local authorities. In practice, 41% of respondents work regionally or beyond within Wales (26% regionally, and 15% nationally). Few (7%) work across the UK.

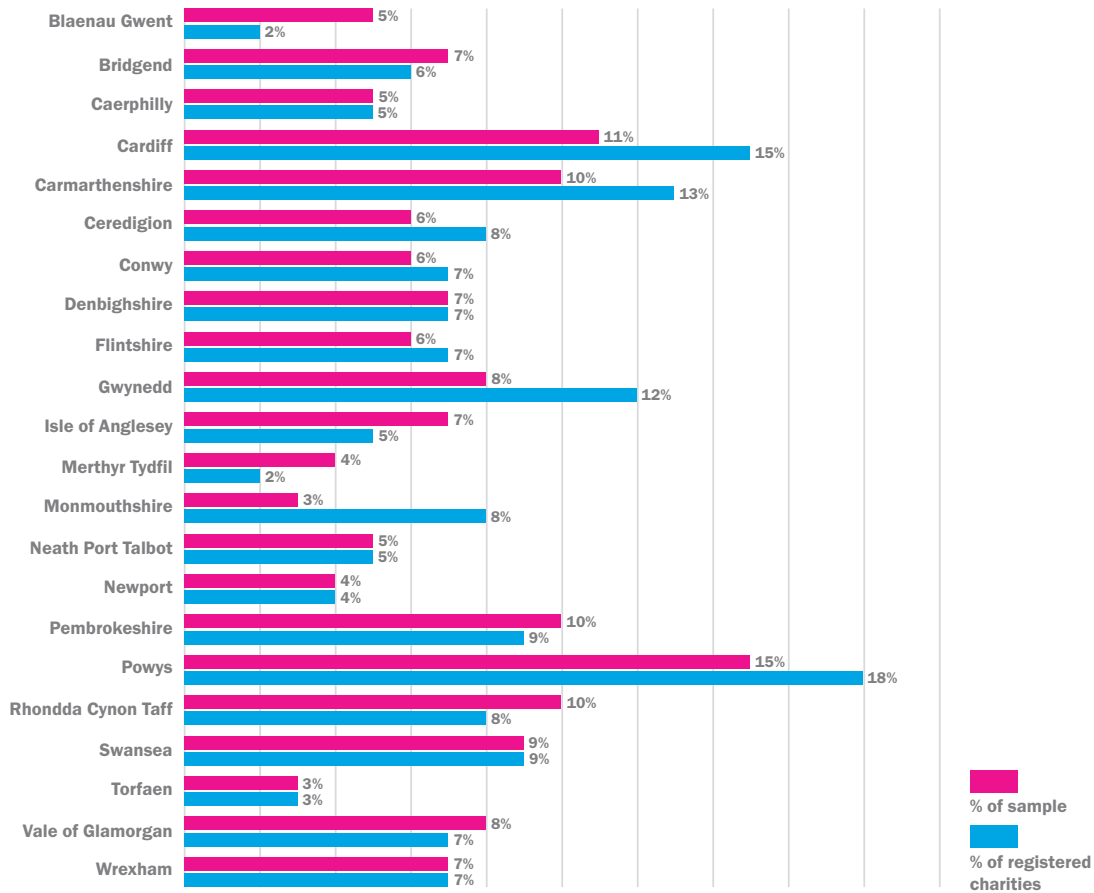
Figure 3.3: Respondent profile - geographical remit



Base: All respondents (n=289) total exceeds 100% as respondents could select more than one answer.

The respondent profile reflects the spread of charities across Wales, with good representation of all local authorities. Greatest proportions are working in Cardiff, Powys, Rhondda Cynon Taff, and Pembrokeshire, reflecting higher numbers of charities in these areas.

Figure 3.4: Respondent profile - Local Authority areas



Base: All respondents (n=289)

### Sources of funding and diversification

#### Overview of funding

A very high proportion (87%) of respondents derive income from at least one public sector source (Table 3.2). Voluntary income is also important as 84% get some income from individual donations, legacies or fundraising activities. Around two-thirds (65%) receive income from charitable foundations, and 47% from National Lottery grants. Sizeable proportions get support from business (41%), trading (39%), and European funding (21%).

Table 3.2: Sector profile - sources of income

	Any income	Main income
<b>Public sector</b> Local Authority, Local NHS body, other local agency (police, fire authorities), the Welsh Government, the UK government, government-funded agency (e.g. Arts Council, Environment Agency, English Heritage, NESTA, regional funds)	87%	55%
<b>Grants from trusts and foundation</b>	65%	23%
<b>Individual giving</b> Donations from individuals, legacies, fundraising activities	84%	21%
<b>National Lottery</b> Big Lottery Fund, Big Lottery Awards for All Wales, other Lottery Fund (e.g. Heritage Fund)	47%	20%
<b>Trading</b> (e.g. charity shops, café, Christmas cards, catalogue or other sales of goods and services)	39%	10%
<b>Membership subscriptions</b> Membership subscriptions and sponsorships which can be gift-aided for tax relief	29%	8%
<b>Support from business</b> Donations, grants, contracts from private companies	41%	5%
<b>Europe</b>	21%	5%
<b>Social investments and loans</b>	9%	1%
<b>Others</b>	31%	16%
<b>All respondents</b>	286	244

NB: Total exceeds 100% as respondents were able to select more than one answer.

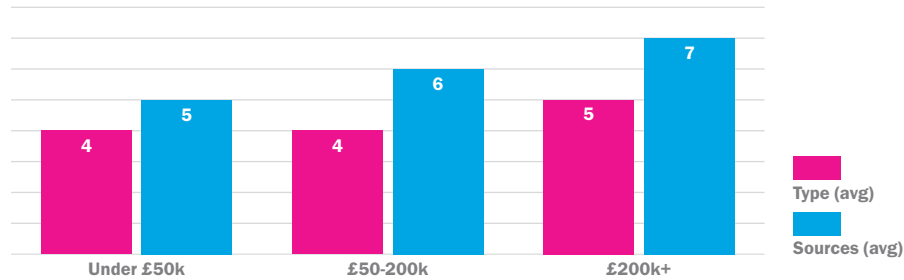
### Number of funding sources

In Table 3.2 a range of funding sources under each type is detailed, and results show that organisations averaged six funding sources, drawn from an average four funding types. (Figure 3.5) Even the smallest organisations generate incomes of less than £50k from five sources on average, indicating there may be high fundraising input for relatively low returns.

### Main funding sources

In practice only a few sources provide substantial funding. (Table 3.2) Analysis of *main* sources (those providing 25% or more of income) shows that public sector funding is a main source for well over half of respondents (55%), and all organisations with local authority funding said it was a main source. (38%) Private funding was a main source of income for just one-quarter to one-fifth of respondents (foundations 23%, individual giving 21% and national lottery funds 20%), with marked contrasts between high usage and low contribution to income. (Figure 3.6)

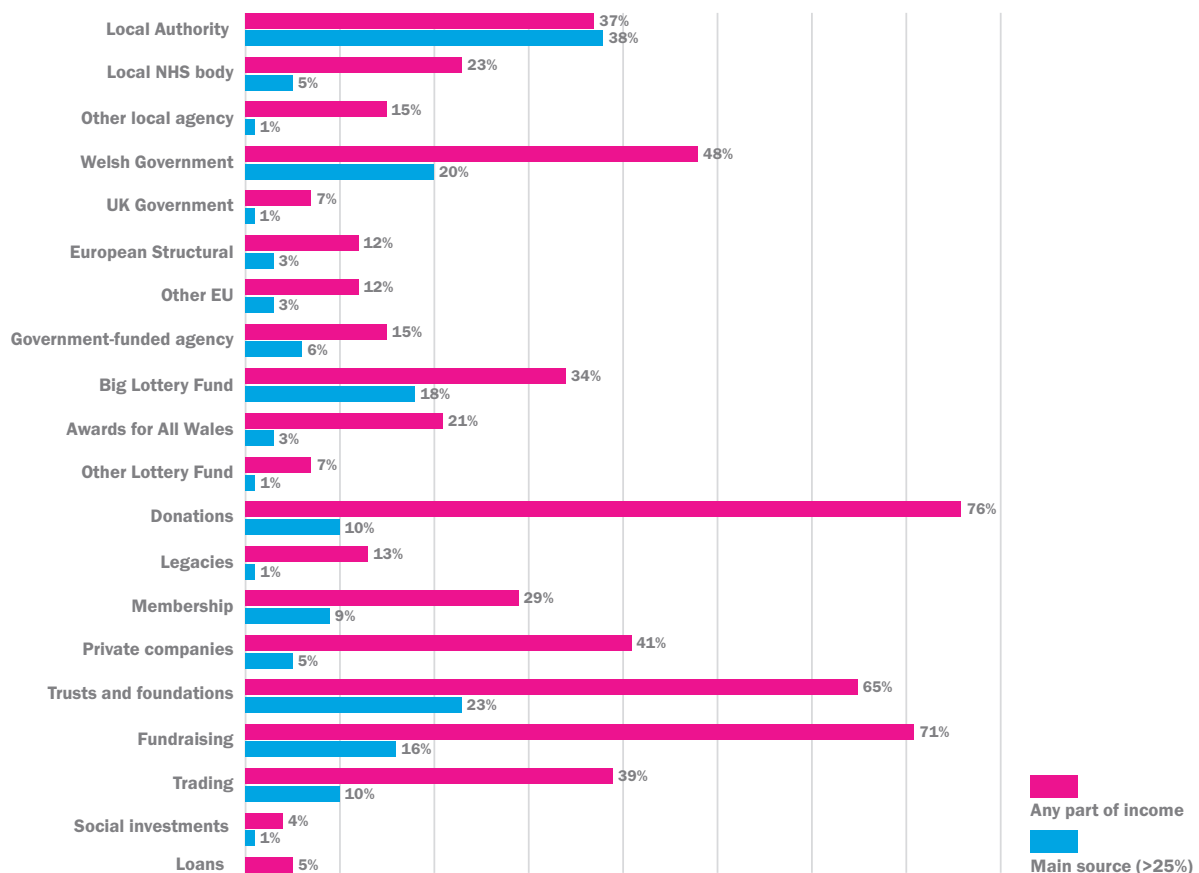
Figure 3.5: Diversification of funds – average number of sources by income band



Base: All respondents (n=286)

For example, although three-quarters (76%) received income from donations, only 10% reported this as a main source. Additionally, 71% derived funds from fundraising (eg events, raffles) but just 16% saw these as a main source. Membership income was reported by 29%, but was a main source to only 9%. Trading was carried out by 39%, but a main source to only 10%. These findings inevitably lead to the question of how far such private funding has greater potential as part of income diversification.

Figure 3.6: Sector profile – all and main sources of income compared



Base: All respondents (n=286); total exceeds 100% as respondents were able to select more than one answer.

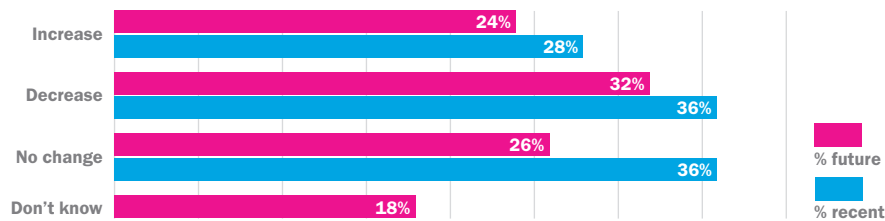


## Recent experience and future outlook

### General picture

Almost three-quarters said income had decreased (36%) or stayed the same (36%) the previous year. Just over one quarter (28%) said it had increased. When asked about expectations for future income, those expecting a decrease were the single largest group, at nearly one-third (32%); many more expected no change in future income (36%) than in the previous year (26%).

**Figure 3.7: Organisational income - recent experience and future expectations**



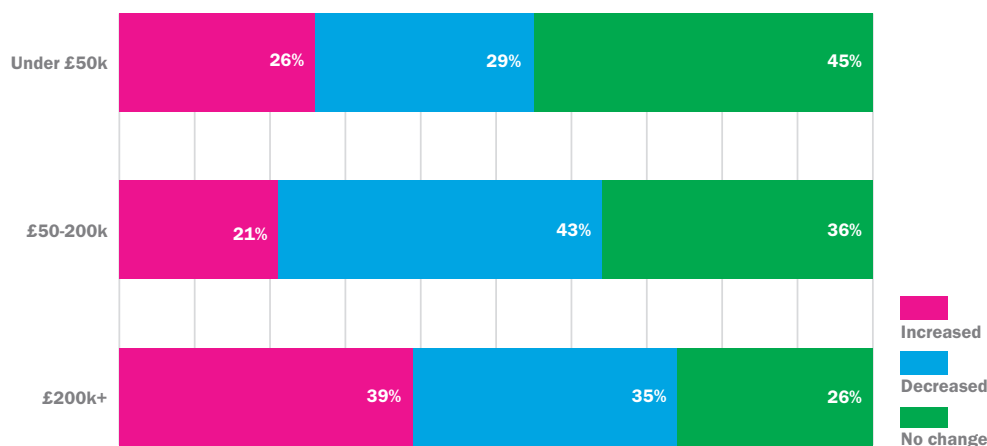
Base: All respondents (n=289)

Significantly almost one in five (18%) were unable to make a prediction. This is evidence of the planning uncertainty reported in the follow-up interviews, and discussed further below. Under one-quarter (24%) anticipated an income increase, findings which raise great concern about whether current services can be maintained, let alone increased if austerity raises demand.

### Recent income experience by income band

Size is important. (Figure 3.8) The smallest organisations (incomes under £50k) were most likely to report income had stayed the same (45%). Organisations in the middle band (£50 - 200k) were most likely to report a decrease (43%), while the largest were most likely to report an increase (39%). The middle income band appear most under pressure as a result of the changing funding environment, and this finding reflects results in the NE England study.

**Figure 3.8: Organisational income - recent experience by income band**

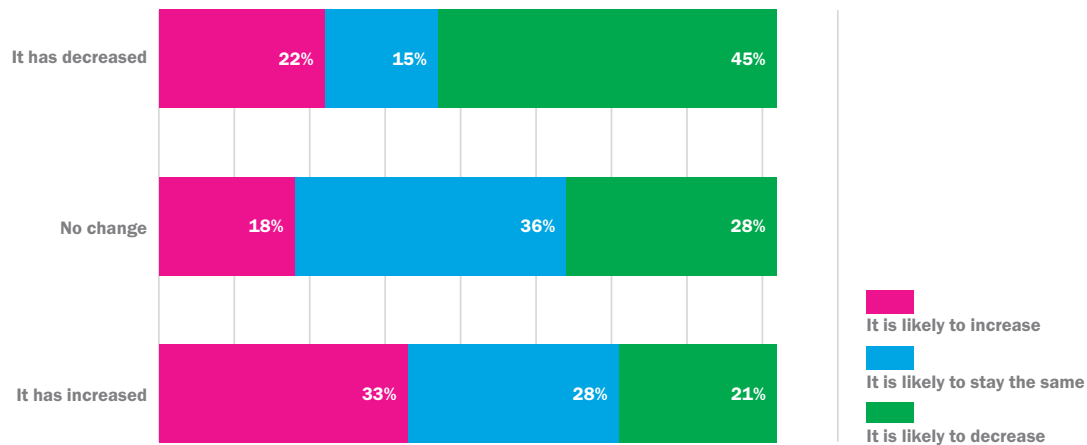


Base: All respondents (n=289)

### Relationship between recent experience and future expectations

The correlation between future expectations and recent experience is not as strong as might be expected (figure 3.9). Twenty-eight per cent of those who said their income had stayed the same were anticipating that their income would decrease in the future. While 45% of those who said their income had decreased were expecting it to decrease further in the future, 22% were expecting an increase in the future, and a further 15% were expecting it to stay the same.

**Figure 3.9: Organisational income - recent experience by future expectation**

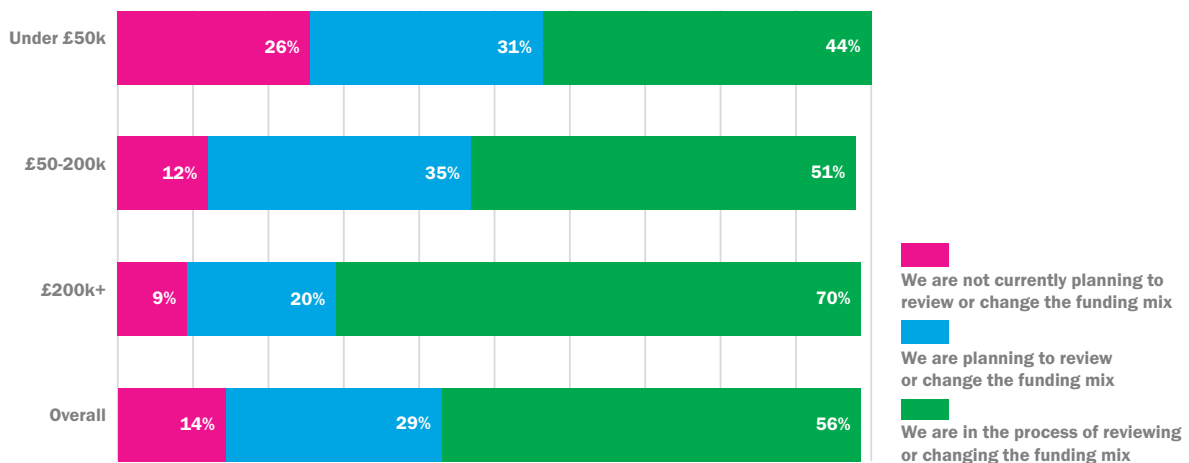


Base: All respondents (n=289); totals do not sum to 100% since 'don't know' is not shown.

### Trends in funding resources and service demand

Results indicated considerable dissatisfaction with the current funding mix. Almost four in five felt either that the current funding mix was not right (19%), or that it would have to change (59%). Of these, however, only 56% were already in the process of review or change. Notably this rose to 70% for the largest organisations which included many welfare providers. (Figure 3.10) It compares markedly with the hard-pressed middle band, where just 51% were in the process of change or review, with 35% at the planning stage, and 12% not planning any change. This enhances the sense of risk to the middle range, and a particular need to support them review plans around future service provision.

**Figure 3.10: Organisations reviewing funding mix by income band**



Base: 239 organisations who said their funding mix was not right for what they wanted to do, or that it would need to change in the future. Totals do not sum to 100% (or nearest rounding) where 'don't know' responses are not shown.

### Views and experiences

With such a high proportion reporting that their funding mix was not right or would need to change, it is unsurprising that the vast majority (93%) said that fundraising and income generation capacity would need to be strengthened for the future. When asked what was driving this finding, organisational interviewees pointed to broad changes in the Welsh funding landscape. Firstly, there is a strong sense that costs are being driven down across the board, resulting in a more competitive funding environment:



***The current climate is making people more nervous about investing and giving funds in general.***

***“The economic downturn has created more competition for funding. Companies have less to give, and there is an increase in the number of applications.”***

Secondly, interviewees highlighted ongoing public sector funding cuts, and re-organisation of local government. Some attributed increasing pressures directly to reducing local authority provision:



***All [organisations] need more funding because local authority criteria for individual service users are changing. Social care for example, has been scaled back to support only those with critical, high level needs.”***

***“The council give us a specified number to work with, those who are prioritised for their level of need. They made a decision to scale back, reduce the cost per head and give less to the service.”***

Some organisations feel that the sector lacks diversity, and needs to source alternative funds:

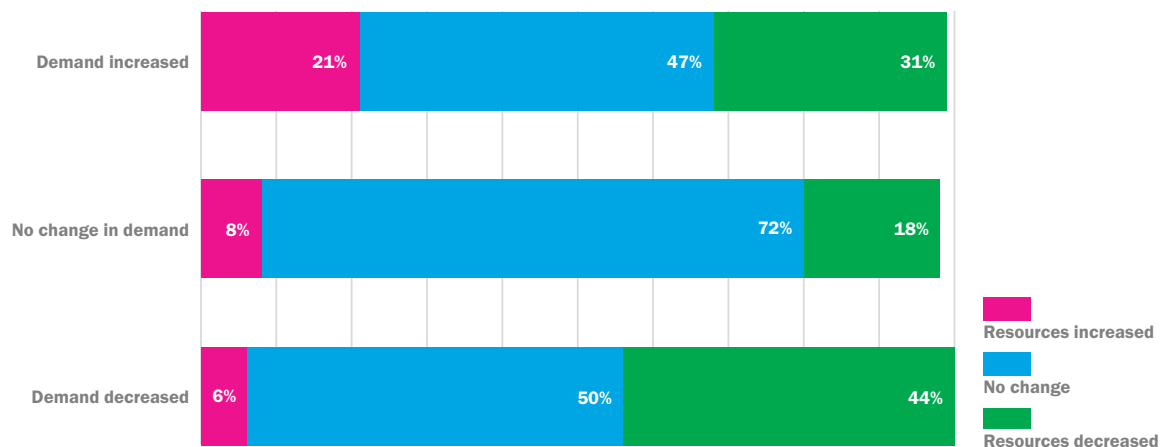


***Funding from Local Authorities and local government in our case is drying up because of austerity measures. Organisations need to get smarter and more proactive in generating income.”***

***“Public sector cuts, it’s happened in England and it’s starting in Wales. We and the local authorities know the Welsh Government is planning cuts. Charities must do other things.”***

Concerns are also driven by trends in service demand. Around two-thirds (65%) had experienced an increase in demand, but just 21% had increased resources for income generation. (Figure 3.11)

**Figure 3.11: Trends in service demand by change in income generation resources**



Base: All respondents (n=289); totals do not sum to 100% since 'don't know' or 'it varies' are not shown.

## Planning and responding to change

How are organisations responding to the funding challenges inherent in a situation of reduced public sector provision alongside increased service demand? Findings on organisational approach to income generation yield a mixed picture of strengths and gaps. (Figure 3.12)

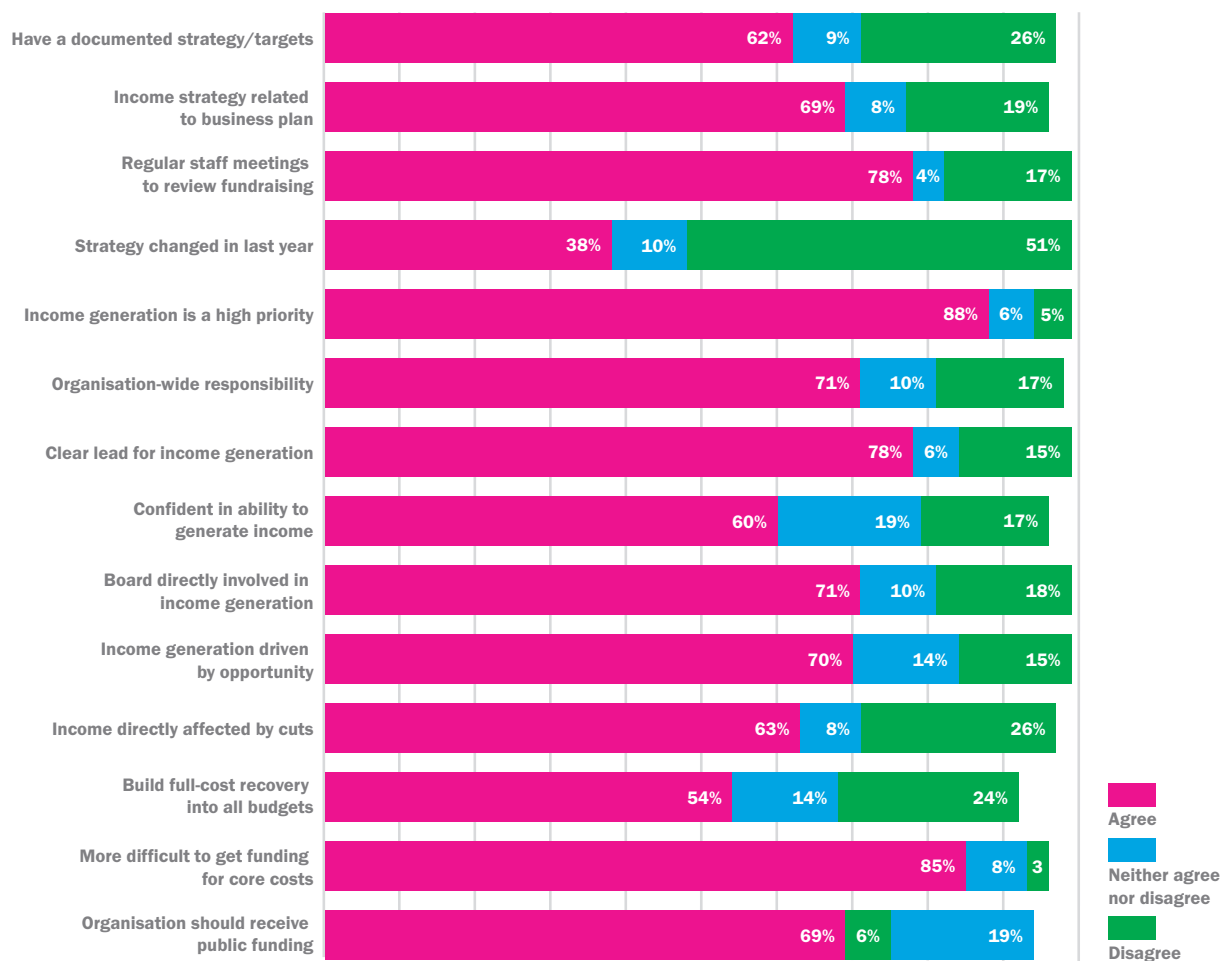
Government cuts were reported to have impacted on 64% of organisations, but just 38% had recently changed strategy. Almost one in five (19%) did not have an income strategy related to a business plan, and more than one-quarter (26%) did not have a documented strategy or targets. Organisationally a large majority (78%) have regular meetings to review fundraising strategy and a clear lead for income generation, but this is coupled with the finding that for a large proportion (70%) income generation is driven by opportunity. It seems that much current fundraising is not being driven strategically by planning around what the organisation wants to do, or the changes in the funding environment. Worryingly at a time of considerable environmental change, while 88% reported income generation as a priority, less than two-thirds (60%) have confidence in their organisation's ability to raise funds.

Interviewees described the difficulties of planning in an environment of uncertainty, but some recognised that if the sector is to 'step up' and fill service gaps, organisations must find ways of moving forward in a complex and risky environment. Organisational resources cannot be stretched infinitely.



*There is a risk and a danger in expecting the voluntary service to pick up extra needs, after cuts. More people are coming in through the doors."*

**Figure 3.12: Organisational approaches to fundraising and income generation**



NB: Totals do not sum to 100% since 'don't know' not shown.

### Core costs

Ability to meet core costs is essential to organisational health, and core funding emerged as a general issue to be tackled. More than four in five (85%) respondents reported that it is more difficult to get funding for core than for project costs. The key context for this finding, emphasised throughout the interviews, is that organisations are losing the core funding that was until now provided to them through public sector service level agreements, marking the start of a major transition for the Welsh sector:



***We have been left to find our own funding now the council has cut. They were providing our core funding and now we are down to nothing.”***

Many respondents do not know how to provide for core funding needs from alternative sources effectively. They perceived some alternative sources as shorter-term, more complex to apply for, and more competitive to win when compared with the previously ‘secure’ source of local authority funds.



***We don’t have a dedicated fundraising role, we are all delivering services. We have to apply to four or five grant-makers to fund one person’s salary. That’s a lot of work for a small organisation like ours.”***

Just over half (54%) of respondents report that they build full-cost recovery into their budgets, and there is a sense that a lack of clarity pervades the sector in this regard, both in relation to those seeking or providing funding. Practice around full-cost recovery varies widely, arising in part from awareness that costs everywhere are being driven down, and that commissioners are looking for savings. Respondents perceive themselves as able make the distinction between core and project costs, but are not always sure of what is available or the policy of a particular funder:



***with our main funder [name] we get more core costs when they have an underspend so it’s difficult to say what they would/wouldn’t include.”***

***.....***  
***“With tendering it tends to be what we can get away with because if we see we are not going to get full overhead, but it’s still worth having the contract, then we will do it at less than full cost recovery because we speculate on having more contracts, delivering overheads elsewhere.”***

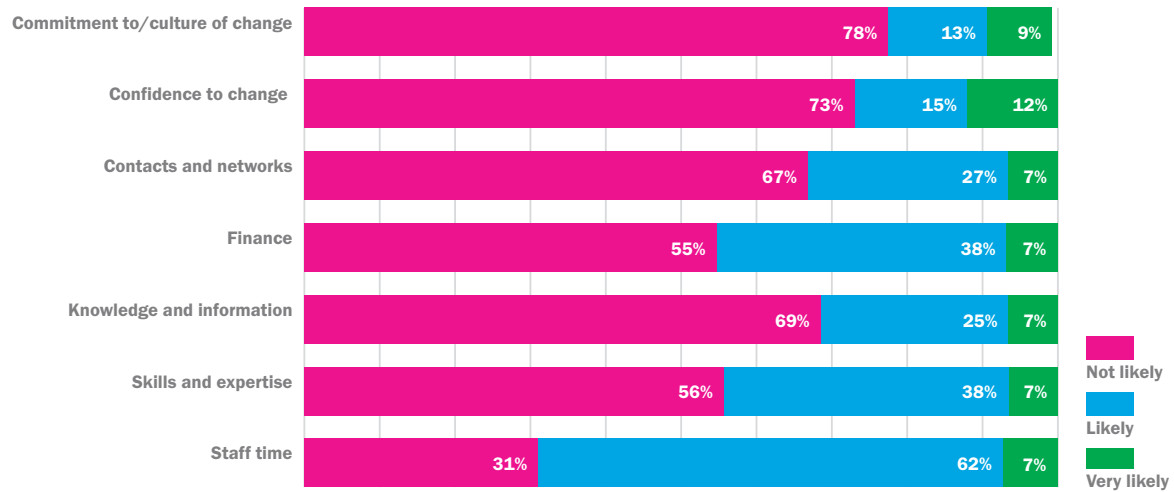
These findings indicate that budgeting for and costing services properly is becoming an increasingly urgent issue. It is not, however, an isolated issue. In a changing and tightening funding environment, organisations cannot continue to do things in the same ways as before. Planning will need to define income targets related to business plans, and to leverage new capacity organisations will need a more strategic approach to considering and costing alternative options for achieving their mission. Part of the strategy will involve reviewing their organisational robustness in relation to rising and changing expectations, and tackling the new skills and capacity needed to win new business and sources of funding. The next section of the report looks at capacity for change.

## Resources for change

### Organisational capacity

A high proportion of respondents report that their organisations have confidence to change (73%), and that there is a commitment to, or culture of change, within their organisation (78%). (Figure 3.13) Much lower, however, is confidence that they have the sufficient resources to do so. Just 31% said that staff time was sufficient to make the most of future potential in fundraising and income generation. Interestingly, the largest organisations were most likely to report that staff time was insufficient (71% compared with the average of 62%), although no significant differences were evident in any other aspect of resources. Possibly their appraisal of what is needed is more realistic because they are further ahead in the change process.

**Figure 3.13: Resources for maximizing potential funding and income generation**

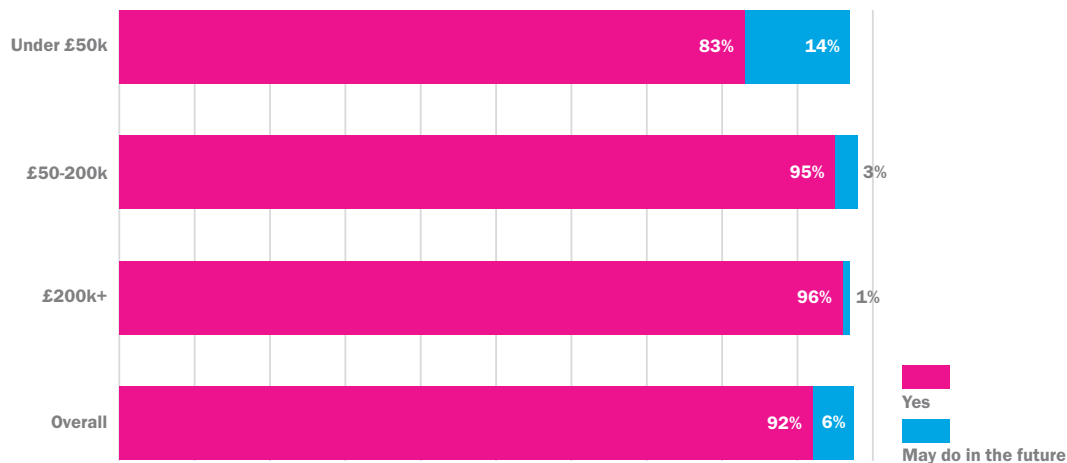


Base: All respondents (n=289). Percentages may exceed 100 due to rounding.

### Applying to foundations

As noted earlier, less than one-quarter (23%) of respondents derive a significant portion of their income from charitable foundations. This is despite the fact that the vast majority (92%) appear to have applied for foundation grants, and a further 6% may do so in the future. With major foundations generally reporting low application levels, the finding of a high proportion of foundation applications may reflect the popularity of the Big Lottery Fund in Wales.

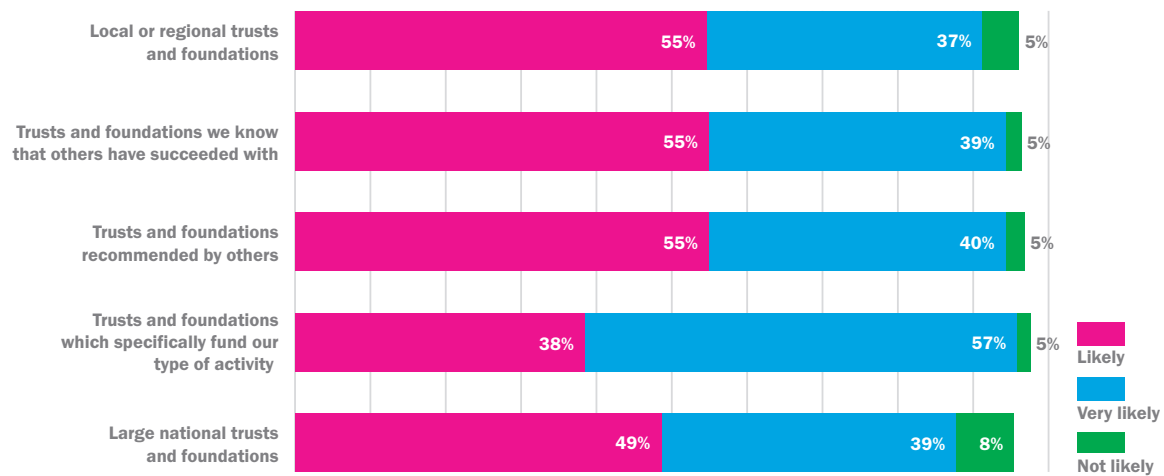
**Figure 3.14: Previous application to charitable foundations by income band**



Base: All respondents (n=289); totals do not sum to 100% since 'don't know' and 'it varies' are not shown.

In a changing funding context it is clearly important to ensure that foundation funding potential is approached in as effective a way as possible. Results did not reveal any strong preferences for the type of foundations which organisations would approach (Figure 3.15), and indicated that organisations are almost as likely to approach local and regional as national foundations. This contrasts starkly with findings in the North East of England where a strong preference for local over national foundations was found. The reason for this difference may lie in the lack of large local funders in Wales as much as in willingness to approach national funders.

Figure 3.15: Likelihood of approaching different types of foundations



Base: All respondents who raise funds from charitable foundations (n=284).

The comments given by charity interviewees reveal some insight into the factors which influence their decision-making. Organisations may have a fairly fixed view of what they want and stay with the same set of potential funders with which they feel reasonably confident, to avoid risking time and effort.



***We are happy to go to anyone as long as what they want is the same as what we want. We don't try to come up with what a funder wants, we go out and find a funder. We often go where we know someone has had a good experience, as opposed to a funder that no-one's ever heard of, the chances of getting it right first time are nothing."***

***"I prefer to approach funders that I know. I believe that a funder is a partner who you need to get to know and trust."***

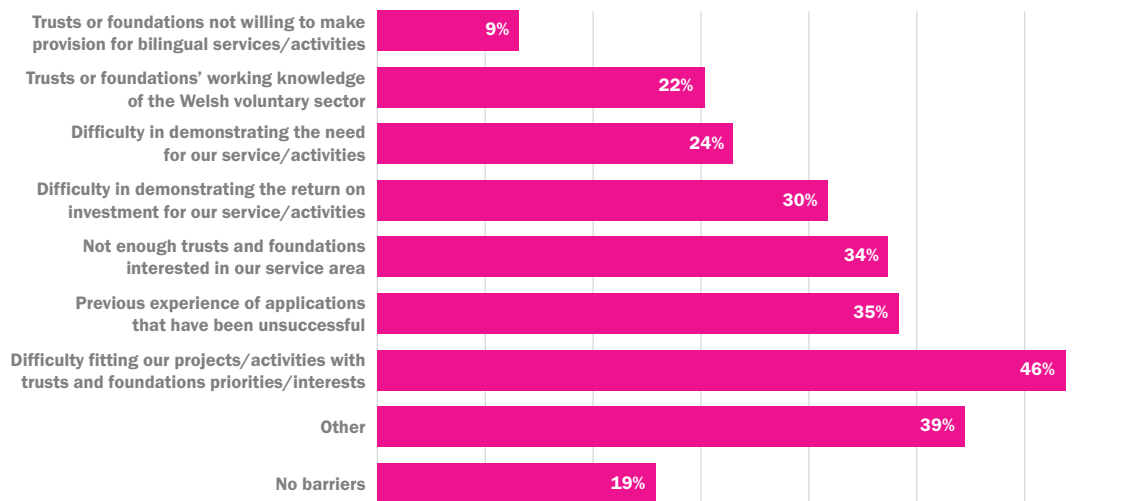
***"We look at how much they offer, and who they've given to in the past for example, poverty, carers. Timescales are important to us too, we can't wait six months from applying because we have an eight month reserve. We have to be strategic and prioritise which applications we go for, since it's a ten page document each time and a low conversion rate with a huge amount to do."***

The desire to avoid risk and 'go for what you know works' is an understandable approach, especially where organisations have limited resources, but may also be having the perverse effect of narrowing the funding opportunities actually available. Perceived barriers in the process were explored in interviews with organisations as well as in the wider survey which found around two-thirds of respondents (65%) identified with at least one potential barrier. (3.16)

A number of barriers were external to the organisation applying for funds, and related to the perceived interests and priorities of funders, or interest in the applicant's area of work. Almost half of the respondents (47%) said they had difficulty fitting their projects and activities with foundations' priorities and interests, although just 17% actually said there were not enough foundations interested in their particular service area. This finding may indicate scope for taking more flexible approaches to developing the potential 'fit' between organisations' and funders' charitable objectives.

Additional barriers were specified by more than one-third (40%) of respondents. More than one in ten (15%) referenced eligibility criteria. Willingness to fund core costs was a barrier for 9%, and a further 8% of respondents said that competition was a barrier, indicating that some organisations perceive a risk of wasting time. More collaborative or partnership bidding might help in these cases.

**Figure 3.16: Barriers to applying for grants from charitable foundations**



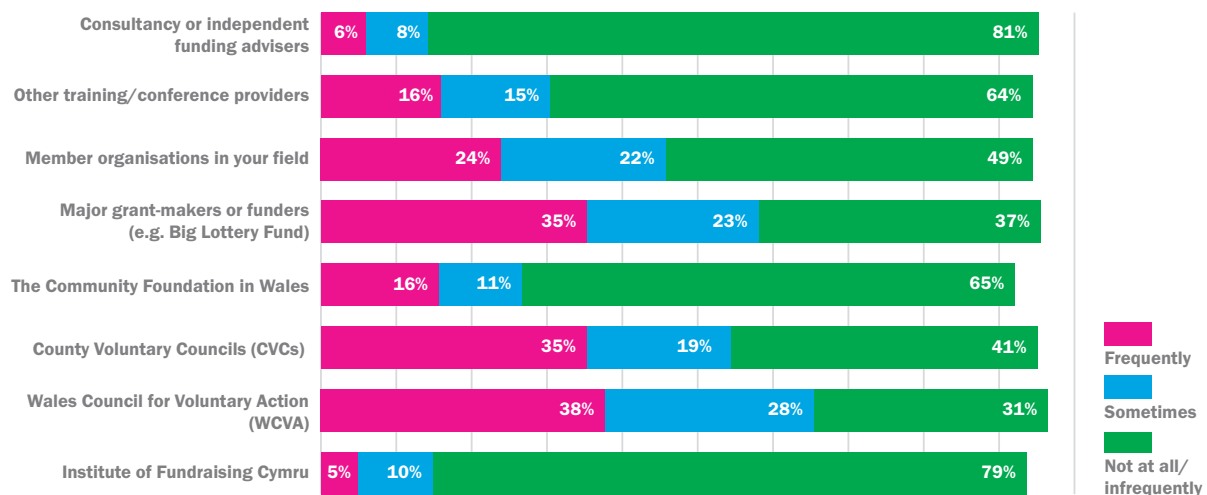
Base: All respondents who raise funds from charitable foundations (n=284)

There was some evidence of organisations in deprived areas being more likely to report barriers, both in difficulties with demonstrating return on investment and foundations' knowledge of the Welsh sector. How funders might address perceived barriers is discussed in the final section of the report.

### External help in accessing funding

What help do organisations seek external to their own resources? Results indicate that use of sector infrastructure support in Wales is largely geared towards accessing public sector funds, as shown in the significant proportions getting advice, information and training from the WCVA (66%) and the CVCs (54%). (Figure 3.17) Probably reflecting the strong presence of the Big Lottery in Wales, the major grant-makers are also frequently mentioned as a source of information, advice and training (58%), while member organisations are used by around half (51%). Just 8% report they do not access any advice, information or training from external bodies. Much of the advice appears geared to existing opportunities, and none of the organisations in the interviewee sample had accessed external support specifically around new funding opportunities. If organisations are to develop income generation from private sources (for example major donors, legacies, foundation or corporate donors), or explore new business or enterprise opportunities, they will need to be able to access the relevant advice, training or support, and this means that the development of the funding context in Wales may need to encompass infrastructure bodies.



**Figure 3.17: Frequency of accessing advice, information and training from external bodies**

Base: All respondents (n=289)

### Further support

Given current and expected further changes in the funding environment, what would help organisations to strengthen income generation and business planning? When asked about this, there was a rather low level of needs identification. (Table 3.3) Just one-fifth identified a need for more fundraising resource including time. These results appear to indicate that many small-medium organisations in Wales have not yet begun the process of changing from traditional government funding to new ways of working. They are still a considerable distance from tackling the changing funding environment head-on to safeguard future services.

Smaller organisations were particularly likely to mention a lack of dedicated fundraising resource.



***We don't have the resources to fundraise, we all work full-time for part-time salaries so that our funds go to the front-line of our services. We don't have a dedicated fundraising role, we are all delivering services."***

***"It can be very difficult for organisations to justify the role of a fundraiser, staff tend to do more than one thing. For example a Development Officer might be managing a youth centre and be expected to apply for grant funding in addition, particularly if it is a local organisation."***

How will organisations survive in the longer-term if resources are rushed to frontline service delivery, and planning and income generation continue to take low priority? Well under one-fifth of respondents mentioned, for example, the potential value of longer-term funding, better data or extra training.

With few internal resources, however, organisations need to be more imaginative in seeking external help or expertise. For example, 41% have income from companies, but only 1% mentioned them as a potential source of development help around the networks, expertise in business planning, marketing or operating efficiencies which charities need. Companies might be willing to help more if asked.

Some organisations feel that their problems are external to themselves, mentioning low awareness of or interest in their activity area, or the level of local competition. In this situation additional help in building communications, PR and advocacy capacity might make a difference. The challenges are not easy, but until organisations begin to articulate their needs and the specific resources which might help (other than traditional grants), funders and others will not be able to respond.

**Table 3.3: Additional support specified by respondents**

	<b>%</b>
<b>More fundraising/development staff/research</b>	<b>22%</b>
<b>Time</b>	<b>19%</b>
<b>Access to funding databases/information about opportunities</b>	<b>14%</b>
<b>Core funding/long-term funding</b>	<b>12%</b>
<b>Help/guidance with funding applications</b>	<b>11%</b>
<b>Public sector support</b>	<b>7%</b>
<b>Money/investment</b>	<b>7%</b>
<b>Generate more interest in our work/marketing</b>	<b>5%</b>
<b>Application processes</b>	<b>5%</b>
<b>Able to approach/contact funders directly/form relationship</b>	<b>3%</b>
<b>Increased awareness of issues in our geographic area</b>	<b>3%</b>
<b>Training/low-cost or free</b>	<b>2%</b>
<b>Nothing</b>	<b>2%</b>
<b>More members</b>	<b>1%</b>
<b>Help from advisory body</b>	<b>1%</b>
<b>Less competition</b>	<b>1%</b>
<b>Help from business</b>	<b>1%</b>

Base: All respondents (n=272)

### Summary

There is a strong sense amongst organisations of traditionally secure sources of funding drying up with no apparent replacement. A large proportion (69%) believe they deserve public sector funding. This is hardly surprising as such funding has in many cases directly shaped what organisations do and has been available for two decades. Although the research reveals widespread awareness of the need for change and diversification, it also indicates that few organisations have accepted that the old rules no longer apply and begun to re-think the nature of both what they offer and how this is funded. Only a few have begun to make this big cultural shift, and were able to provide examples of how they are thinking about utilising opportunities for alternative and new approaches to income generation. Most of this is at a very preliminary stage, and is briefly described in the next section of the report.

#### 4. ALTERNATIVE APPROACHES AND OPPORTUNITIES



*We help the community but that's no longer enough. We rely on our reputation, they know we will do a good job but reputation isn't enough anymore, it isn't enough to think 'surely we deserve this funding because of the work we do.' Changing that mind set and getting the Board to think differently is challenging."*

##### Trustees, change and leadership

As the quotation from one of the survey organisations indicates, the role of Boards can be crucial in helping or hindering organisations' ability to move forward in new ways. The study found trustees were involved at different levels in fundraising from 'hands-on' involvement, and networking to governance and decision-making, and that several interviewees felt their Trustees could be more involved strategically in business planning and risk management, and in networking. Although 67% of organisations in the survey expressed confidence in the strength of their networks in relation to new income generation, the in-depth interviews in contrast emphasised networking and profile-raising as one area where better use could be made of Trustees.



*The Board could be more involved by making relationships or using existing links with corporates in particular. We don't otherwise have capacity to network and make connections, they could."*

.....  
*"I would like to do a mapping to see if they know anyone influential, we could network more with businesses, companies and community organisations."*

##### Partnership and collaboration

Organisations in Wales have a long track record of working in partnerships within the public sector at a time when partnership and other innovative approaches to joint working are increasingly regarded as effective ways of enhancing service delivery, using resources and bringing in smaller organisations. This wealth of experience in the benefits of partnership and the challenges of making it work well are a key strength on which organisations could capitalise further when making bids for new contracts:



*We are happy to link with others: the benefits include the knock-on effects of finding places for young people to go to within the youth service. Through making informal contacts through the partnerships, we create and join up the opportunities for young people."*

.....  
*"Real partnerships go beyond the funding, but enhance and develop a service. We have worked with Families First, bringing advice services into their work around lifting children out of poverty, part of a holistic approach to supporting families."*

.....  
*"Not all are able to be flexible with their mission and purpose. As funders are keen on partnership, members can be asked to work with new, unknown partners, which they can be reluctant to do."*

## Direct income and enterprise

There were few examples in the research of organisations beginning to develop new business approaches to earning significant income. Some organisations provide community transport and some are in the recycling market, refurbishing and repairing furniture, waste and bicycles, but interviewees mainly referred to trading activities which are traditionally part of the way in which the sector has supplemented its income (for example translation, bookshop, café, room hire and rents). Training based on skills and expertise in particular beneficiary areas emerged as one new service area which organisations were offering back to the public sector, although monetary return was as yet insignificant and some feel this market-place is already crowded and unlikely to expand if public sector training budgets diminish:



***We are having discussions about training. We don't have the business sector expertise in sales and marketing, we would need to sell a lot or we would make a loss. The public sector would be our biggest customer but they are cutting their training budgets."***

***"We need to think about whether we really want to be in direct competition with others who are already doing this, with no real gap in the market."***

Beyond training, a few other ideas were put forward, though these were vague and undeveloped. When asked if they had accessed any external support to take initiatives forward, interviewees seemed inclined to approach their CVC or local authority, although none had done so. It is not clear that such agencies would be able to offer the business or market expertise needed, and there was varied confidence in Boards' expertise in taking enterprise initiatives forward.



***We could develop out-buildings into an office space. There is demand from local people working and living rurally. We could also sell training to private companies, or counselling services to local employers for their workforce."***

***"We could invest in part-time trainers but wouldn't see effects in income until a way down the line, so it would be difficult to get the Board to support a business case."***

***"We have thought of setting up a social enterprise to support people with Asperger's, a very niche area of our expertise. We could work with the business sector, helping people into employment with their skills, and help meet needs of local businesses."***

***"We could earn income through running a creche, we already pay the childcare costs for women who come onto our course. This would give us an income to fund our service."***

## Summary

The evidence suggests that although organisations have some ideas about how they might develop new approaches to income generation, there is as yet a lack of initiative in taking them forward or in seeking further outside help to develop them. Trustee capacity varies and Trustees do not play a strong enough role at this level. Organisations feel at their strongest in the public sector activities which have traditionally provided their core finance, and have not yet grasped the nettle of moving forward in a funding environment which is changing swiftly and dramatically. Recommendations on what funders and organisations can do to help build capacity around re-thinking skills and capacity, ways of working, how and which services are offered, and alternative approaches to resourcing and funding the organisations' activities are put forward in the final chapter of this report.

## 5. BUILDING THE FUNDING BASE - CONCLUSIONS AND RECOMMENDATIONS

This research set out to understand better what might underlie lower than expected levels of applications from Wales to large charitable funders at a time when funding pressures on local service-providing charities are increasing. Focussing on small-medium organisations providing key frontline in community, youth and welfare services it explored:

- the impact of changes in the funding environment on income and services;
- whether and how organisations are addressing the issues which arise from this; and
- what funders and others might do to support organisations in building a platform to meet future social need.

The research looked at external and internal factors potentially influencing current approaches to income generation in this sector and its response to the challenges of future service provision in a rapidly-changing funding environment. This last section of the report sets out conclusions and recommendations.

### Conclusions

Many organisations are affected by funding cuts, and anticipating lower or stand-still future incomes. However uncertainties around the impact of local government re-organisation and public funding, growing service demand and increasingly squeezed budgets are leading to, or re-inforcing, a lack of resources, drive and skills development around preparing for change. While some of the bigger organisations in this sector are coping more successfully with the changed funding environment and the expanding contracting opportunities, many small-medium organisations have taken few tangible steps towards shifting from traditional government support to building new ways of working.

#### Sense of funding vacuum

The public sector funding which has dominated the income of the small to medium frontline organisations is being continuously withdrawn without any real sense of how it is to be replaced, or acknowledgement of responsibility to replace it. This is leaving organisations in a funding vacuum which most are not yet tackling. While government cuts were reported to have impacted on 63% of organisations, just 38% had recently changed strategy.

#### Impact of uncertainty

Environmental uncertainties are contributing to a form of ‘planning blight’. Almost one-fifth of organisations could not predict whether future income would increase, decrease or stay the same. Some have doubts about capacity to take on new public sector contracting, as well as some reluctance to do so because of anxieties around low cost service provision and the volatility of public sector budgets. These fears are being compounded by the impending restructure of local government in Wales. More advice and guidance around business planning and formulating options in a situation of uncertainty are needed.

#### Decrease in resources with increase in demand

In a situation of reduced funding coupled with increased client need, organisations are prioritising front-line service delivery at the expense of investment in future income generation and sustainability. Almost four in five felt either that their current funding mix was not right (19%), or that it would have to change (59%). Of these, however, only just over half (56%) were already in the process of review or change. Pressures are particularly great in the middle-band of organisations (income £50k - £200k), which are most likely to be experiencing current and expected income reduction. The largest organisations, although not universally confident, were more likely to have experienced an increase in resources, and to be reviewing their funding mix.

#### Low level of organisational needs identification

Few organisations have begun to identify the kinds of support they will need to begin to change their service delivery and funding models. Just one-fifth identified a need for more fundraising resource including time, and there was little demand for other kinds of help.

#### Potential for greater diversification

The income base of small-medium organisations in Wales is highly diverse, but other than public sector funding, very few income sources provide substantial or main income. Only 21% of organisations quoted individual giving as a main income source although the majority are involved in private fundraising. There may be potential to strengthen and specialise fundraising from private sources. Only 10% mentioned trading as a main income source, and there is little evidence of entrepreneurial development but some organisations are offering training to public sector bodies which capitalises on their client expertise. This is highly embryonic and needs to be supported.

### **Better practice in full-cost recovery**

Full-cost recovery is essential to organisational financial health, but just 54% said they aimed for full-cost recovery. There is still considerable confusion as to what funders will cover and what organisations should ask for. This was a particular challenge for those used to having core costs covered by public sector grants, and many seemed unaware that some of the major foundations are increasingly offering help with core needs. There is scope for greater clarity by both fund-seekers and funders.

### **Wider approach to fundraising from trusts and foundations**

Organisations tend to approach 'like-minded' trusts and foundations whose funding criteria they know and understand, in order to avoid risking scarce resources on wasted applications. Perversely this may have the effect of some inflexibility of approach, discouraging organisations from re-addressing their own funding propositions to 'fit' funders better and encouraging them to stay in their comfort zones. They might be able to get help from a wider range of foundations.

### **Board and other external and infrastructure capacity**

Three-quarters of organisations felt that their Board was involved in fundraising, but there was also evidence that Trustees were not engaged at a strategic level. Few organisations had sought external help for new income generation approaches, and it was not clear who would provide such help as the existing infrastructure used by the sector is mainly geared to traditional public sector funding. This leaves even the more entrepreneurial and confident organisations in a support gap which needs to be addressed. Very few saw the corporate sector as an appropriate potential source of the business expertise they needed, though 42% received corporate donations.

## **Implications and recommendations**

The key messages for organisations if development and change are to be tackled are the need for:

- a more engaged approach to the challenges of moving forward in a rapidly-changing funding environment;
- building organisational health and sustainability to be a priority if key services are to be maintained in the longer-term;
- greater initiative in exploring and developing embryonic ideas for new models of funding and service provision; and
- more pro-active approaches to identifying and asking for relevant support.

A number of implications for how funders and others can support the development of the funding base also emerge directly from the findings:

- greater funder understanding of the support that organisations need to make this key transition from public sector to more independent and diverse forms of funding;
- funders to provide development grants for a wide range of organisational growth needs such as training and skills development, change management, business planning and development, budgeting, costing, communications, market research, marketing, trustee and Board skills audit;
- funders to review information on eligibility criteria and accessibility to small-medium organisations in Wales;
- funders to give clearer guidance on what is included in 'core costs' and the levels appropriate to include in funding applications;
- funders to work with infrastructure bodies to ensure they can provide full, up-to-date and accessible information on a range of funding opportunities, and signpost organisations on to other relevant sources; and
- infrastructure bodies to be equipped to meet demands for new kinds of development, training and enterprise support.

## APPENDIX: THE STATE OF SECTOR FUNDING IN WALES

The Welsh voluntary sector is estimated to consist of more than 33,000 voluntary and community organisations with a combined income of £1.6 billion. Employing a total of 52,786 paid staff and drawing on the input of 931,000 volunteers, these organisations contribute an estimated £3.8 billion to the Welsh economy, equivalent to 8% of Wales GDP.<sup>13</sup> The sector in Wales includes 8,963 registered charities, which together represent the majority share of sector income, at £1.2 billion.<sup>14</sup> The largest share of the sector's funds is derived from the public sector, comprising Welsh and UK governments, local authority and EU funds. This proportion, currently 34% of all sector income, (Figure 3.1) is followed by trading and investments (30%) and public giving (27%). By comparison the proportions coming from foundations, the Big Lottery, and support from business are much smaller, at around 3% each.<sup>15</sup> Although still representing the largest single share of income to the sector, public funds have declined from a peak of 47% of total income in 2008, when the Welsh Government announced that increases in grant funding from public sources were unlikely to continue.<sup>16</sup> The Welsh Government, via the 2014 Third Sector Scheme, remains committed to funding the role of the third sector in the design and co-production of public services.

This may be challenging. For example, in England, where commissioning is longer established, the proportion of the UK government's service delivery spend passed on to the voluntary sector stood at around 2% in 2010.<sup>17</sup> This might change with the Social Value Act (2013), as commissioning authorities are now required to consider the added value and social impact of the organisations to whom they award contracts. Early evidence however, suggests that levels of commissioning for social value have, so far, been low.<sup>18</sup> There has been no legislation around social value in Wales, although the EU Modernising Public Procurement directive has proposed measures that could impact favourably upon the procurement experience of voluntary sector organisations.<sup>19</sup> These include reduced documentation requirements, subdivision of contracts into smaller "lots", and limitation of turnover requirements.

Wales' rural landscape is a key context for the structure of its voluntary sector, namely the proliferation of small organisations with low income. Nine of Wales' 22 local authority areas are officially designated as 'rural', and a further three 'semi-rural', and these communities and populations are more likely to experience isolation and lack access to services. The prevalence of voluntary organisations tends to be greater in rural areas, with an average of 3.2 registered charities per 1,000 population as compared with 2.0 in the UK's urban areas. These organisations tend to have lower average incomes than their urban counter-parts.<sup>20</sup> This ratio is as high as 5.8 per 1,000 in some rural Welsh local authority areas (Table 3.1).

<sup>13</sup> WCVA (2014) *Third Sector Statistical Resource*.

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*

<sup>16</sup> The Third Dimension: A Strategic Action Plan for the Voluntary Sector Scheme (2008)

<sup>17</sup> Hopkins, L. (2010) *Mapping the Third Sector: A Context for Social Leadership*, The Work Foundation

<sup>18</sup> Lord Young (2015) *Social Value Act Review*, Cabinet Office

<sup>19</sup> Research Service (2012) *EU Policy Update (EU2012.04): Modernising EU Public Procurement Directive*, National Assembly for Wales

<sup>20</sup> NCVO (2014) *The UK Civil Society Almanac 2014*.

Following significant industrial restructure in the 1980's, the communities of the Valleys of south east Wales have experienced high levels of deprivation and owing to low productivity (GDP per capita below 75% of the EU average) West Wales and the Valleys qualifies for enhanced EU structural funds. More than £104 million from the 2007 - 2014 cycle of EU funds were committed to projects led by the voluntary sector,<sup>21</sup> and the availability of these funds has helped voluntary and community organisations to support economic and community development in these areas. In the North West for example, EU funds are administered to voluntary sector development initiatives by Menter Mon, which is itself a third sector organisation that was set up to deliver EU rural development programmes. Additional resources from the EU do not appear to have led to growth in voluntary and community organisations in the Valleys, which typically having the lowest prevalence of voluntary and organisations per head of population (Table 3.1). This may in part reflect the fact that these areas are more easily accessible from Cardiff and can therefore be served by organisations based in the capital.

The wide availability of Welsh Government and EU funds has led to something of a 'grant culture' within all sectors in Wales; private, public and voluntary. The Welsh Government itself is keen to see organisations move away from reliance on state funding and towards more independent forms of financial sustainability. The wider shift away from grants and towards a culture of investment was established as a policy imperative with the publication of Economic Renewal, the Welsh Government's response to the recession, in 2010. More recent moves towards financing the social enterprise sector with loans from social banking sources mark a major shift in practice, including:

- The new £20 million Community Investment Fund (2014) targeting organisations in health and social care, education, training and employment support, and children's services. A portion is committed to organisations who aspire to deliver public service contracts on behalf of a public authority; and
- Welsh Government's £6 million Wales Micro-business Loan Fund (2013) for small and medium-sized social enterprises, with £1 million ear-marked for the voluntary sector.

<sup>21</sup> [www.wcva.org.uk/funding/europe/structural-funds-programmes-2014-2020](http://www.wcva.org.uk/funding/europe/structural-funds-programmes-2014-2020) accessed 12/02/2015





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