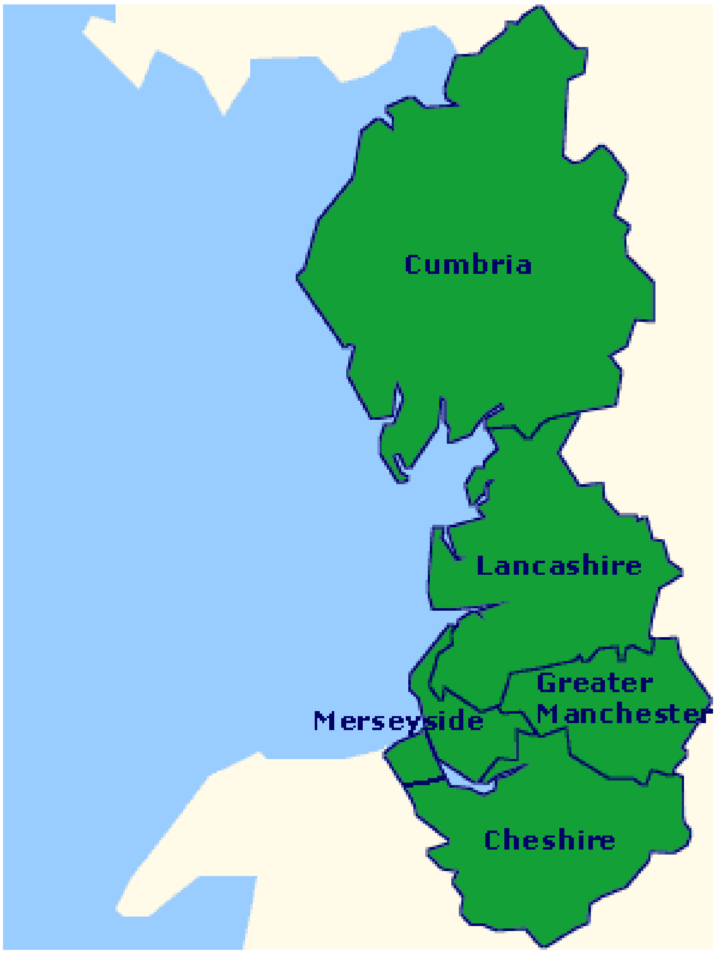
Going With the Flow: The Future of Voluntary and Community Sector Funding Streams and Strategies Post 2006



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Executive Summary

Introduction

The Voluntary and Community Sector (VCS) faces major challenges. Two significant funding sources it relies on will end or significantly decline between 2006-2008. Alongside this a whole raft of new initiatives from the Department for Communities and Local Government[1], Department of Trade and Industry (DTI) and the Home Office will provide new opportunities. This report assesses the decline in grant based funding and the impact it will have on the VCS.

Voluntary Sector North West, North West Network and Merseyside Network for Europe commissioned URS Economics and Development to research VCS sustainability post 2006. Support from European Social Fund (ESF), European Regional Development Fund (ERDF) and Change Up made this research possible.

The Changing Funding Climate

National, regional and sub-regional strategies illustrate the Government's aspirations for involving the VCS in public service delivery. Whilst the Government foresees an increased role for the VCS both in delivering services and informing decision-making processes, resources available to the VCS in the North West are in decline.

- The Single Regeneration Budget (SRB) will be significantly lower post 2006 and will end completely in 2008. In March 2001, SRB was subsumed within the Regional Development Agencies (RDA) budget, the Singe Pot. It is felt that the Single Pot will be less accessible to the VCS than SRB funding, as a result of the focus of Single Pot on achieving hard economic targets.

- European Union funding will significantly decline after 2006 as a result of EU enlargement and increased prosperity in the UK. The Draft National Strategic Reference Framework for EU Structural Funds 2007-2013 suggests further European funding will be focused on meeting harder economic objectives.

- Lottery funding, in particular the Big Lottery Fund (BLF), is set to fall post 2006. Proposed changes to charity law will widen access to Lottery funding meaning more organisations chasing fewer resources.

As grant based funding declines, there is an increased pressure on VCS organisations to shift to alternative funding models, including for example, social enterprise and tendering for public service contracts with mainstream agencies. Recent and some new government programmes such as Futurebuilders and Change Up will support organisations through this transition. The changing funding context raises implications for the VCS:

- An overall decline in grant based funding and a shift towards enterprise and self-sustaining will require a cultural shift and capacity building within the VCS to make best use of these opportunities.

- The operating environment for the VCS is becoming more competitive, both in terms of competing for grant based funding and competing for public service contracts. The competition is getting tougher too, since the VCS will compete against public and private sector organisations, who often have more developed systems and processes for competing in this environment. Again this will require capacity building within the VCS.

- Funding priorities of the Regional Development Agencies and EU have shifted towards harder economic objectives related to skills, employment, enterprise and competitiveness. There are opportunities for the VCS to access these funds, although limited to those operating within these theme areas.

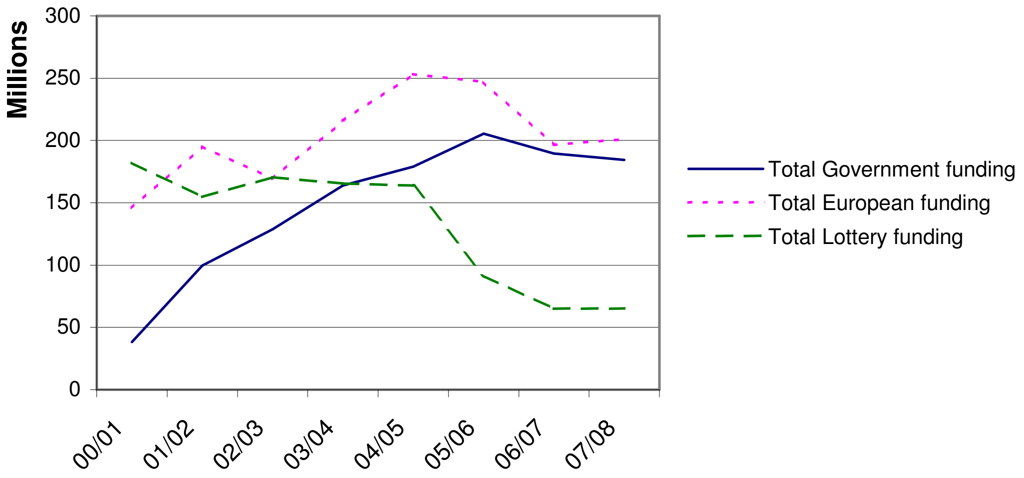
- Emerging opportunities for the VCS to engage in decision making at local and sub-regional levels mean that the VCS needs to be more proactive at a the strategic level to ensure representation.

[1] Previously the ODPM, established in May 2006 restructuring

The Funding Analysis

The North West region has been highly successful in securing funding from Government, European and Lottery sources, although these are set to decline beyond 2006. Figure 1below illustrates the overall funding context in the North West:

Figure 1: Overall shift in grant-based funding in the North West



Source: URS Funding Analysis and Calculations

(06-08 figures are based on estimations and planned allocations provided by funders)

VCS Funding Post 2006

Our funding analysis suggests the overall decline in grant based funding from the base year of 2005/06 to the year 2007/2008equates to around £10m. Table 1 demonstrates the overall decline in funding post 2006, and includes data for 2001/02 as a baseline.

Table 1: Total funding post 2006.

	01/02	05/06	06/07	07/08	Total
Government programmes total	99.7	205.6	189.6	184.5	
European programmes total	27.7	17.8	19.4	25.5	
Lottery programmes total	155	61.6	65.1	65.1	
Total	**282.4**	**285.1**	**274.0**	**275.0**	
Potential loss from 2005/06			-11	1	10.0

Source: URS Funding Analysis and Calculations

Beyond 2008, there will be a **further decline in grant-based funding**, as a result of the following:

- SRB will be finalised in 2008, and will result in a further decline in Government programmes.
- The North West (excluding Merseyside) is expected to secure around £33m per annum of EU funding 2006-09, compared with an average of £133m per annum between 2000-2006.
- Merseyside is expected to receive around £50M per annum of EU funding between 2007-2013, compared with £131M per annum between 2000-2006.
- The North West is estimated to receive £55.6M per annum of Big Lottery Funding post 2006 (based on North West share of national allocations of new BLF programmes), compared with an annual average of £118M per annum between 2000-2006.

Impacts

The funding analysis reveals an overall decline in funding for the VCS. If the VCS is not able to adapt fully to the changing funding climate, this could have serious impacts on the sector. Assuming existing grant funding largely covers staff salaries, a fall in funding of £10m between 2005/06 and 2007/08 could equate to a reduction of 500 VCS jobs, and further jobs in the region as a result of indirect and induced multiplier effects.

Based on the results of our survey, VCS organisations themselves overall remain optimistic about their future prospects, despite a decline in grant-based funding:

- The survey suggests that the ability of the VCS to deliver services has not declined, despite a decline in funding in the region as a whole in the previous year. However, this should be treated with caution, given that a decline in funding may not have had enough time to impact on organisations. However, approximately less than ¼ of our sample expect to be affected negatively by the changing funding climate. Future strategies must target those most at risk.

- Our survey[2] suggests volunteering will increase alongside paid employment, rather than replace it. An increase in volunteering would result in additional positive impacts, taking into account the economic benefits of volunteering.

- There was a general concern among stakeholders that the changing funding climate will decrease an organisations ability to deliver services, with the results of increasing the burden on mainstream services. However, from the survey, VCS organisations expected the number of beneficiaries to grow as well as their capacity to tender for public service contracts.

The changing funding climate has resulted in the following ‘organisational’ impacts on the VCS;

- The new funding climate may result in ‘Mission Drift’. As organisations establish more diverse funding models, new partnership structures and tender for service contracts with mainstream agencies, their original values and mission may begin to change.

- The increased pressure to find alternative funding models has meant staff are spending more time chasing funding. This takes resources away from delivering and improving services, and may impact on staff morale.

- The changing funding climate appears to be impacting on organisational culture. Organisations feel that they are becoming more business like and entrepreneurial. 43% of organisations stated that they have become more entrepreneurial in the last 12 months.

VCS organisations reported in the survey that the changing funding climate is having negative impacts on their partnership arrangements. However, this must be set within the overall context of new partnerships emerging, and increased collaboration with other VCS organisations. Relationships with Local Authorities were rated highly, which is a positive sign given the emergence of Local Area Agreements. 69% of our sample reported that they had a partnership with regional level organisations, which could be built upon to ensure full VCS involvement in future European Union (EU) and Single Pot funding in the region.

Areas Most at Risk

Taking into account our analysis of the overall changing funding context we have identified some key areas, which will be most at risk as a result of the changing funding climate.

- The decline in funding will be more severe in the Merseyside sub-region given the volume of European Objective 1 funding.

- Impacts may be more severe in rural areas, given a higher dependency on grant funding and the urban focus of the emerging policy framework.

[2] The survey gathered some interesting and useful feedback, however unfortunately the survey was completed at a much lower level than anticipated. We therefore have been careful in allying the figures due to the relatively small sample size. Conclusions and recommendations within the report are ultimately based on the full spectrum of research including the survey, stakeholder consultations, case studies, funding analysis and wider research.

- Organisations dependent on a single source of funding.
- Some VCS organisations are at greater risk due to the increased focus of funders priorities on hard economic measures. This may include projects focused around prevention, which may not demonstrate an impact on economic targets, but can prevent further economic costs for society. For example, VCS organisations dealing with vulnerable groups including homeless or mentally ill may not create economic benefits in the short term such as entry to employment.

Post 2006 Sustainability

Our survey and consultations suggest the North West VCS expects to grow despite the decline in grant based funding. Survey respondents and stakeholders largely indicated the VCS has largely weathered the impacts of a drop in funding in the last financial year, although this should be treated with some concern given that impacts may not have had sufficient time to show. The survey also suggests the VCS remains optimistic about their survival and growth over the next year. This may suggest that the VCS has already begun to adapt to the changing funding climate and our research demonstrates signs of this. However, the VCS has not fully adapted and there is more work to do.

We asked organisations about how they were currently funded and revealed the following results:

Table 2: VCS Funding Sources

	Total organisations %	Total revenue (£M)
Government funding	54	22.2
Self funding	52	55.5
Trusts/foundations	47	6.2
Donations	38	10
European funding	34	4.9

Source: URS Survey of VCS 2006

Interestingly 52% of organisations from our survey demonstrated that they were able to secure an income through self funding, i.e. through sales, subscriptions etc (see Q.13 of the survey in Appendix A).

Whilst organisations have already made some progress in seeking alternative approaches to funding, 39% of our sample still expect to rely upon grant based funding as their main source of income over the next one to three years, this is particularly prevalent in organisations with less than 20 employees. This continued reliance on grant based funding may suggest that levels of self funding are not sufficient to sustain the whole cost of running a service or project.

Conclusions

- Our policy review reveals Government aspirations for an increased role for the VCS in public service delivery.
- The sector traditionally relies on grant-based funding, which will decline post 2006. Our funding analysis suggests that grant-based funding will decline by £10m between 2006-08 and further declines are expected beyond 2008.
- As well as overall declines in grant based funding, the operating context for the sector is becoming more competitive and key funding programmes have demonstrated a shift to harder economic targets, which are not always directly relevant to the VCS.
- Beyond grant-based funding, the VCS is expected to self-sustain through contracting for services with mainstream agencies and developing social enterprise approaches. Although these approaches are not always appropriate to all Voluntary and Community Organisations (VCOs), and raise serious challenges for the sector.
- Whilst the survey shows positive signs that organisations have demonstrated progress towards becoming self-sustaining and securing income through procurement, there is still a strong dependence on grant based funding, and there will continue to be into the next three years.

- As grant based programmes wind down the VCS will need to increase its ability to self-sustain at a similar rate to avoid a post 2006 crisis. The VCS will definitely need further support to enable it to fully adapt to a new funding climate. Feedback from the VCS at the workshop event held on 27th June 2006, suggested existing support was not enough.

Recommendations

Our recommendations have been developed with North West Network, Voluntary Sector North West and Merseyside Network for Europe. We took feedback from the VCS at the workshop event on our suggested recommendations. Our key recommendations are directed at funders, procurement agencies and partners; and infrastructure organisations and the VCS.

Recommendations to Funders, Procurement Agencies and Partners

- At a regional level, there is evidence of commitment to working with the VCS across all funders and mainstream agencies. However, this needs to be filtered through to a practical level. We would recommend that regional agencies monitor these commitments by regularly reviewing levels of funding earmarked for the VCS at regional and sub-regional levels.

- Regional and sub-regional infrastructure support and partnerships need to be developed and strengthened and perhaps by building on the existing ChangeUp consortia. A clear message from the workshop event involved building on existing infrastructure organisations, and improving co-ordination. Clearer dialogue is required between VCS infrastructure organisations and the Government Office for the North West (GONW), the North West Development Agency (NWDA), and the North West Regional Assembly (NWRA) about the role of the VCS and the commitments that the public sector has to working with the VCS at a strategic regeneration level. In particular, this is a prime time for the VCS to contribute to the Comprehensive Spending Review 2007.

- Further, agencies with a responsibility for service delivery, service improvement and regeneration should provide a clear message on how they see the VCS as helping them to achieve their objectives, defining specific roles for the VCS. Such agencies could work with VCS infrastructure organisations around procurement.

- Funders, procurement agencies and partners have generally accepted the issue of full cost recovery. Again, funders must ensure this filters through to a practical level, to enable VCS organisations to invest properly in the infrastructure required to deliver projects effectively including support staff, overheads and other essential non-project related activity. Feedback from the workshop event suggested this is not yet filtering through to the front line fully.

- The Big Lottery Fund have signed up to full cost recovery and have agreed a ring-fenced amount of 60-70% of funds to the VCS. However the VCS should be further engaged in shaping and influencing funding priorities for the region through consultation as policy makers and funders develop funding programmes.

- NWDA should ring-fence an amount of non-committed funds to the VCS. The VCS will require a minimum of 3% of the Single Pot budget in 2006/07 and 1% of the Single Pot Budget in 2007/08 to offset the decline of Government Sources post 2006.[3]

- Support the development of the VCS Regional Investment Strategy to strengthen delivery of wider strategies, for example, the Regional Economic Strategy and associated sub-regional strategies.

- The NWDA and Government Office North West should support the VCS in shaping and accessing possible subsequent rounds of ESF and ERDF by providing support and assistance with funding as much as possible.

- Local Area Agreements are supported by a Statement of Involvement of the VCS. Local Authorities must strengthen this by providing real opportunities for the VCS to tender for service contracts through pooled budgets, and outlining the benefits to the VCS of this new approach.

[3] These percentages are based on URS calculations assuming proportion of Single Pot required to offset decline in SRB. Figures for Single Pot were taken from the NWDA's Regional Funding allocation report.

- All funders should provide an opportunity for the VCS to contribute to programme design through consultation and involvement in development stages of the programmes.
- Recent changes will result in increased competition for resources. The VCS is increasingly competing against organisations who are better equipped for the competition and therefore do not compete on a level playing field. Funders should therefore provide additional support to VCS infrastructure to level the playing field.
- Funders must give greater recognition to the role of regional and sub-regional infrastructure organisations and its need for long-term support in the specialist area of funding, including match funding and the obvious links to tendering (e.g. through the LSCs and Connexions).
- Greater support for existing regional and sub-regional specialist infrastructure through Change Up / Capacity Builders is needed.
- While the VCS acknowledges the beneficial impact that programmes such as Change Up and Futurebuilders will have on the sustainability of the VCS in the shorter term, there is a feeling that longer term infrastructure funding needs to be in place to ensure that the social enterprise approach can thrive in the future.

Recommendations to Infrastructure Organisations and the VCS

- Infrastructure organisations need to develop appropriate mechanisms to provide advice and support to the VCS on tendering for public sector contracts. The VCS ranked this as the number one area of need in the survey. In particular, feedback suggests smaller organisations have less understanding of tendering processes and procurement and need the most support.
- The VCS needs to demonstrate the way it impacts on harder economic targets to funders, policy makers and the wider public. This publicity of the additional benefits of the sector to wider audiences will help quantify how the VCS is contributing to regeneration. The infrastructure organisations must support the VCS in doing this but ultimately the VCS must demonstrate robustly the economic contribution it is making to regeneration. One option could be to provide a selection of indicators and advice on appropriate tools for measuring progress against indicators.
- In addition, there needs to be a wider economic impact assessment of the contributions of the VCS, this should be regularly reviewed a strategic co-ordination body such as the National Council for Voluntary Organisations (NCVO). However, some Voluntary and Community Organisations (VCOs) do not create direct economic benefits but provide invaluable services such as pre-employment out reach work and assisting groups such as the elderly, the mentally ill and drug abusers – therefore direct economic benefits are not always obvious.
- Work could be undertaken to measure the economic benefits of prevention. Regional infrastructure organisations can help the VCS to identify the ways in which they save costs to the public purse as a result of prevention work. It is recommended that the public sector continues to support the capacity building of the VCS it has so far demonstrated through some of it recent programmes such as Capacity Builders and that it supports them in accessing the wider range of funds and improving systems for doing so.
- Providing networking and partnering opportunities was another area where the VCS felt a regional and strategic organisation could support the role of the VCS. This is particularly important given the trend towards more collaborative approaches.
- The VCS needs to be pro-active to ensure full representation on regional, sub-regional and local levels and maximise these opportunities. During consultations some VCS organisations questioned the extent to which the VCS representatives chaired formal partnerships such as LSPs. This point raised staff capacity issues and the need for VCO representatives to donate their own time to participate in partnership meetings whereby it is perceived that public and private sector representatives on formal partnerships are paid for their involvement.
- There needs to be a greater effort to ensure that the voice of the VCS does not become diluted as it feeds into the regional higher-level representation. It is important that the co-ordination of the sector is bottom up i.e. local level upwards.

- Infrastructure organisations should support the VCS in developing new partnerships, which will enable them to collaborate to compete for public service contracts. While the is a general acceptance among VCOs that collaborating and networking with other VCOs is a good thing in terms of tendering and procurement, VCOs were quick to point out the differences of collaboration/networking with mergers - which were perceived as detrimental to individual VCOs' missions. In addition, collaboration was perceived in some ways to be contradictory to the emerging culture of competition that had developed between VCOs.

- Infrastructure organisations should continue to monitor the level of all types of funding available in the region and the VCS' success in accessing such funds. The VCS should also pay attention to the levels of mainstream budgets, which are also in decline and may impact adversely on them. Again a strategic organisation such as the NVCO could collect such information and circulate annually through a reasonable means to VCOs such as through newsletters or through its web site.

- Infrastructure organisations should continue to monitor VCS reactions to the changing funding climate. Research is currently underway to measure the role of the VCS in the regional economy. These findings will provide a useful baseline against which to measure impacts on the VCS beyond 2008.

- There needs to be a continued two way culture change between the public sector and the VCS i.e. the public sector must make greater efforts to understand and appreciate the role and function of the VCS and the VCS must make greater efforts to become less reliant on the grant funding culture and increasingly self sufficient / entrepreneurial.

- The VCS or a national/regional organiser of the VCS such as the NCVO should explore how the VCS survives in other regions of England, where there is less funding available. Best practice should then be disseminated as much as possible.

- Despite some positive signs and overall optimism among the VCS, the survey indicates there is more work needed by VCOs to continue diversifying funding streams. A small proportion of our sample, almost a quarter (24%) relies solely on a funding source, which will significantly decline post 2006.

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1 Introduction

Voluntary Sector North West, North West Network and Merseyside Network for Europe commissioned URS Economics and Development to research VCS sustainability post 2006, and to identify forward strategies for the VCS in the North West of England. Support from European Social Fund (ESF), European Regional Development Fund (ERDF) and Change Up made this research possible.

Context

National and regional strategies illustrate the Governments aspirations for involving the VCS in public service delivery. Whilst the Government foresees an increased role for the VCS both in delivering services and informing decision-making processes, grant-based funding available to the VCS in the North West is in decline.

SRB funding will be significantly reduced post 2006 and will end completely in 2008. European funding will significantly decline post 2006. Further European funding will be focused on meeting harder economic objectives. Lottery funding, in particular the Big Lottery Fund (BLF), is set to fall post 2006 and proposed changes to charity law will widen access to Lottery funding meaning more organisations chasing fewer resources.

As these sources decline, there is an increased pressure on VCS organisations to shift to alternative funding models and approaches, including for example, the social enterprise approach and tendering for public service contracts with mainstream agencies. Recent and new government programmes, such as Change Up and Futurebuilders, provide support to VCS organisations through this transition.

These changes are likely to have significant impacts on the North West VCS. This report assesses the decline in grant-based funding and the impact it will have on the VCS. It goes on to highlight forward options for the VCS. We set out research objectives for this research below.

Research Objectives

Research objectives as defined in the brief, were to:

- Highlight the successes of the VCS in delivering effective programmes in their communities of interest together with those VCS organisations that have successfully adapted (or are adapting) to the changing funding climate
- Assess the impact on VCS organisations and their users, of the anticipated significant changes and restricted access to the range of major funders
- Identify key issues and a range of strategies for the VCS to minimise adverse effects
- Identify the impact on the activities currently undertaken by the VCS, the consequent effect on public and statutory service delivery, and the consequences for users
- Include an evidence-based assessment of impact in thematic areas of activities, particularly where delivery will be cut back or where it will cease
- Look at the overall financial impact to the VCS of the decline in funds available both in economic and social terms
- Examine the impact upon partnerships forged via the funding or through delivery of activities within the VCS and with other sectors
- Provide contextual identification of the past levels of funding and an assessment on what the reduction in funding in the future may be; and
- Assess the sustainability of current projects receiving funding due to end or significantly change, and the viability of some VCS organisations themselves, including the significant employment issues that will arise.

Method

The method used to address research questions is summarised below:

We analysed funding in the North West. The analysis was based on Government funding, European funding, Lottery funding and Trust funding. The funding analysis includes an overview of the levels of funding secured in the North West from these sources. The VCS share is estimated and then goes on to calculate the overall changes in funding in the North West beyond 2006. Data was provided by Government Office North West (GONW), North West Development Agency (NWDA), Big Lottery Fund (BLF), Department for Culture Media and Sport (DCMS), Learning and Skills Councils (LSCs), Job Centre Plus and Trust Funders.

A web-based survey was conducted throughout April and May. We secured 109 valid responses. The survey contained 28 questions and contained a mixture of closed and open-ended questions covering a range of topics of relevance to the VCS. Our survey sample was not significant to draw robust statistics on the sector in the North West, although revealed interesting highlights. This is considered when drawing on results of the survey. We provide the full analysis in the Appendix A.

Case studies were undertaken with selected VCS organisations.[4] Case studies were used to gather experiences of organisations on their experiences of the changing funding climate. Case studies are listed in Appendix B.

We undertook consultations with funders, mainstream agencies and infrastructure organisations. The purpose of these consultations was to identify individual experiences of the changing funding climate, perceived impacts, and to identify potential forward strategies for the VCS. We provide a full list in Appendix B.

A literature review was undertaken to identify the range of strategies relevant to the VCS to identify wider aspirations on the role of the VCS in public service delivery. A list of documents consulted is provided in Appendix C.

In addition to the publication of this report, the results of the research were presented at a conference event on **27th June 2006**. The conference explored VCS responses to our proposed recommendations, and recommendations were updated.

Structure of Report

The remainder of the report is structured as follows:

- **Section 2** outlines in detail the context for this research
- **Section 3** describes the changes in funding
- **Section 4** sets out the impacts of a changing funding climate
- **Section 5** covers VCS sustainability and forward options for the VCS; and
- **Section 6** outlines conclusions and recommendations.

[4] There had been aspirations for 10 case studies to be carried out, but several VCOs experienced capacity issues that did not enable them to participate after they had initially agreed.

2 The Changing Funding Climate

This section highlights the key funding changes affecting the VCS. A full funding analysis is provided in Section 3.

Introduction

The Voluntary Community Sector (VCS) faces a major challenge. Two significant funding sources it relies on will end or significantly decline between 2006-2008. A whole raft of new initiatives delivered by the Department of Communities and Local Government[5], Department of Trade and Industry (DTI) and the Home Office could provide new opportunities.

This raises serious implications for the VCS. A decline in grant based funding will have significant impacts on the VCS. This sections sets out the key contextual changes affecting VCS funding in the North West and highlights the implications for the VCS.

Strategic Context

The Government has demonstrated its commitment to the role of the VCS in public service delivery, and a number of strategies and reviews have been established to improve relationships between the public sector and the VCS. Plus, a forthcoming White Paper expected in Summer 2006, will raise further issues around grants and procurement. Existing documents, reviews and strategies are highlighted below.

Establishment of the Office for the Third Sector (2006)

The recent establishment of the Office for the Third Sector, sitting within the Cabinet Office will now take over responsibility for the VCS and bring together the Home Office's Active Communities Directorate and the DTI's Social Enterprise Unit.

Working With the Third Sector (2005)

This National Audit Office report reviews government policy and practice on the government's relationship with the VCS. The report aims to provide an understanding of what the VCS is and establish how the government is increasing its support for the VCS. The report highlights the problems surrounding the funding process and offers the following recommendations:

- Reliable and timely data is needed to gauge the VCS's contribution to public services
- More needs to be done to translate high-level commitments into practical results
- The simplification and reduction of the process by which money is filtered through a variety of organisations before reaching the frontline

Think Smart…Think Voluntary Sector (2004)

This guidance aims to improve the participation of the VCS in public service contracts, in particular focusing on the relationships of small and medium-sized enterprises, and black and minority ethnic enterprises. It makes the point that VCS organisations should not be given preferential treatment but instead have any barriers removed that restrict their ability to progress in procurement.

Releasing Resources to the Front Line, Independent Review of Public Sector Efficiency (2004)

An independent review undertaken by Sir Peter Gershon highlighted the role of the VCS in public service delivery, and made recommendations to the Government to improve its relations with the VCS, by:

- Improving stability by moving to longer-term, multi-year funding arrangements where possible
- Considering carefully the appropriate assignment of risk between the statutory body and the voluntary and community organisation when contracting for service provision

[5] Previously the ODPM, established in May 2006 restructuring

- Making further progress towards full acceptance of the principle of full cost recovery, ensuring publicly-funded services are not subsidised by charitable donations or volunteers
- Streamlining and rationalising monitoring, regulatory and reporting requirements

The Role of the Voluntary and Community Sector in Service Delivery – A Cross Cutting Review (2002)

This review fits into the wider agenda of the Government's aim to reform the public sector. Since 1997 the government strategy is one of developing greater pluralism and offering choice in public sector provision.[6] The review, completed by the Treasury, sets out the government support for the VCS:

'The VCS continues to make a significant contribution to service delivery and strengthening communities. It is a key partner in delivering government policies. The Government is strongly committed to creating a framework in which the VCS can continue to flourish, be strong and independent.'[7]

The review constitutes an action plan to improve the VCS's role in the delivery of public services. It also provides recommendations for improving funding, reducing barriers to increased capacity, and further developing the Compact Agreement (see below).

As part of the 2002 review, the Treasury published 'Guidance to Funders' in May 2006. This document is aimed at both funders and funding recipients (the VCS) and provides guidance on how they can better understand each other. It covers the following four key points:

- Stability in the funding relationship: moving from one year funding to longer-term funding arrangements where appropriate;
- Timing of payments and the balance of risk: recognising that payment in arrears often results in the VCS bearing the upfront costs of borrowing and the risks that this entails;
- Full cost recovery: ensuring that funding bodies recognise that it is legitimate for VCOs to recover the appropriate level of overhead costs associated with the provision of a particular service; and
- Reducing the burden of bureaucracy: streamlining access and performance management requirements for multiple, and often very small, funding streams.

Social Enterprise – A Strategy For Success (2002)

The DTI set up the Social Enterprise Unit in 2001 to provide a focal point for decisions concerning the VCS. The Social Enterprise Unit will now sit in the Office for the Third Sector as a result of recent changes. This strategy sets out the government vision for the role of the VCS and how the VCS is increasingly providing dynamic alternatives to plug the gap in public and private sector delivery. The strategy recognises the barriers that prevent social enterprises from growing and aims to tackle these through:

- Creating an enabling environment
- Making social enterprises better businesses
- Establishing the value of social enterprise

Compact Agreements

Compacts[8] (1998) are framework documents that guide partnership working between the government and the VCS. It exemplified the shift away from Compulsory Competitive Tendering (CCT) and towards a partnership approach between public and private sectors and the VCS. Compacts emphasise the importance of building strong relationships between the Government and the VCS whilst still respecting the independence of the VCS. This overall framework is reflected at regional and

[6] The Labour Party (2005) Manifesto 2005 – Britain Forward Not Back.
[7] HM Treasury (2002) The Role of the Voluntary and Community Sector in Service Delivery – A Cross Cutting Review, p.5
[8] The full Compact is available at www.thecompact.org.uk

local levels, and is made up of ‘codes of good practice’ and ‘annual action plans and targets’. A movement towards mixed commissioning models means that the VCS needs to raise its game in order to compete in this environment.

In March 2005 the Home Office published the next step in the Compact process "Strengthening Partnerships: Next steps for Compact". The Voluntary Organisations Network North East (VONNE) has said that:

> *“The Government is working with the Compact Working Group to develop a new agreement known as Compact Plus….. Compact Plus will strengthen existing compact agreements through an optional process that will be simpler and more succinct. Compact Plus will be an addition not a replacement and by agreeing to the set of commitments, organisations will be accredited with a Kite mark. An independent Compact Champion will assist and assess all parties before awarding the kite mark.”*[9]

The Current Funding Context

From SRB to Single Pot

The Single Regeneration Budget (SRB) is a national government funding initiative that began in 1994. SRB aimed to reduce deprivation and tackle barriers to growth. Over six bidding rounds it has provided resources to support regeneration initiatives across the region. In earlier rounds it focused on physical regeneration and its emphasis shifted towards more social and economic objectives in later rounds. SRB has previously played a significant role in growing and strengthening the VCS. Supporting and increasing the number of VCS organisations was a key outcome target for many SRB programmes, particularly the later rounds of SRB. Between the 2000 and 2006, the North West VCS has secured a total of £374m from SRB funding.

In March 2001, SRB became subsumed into the Regional Development Agencies (RDAs) budget, known as the Single Programme (or Single Pot). RDAs continue to meet their commitments to SRB rounds 1 to 6 from the Single Programme. There is considerable concern among the VCS that fewer resources will be available to the VCS through this new programme, when SRB is finalised in 2008. Research undertaken by Urban Forum suggests that the VCS has not been successful in accessing the Single Pot overall, although this varies across the regions.[10] The North West Development Agency (NWDA) were unable to provide data on the extent to which the VCS has accessed the Single Pot so far.

There are currently no plans to ring-fence budgets for the VCS in the Single Programme. Organisations bidding for funds from the Single Pot will need to clearly demonstrate how they meet economic targets set out in the Regional Economic Strategy (RES). See Figure 2:

[9] http://www.vonne.co.uk/resources/summary/compact.htm
[10] Out of SRB and into the POT, Urban Forum

Figure 2: North West Regional Economic Targets (2006–2009)

- Achieve Gross Value Added (GVA) growth above England average[11]
- Create 150,000 net new jobs, 80,000 should be in 'knowledge' occupations to bring the proportion of people working in these occupations up to the England average
- Raise the firm formation rate to 21,000 per annum
- Reduce the number of working age people with no qualifications by 80,000 and ensure no district has more than 29% with no qualifications
- Increase the number of people in the workforce with graduate qualifications by 120,000 in order to meet the England average
- Increase the number of people in the workforce by 83,000 in order to meet the England average employment rate and ensure no district has an employment rate of less than 68%
- Reduce the number of areas in the worst 5% deprived, nationally
- Reduce CO^2 emissions per unit (£) of GVA

Source: Regional Economic Strategy

The Regional Economic Strategy (RES) will be delivered through five Sub-regional Implementation Partnerships. The Sub-Regional Partnerships are required to develop and deliver sub-regional economic strategies linked to the RES and sub-regional action plans. The five sub-regional partnerships cover:

- Greater Manchester
- Merseyside
- Cumbria
- Lancashire
- Cheshire and Warrington

The Sub-Regional Action Plans will also incorporate the City-Region Development Programmes. In the case of Liverpool and Manchester, this will require continued collaboration between the Merseyside, Greater Manchester and Cheshire and Warrington Sub-Regional Partnerships.

To access the Single Pot, the VCS needs to demonstrate the ways in which it contributes to Regional Economic Targets. Some of these economic targets will not be appropriate for some sub-sectors within the VCS. Many VCS organisations work to empower communities, tackle social exclusion and support the hardest to reach groups. They achieve soft outcomes which are hard to measure and in some cases do not appear to impact directly on hard economic targets.

However, it is precisely these 'softer' issues that the VCS is better positioned to deal with. Compared to the rest of Europe the North West of England has high levels of illiteracy and innumeracy, a lack of young people staying in education, and large numbers of people who are economically inactive. The VCS is skilled at handling the complex issues which hold people back from achieving their full potential.

The importance of community development as part of wider economic development must not be underestimated[12]. The VCS impacts on economic targets in a less direct way, for example, volunteers

11 Gross Value Added measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom. GVA is used in the estimation of Gross Domestic Product (GDP). GDP is a key indicator of the state of the whole economy.

12 Our survey seeks to measure the economic input of volunteering. VCOs stated that volunteers give on average 6.25 hours per week.

progressing to the formal economy; enabling individuals to build confidence, become motivated and gain basic skills particularly with those from hard to reach groups. Improvement in these soft indicators is likely to translate into harder economic outcomes over time, if beneficiaries continue to receive support.

The NWDA see the VCS as playing a significant role in the development of cohesive and sustainable solutions, and specifies;

"*One of the strengths of the region is its diversity, particularly of its communities. Future growth depends upon using the talents of all these communities. This requires cleaner and safer environments, as well as the full participation of the community and voluntary sectors*."[13]

This may offer further opportunity for the VCS to influence funding and activity at sub-regional levels. Please refer to the North West Regional Economic Strategy for further details on regional objectives and targets.

A Decline in European Structural Funds

European Structural Funds are set to decline in the UK post 2006. This is a result of EU enlargement and increased economic growth in the UK. During the 2000-06 programme the North West benefited from £1.2bn of ESF and ERDF and including Community Initiatives. A decline in these funds will be felt hardest in Merseyside because of its current Objective 1 status, with an average of £7.5 million a year revenue funding directly to the VCS.[14]

The National Strategic Reference Framework sets out plans for ERDF and ESF from 2007-2013, and has recently been through a stage of consultation. According to this, the whole of the North West (including Merseyside) will now have Objective 2 status, (Regional Competitiveness and Employment). Merseyside will have a 'phasing in' status, as it moves from Objective 1 to Objective 2 status. This means it will have a ring-fenced amount of funding.

The *Regional Economic Strategy* will provide the framework for developing ERDF in the region; however, it must be consistent with the wider strategic context including, for example, the Neighbourhood Renewal Strategy. ERDF in England is likely to have four main objectives:

- Promoting innovation and knowledge transfer
- Stimulating enterprise and supporting successful business
- Ensuring sustainable development, production and consumption
- Building sustainable communities

The National Reform Programme (NRP) will provide the framework for ESF. The NRP emphasises the Government intention to use ESF to increase employment opportunity for all, particularly helping disadvantaged groups from unemployment and inactivity to work. ESF in England is likely to have two main objectives:

- Extending employment opportunities
- Developing a skilled and adaptable workforce

The National Strategic Reference Framework demonstrates the overall emphasis of EU funding on employment and skills related objectives. The VCS must demonstrate how it contributes to these objectives to benefit from subsequent phases of ESF and ERDF.

Declining Lottery Funding and Increased Competition

The VCS has previously benefited significantly from the Lottery's New Opportunities Fund and Community Fund, amongst others. The two funds were merged formally in April 2006 and became the Big Lottery Fund (BLF). At the end of April 2005, the BLF allocation was approximately £900m

[13] Taken from the Regional Economic Strategy
[14] Assuming VCS share of ESF (£45M) spread over the period 2000-2006.

nationally. However, this has declined significantly, and is expected to drop to around £300m by the end of 2006/2007. A full list of BLF new programmes relevant to the VCS and national allocations from 2006-2009 is provided below:

- Children's Play - £155m
- BASIS - £155m
- Environment - £324m
- Wellbeing - £165m
- Community Libraries - £80m
- Family Learning - £40m
- Young Peoples Fund - £300m
- Research Grants Programme - £25m
- Living Landmarks - £140m
- People's Millions – £16.5m
- Advice Plus - £50m
- Community Buildings - £50m

Proposed changes to Charity Law will enable a wider range of organisations and local authorities previously exempted to bid for lottery grants. This will result in increased competition for fewer resources. This will also mean tougher competition, as VCS organisations compete against public sector organisations who have a strong ability to bid for funding and are better placed to deal with the performance monitoring and evidence collection that often supports funding bids. The VCS needs to strengthen its ability to bid for funding in this increasingly competitive environment. However, the BLF have guaranteed that 60-70% of funding will go to the VCS.

An important point to note is the impact of the 2012 Olympics on the level of Lottery funding throughout the UK. The National Lottery is set to contribute £1.5 billion towards the Games. This could potentially divert funding away from other areas, including the VCS.

New Funding Opportunities

A number of government programmes have emerged in recent years, which will partially offset the decline in SRB and European funding, and support the sustainability of the VCS. Key programmes include:

Developing Capacity: Next Step for ChangeUp (2005)

The ChangeUp scheme is a response to the 2002 Treasury review finding that VCS infrastructure organisations cannot access adequate support. The scheme has been jointly developed by the Home Office and the VCS and is an £80 million investment fund. The framework sets out a ten-year vision for building up the required infrastructure support for VCOs so that they can be more effective in their work with frontline organisations. ChangeUp focuses on the following key areas for third sector support:

- Performance improvement
- Workforce development and leadership
- Information and Communication Technology
- Governance
- Financing voluntary and community sector activity
- Volunteering

The availability of support to the VCS is varied and the framework therefore aims to provide support for frontline VCOs.

Futurebuilders – Strategic Plan, Investing for Impact (2005)

Futurebuilders is a response to the 2002 cross-cutting review. It is a £125 million investment fund backed by the Home Office that is initially set to run between 2005 and 2009 (£25 million per annum).

The programme aims to encourage less dependence on short-term grants within the VCS and instead supports contracts with public bodies. Futurebuilders takes a long-term approach and favours an investment model that comprises loans, performance related investment, grants and capacity building through consultancy. The fund focuses on five areas:

- Community cohesion
- Crime
- Education and learning
- Health and social care
- Support for children and young people

Community Development Foundation

The Community Development Foundation (CDF) is a non-departmental public body supported by the Home Office. It helps communities achieve greater control over the conditions and decisions affecting their lives by advising government, supporting community work, and carrying out research, evaluation and policy analysis. Two examples of direct grant schemes available under the CDF are Connecting Communities Plus and The Faith Communities Capacity Building Fund. Connecting Communities Plus provides support up to the value of £12,000 and works towards reaching the government's aim of increasing race equality and improving community cohesion. The Faith Communities Capacity Building Fund has support available up to the value of £50,000. The Community Development Foundation was unable to provide information on its total annual grant allocation but regional allocations are distributed based on the size of the BME population within the region i.e. regions with larger BME populations will receive more. The fund helps faith communities promote understanding and dialogue and generally increase engagement between the Government and faith groups.

Rural Social and Community Programme

This is a programme run by the Department for Environment, Food and Rural Affairs that will run from April 2006 until March 2008. The programme has a total budget of £27 million and is operated at a sub-regional level. The aim of the funding is to enhance the entrepreneurial capacity of rural communities, in addition to helping socially excluded individuals in those communities.

New Ways of Working

Current and emerging opportunities for new ways of working will impact on the operating and funding climate for the VCS.

Emergence of Local Area Agreements

Local Area Agreements (LAAs) represent an opportunity for the VCS to influence and shape funding at the local level. LAAs form a new public service agreement between Local Strategic Partnerships[15] (LSPs) and Government Offices. The LAAs will be based on local sustainable communities strategies and set out priorities for local areas against the following themes:

- Children and Young People
- Healthier Communities and Older People
- Safer and Stronger Communities; and
- Economic Development

A number of funding streams will be pooled centrally through LAAs, including a combination of area based funding programmes from Government; mainstream funding such as schools, police, NHS; and non-departmental funding such as Learning and Skills Councils (LSCs), Connexions and Lottery

[15] According to the Neighbourhood Renewal Unit, 'A Local Strategic Partnership is a single non-statutory, multi-agency body, which matches local authority boundaries, and aims to bring together at a local level the different parts of the public, private, community and voluntary sectors'.

funding. The funding sources listed in Figure 3 will automatically be pooled in 2007/08. Wider sources may be pooled centrally or aligned with the LAA on a case-by-case basis and subject to specific local circumstances.

Figure 3: LAA Pooled Resources in 2007/08

Children's Services Grant Kerbcraft Key Stage 3 – Behaviour and Attendance Key Stage 3 – Central Coordination Neighbourhood Renewal Fund Neighbourhood Road Safety Initiative Neighbourhood Support Fund Positive Activities for Young People Primary Strategy Central Coordination School Travel Advisers School Development Grant (Local Authority retained element only) Local Enterprise Growth Initiative (LEGI) New Growth Points Funding	Safer and Stronger Communities Fund – including: Anti-Social Behaviour Grant Building Safer Communities Drugs Strategy Partnership Support Grant Tackling Violent Crime Programme Neighbourhood Management Pathfinder Neighbourhood Element Cleaner, Safer, Greener Element (livability funding) ASB Action Area Aggregates Levy Sustainability Fund Anti-Social Behaviour Trailblazer Home Fire Risk Check Initiative Rural Social and Community Programme Waste Performance and Efficiency Grant

Source: Department of Communities and Local Government

Guidance on LAAs states that the VCS must have a role in delivery of the LAA and each LAA must include a *Statement of Involvement* of the VCS. Whilst the VCS is already represented on LSPs, success of the VCS in accessing and influencing funding through this mechanism will vary.

Implications for the VCS

The decline in current funding will be partially offset by some new funding schemes as well as opportunities for new ways of working to improve local services. This raises implications for the VCS:

- An overall decline in grant based funding and a shift towards enterprise and self-sustaining will require a cultural shift and capacity building within the VCS to make best use of these opportunities.

- The operating environment for the VCS is becoming more competitive, both in terms of competing for grant based funding and competing for public service contracts. The competition is getting tougher too, since the VCS will compete against public and private sector organisations, who often have more developed systems and processes for competing in this environment. Again this will require capacity building within the VCS.

- Funding priorities of the RDAs and EU have shifted towards harder economic objectives related to skills, employment, enterprise and competitiveness. There are opportunities for the VCS to access these funds, although they are limited to those VCOs operating within these theme areas.

- Emerging opportunities for the VCS to engage in decision making at local and sub-regional levels mean that the VCS needs to be more proactive at all levels to ensure representation.

3 The Funding Analysis

This section includes headline findings from the funding analysis.

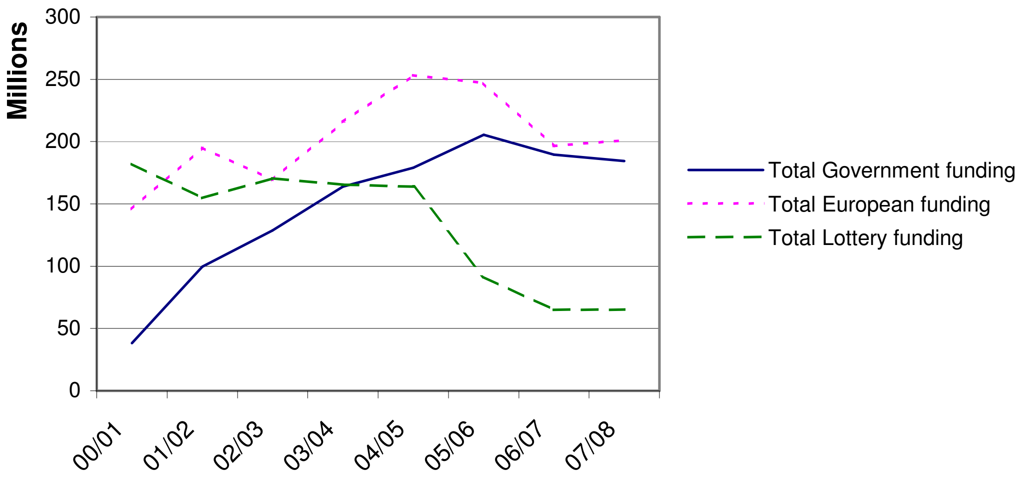
Introduction

We analysed funding in the North West. The analysis was based on Government funding, European funding, Lottery funding and Trust funding. The funding analysis includes an overview of the levels of funding secured in the North West from these sources, estimates the VCS share of these and goes on to estimate the overall decline in funding in the North West beyond 2006. Data was provided by Government Office North West (GONW), North West Development Agency (NWDA), Big Lottery Fund (BLF), Department for Culture Media and Sport (DCMS), Learning and Skills Councils (LSCs) and Job Centre Plus.

Overall Shift

Figure 4 demonstrates the overall change in grant-based funding in the North West, highlighting the significant decline in European and Lottery funds, from the 2004/2005 period, and a small decline in government funding.

Figure 4: Overall shift in grant-based funding in the North West



Source: URS Funding Analysis and Calculations

There will be a **further decline in grant-based funding post 2008**, as a result of the following:

- SRB will be finalised in 2008, and will result in a further decline in Government Programmes;
- The North West is expected to secure around £33m per annum of EU funding 2006-09, compared with an average of £133m per annum between 2000-2006.
- Merseyside is expected to receive around £43m per annum between 2007-2013, compared with £129m per annum between 2000-2006.
- The BLF Corporate Plan estimates *nationally* that the BLF will decline from approximately £900m in 2005 to £400m in 2009. The North West is estimated to receive £55.6m per annum post 2006 (based on North West share of national allocations of new BLF programmes), compared with an annual average of £118m per annum between 2000-2006.

More detailed analysis is presented below, including an overview of the funding sources used to assess, Government, European and Lottery funding and estimation of the VCS share of funds. Data for 2006/ 07 and 2007/08 is based on estimates and planned allocations provided by funders.

Government Funding

Our analysis of Government funding takes into account the range of programmes from Central Government departments, relevant to the VCS. We agreed a list of funding sources with the steering group for this research at inception. These included:

- Single Regeneration Budget
- Neighbourhood Renewal Fund
- New Deal for Communities
- Neighbourhood Management Pathfinders
- Futurebuilders
- ChangeUp
- Community Champions
- Single Community Fund (Community Chests, Community Learning Chests, Community Empowerment Fund)

Overall, government funding has increased from 2000 to 2006. However, the decline of SRB will result in an overall drop beyond 2006. This drop will be partially offset by new initiatives. Many of the new initiatives are targeted at the VCS, often with a focus on capacity building, social enterprise and community empowerment.

Government Funding Achieved 2000-2006

The North West has been successful in securing a total of **£815m** from 2000 to 2006. It is not possible to estimate the VCS share for each of these programmes through existing monitoring systems. For SRB we have estimated VCS share as 10%.[16] The remainder of these programmes are targeted at the VCS and we assume the VCS share is more than 50% for this reason (although actual VCS share will vary across programmes). Table 3 below outlines the level of funding.

Table 3: Government Funding 2000-2006

Programme	North West (£M)
Single Regeneration Budget	37
Neighbourhood Renewal Fund	517
New Deal for Communities	197
Neighbourhood Management Pathfinders	12
Futurebuilders	2
ChangeUp*	4
Community Champions	2
Single Community Fund (Community Chests, Community Learning Chests, Community Empowerment Fund)	45
Total Government funding	815

Source: URS Funding Analysis and Calculations

**For infrastructure organisations*

Government Funding Post 2006

Government funding in the North West is currently higher than levels achieved in 2000. However, the North West has experienced a year-on-year decline in SRB since 2003/04 and outstanding allocations will be complete in 2008. Some new initiatives will offset the decline of SRB to some extent. The overall change in Government funds is illustrated in Table 4 below.

[16] Based on DETR guidance

Table 4: Government Funding Post 2006

Government Programmes	05/06	06/07	07/08	Total
Single Regeneration Budget	4.5	4.7	1.6	
Neighbourhood Renewal Fund	149.1	143.0	142.6	
New Deal for Communities	32.8	32.8	32.8	
Neighbourhood Management Pathfinders	4.1	2.9	2.2	
Futurebuilders	1.5	1.5	1.5	
ChangeUp*	3.6	1.0	0.0	
Community Champions	0.3	0.3	0.3	
Single Community Fund	9.7	3.3	3.3	
Government Programmes Total	**205.6**	**189.6**	**184.5**	
Potential loss from 2005/06		16.0	21.1	37.1

Source: URS Funding Analysis and Calculations

** for infrastructure organisations*

Some new initiatives such as Local Enterprise Growth Initiative (LEGI) and the Rural Communities Programme will offset this decline to some extent. (We do not have sufficient data on these programmes to estimate the extent to which they will reduce the impact of a decline in government sources identified above). Therefore we expect the overall decline in Government Funding will not be as significant as £37.1m.

Further, this analysis does not take into account data on the NWDA Single Pot Budget. Data on VCS access to Single Pot in previous years is not available. The NWDA Regional Funding Allocations report Single Pot budgets of £502m in 2006/07 and £496m in 2007/08. The extent to which the VCS has access to Single Pot is not yet known and will be subject to the Regional Economic Strategy and Sub-regional Implementation Plans. Existing research suggests VCS access to the Single Pot has so far been limited; '…overwhelmingly, the research demonstrates that the VCS does not have adequate representation on sub-regional partnerships.' [17] The VCS will require 3% of the Single Pot budget in 2006/07 and 1% of the Single Pot Budget in 2007/08 to offset the decline of Government Sources post 2006.

European Funding

Our analysis of European funding is based on ESF, ERDF and Community Initiatives. Much of the current EU funding in the North West will end in 2006, with funds spent to 2008. Subsequent ESF and ERDF funds will be significantly lower than previous levels in the region. The National Strategic Reference Framework suggests likely objectives for ESF and ERDF will focus mainly around skills, employment and competitiveness, and therefore some sub-sectors within the VCS may lose out.

European Funding Achieved 2000-2006

The North West has so far been successful in attracting European funding of around **£1.2bn** over the period 2000-2006, and outstanding allocations will be spent by 2008. We estimate that the VCS have successfully secured 12% of the regional allocation, based on data supplied by Government Office and the regional co-financing organisations (Job Centre Plus and LSCs). We present headline findings in Table 5:

[17] 'Out of SRB into the POT', Urban Forum

Table 5: European funding in the North West 2000-2006

	North West (£M)	VCS Share (£M)	%
Objective 1 ESF (Merseyside)	167	45	27%
Objective 1 ERDF (Merseyside)	264	16	6%
Objective 2 ERDF	480	16	3%
Objective 3 ESF	251	64	25%
(ESF Direct Bidding & Global Grants)	~	(41)	~
(ESF Co-financing)	~	(23)	~
Urban II	8	2	21%
Leader+	4	~	~
EQUAL	47	~	~
Interreg III	11	0	0%
Total European	1,231	143	12%

Source: URS Funding Analysis and Calculations

Key points to note:
- Objective 1 is allocated to Merseyside only
- Objective 2 ERDF is allocated across 18 Action Plan areas covering the North West
- ESF is the combined total regional allocation, including Direct Bidding, Co-financing and Global grants;
- We do not have data on capital and revenue split, however should point out that ESF is revenue funding and ERDF is largely capital. The decline in ESF will be more significant to the VCS, as it supports the revenue costs running of organisations.
- Due to the nature of some programmes (EQUAL and Leader +) it has not been possible to secure estimations of the VCS share of these programmes.

European Funding Post 2006

Current allocations will end in 2006, with outstanding funds being spent to December 2008. Table 6 below sets out the remaining spend of current EU funding to 2008.

Table 6: European Funding Post 2006

European Programmes	**05/06**	**06/07**	**07/08**	**Total**
Objective 1 (Merseyside) - ESF*	3.8	4.6	17.2	
Objective 1 (Merseyside) – ERDF*	5.9	8	8.2	
Objective 2 – ERDF*	3.2	0	0	
Objective 3 ESF (VCS Share of direct bidding & global grants)	0.7	0.7	0	
ESF (VCS Share of co-financing)**	3.9	6.1	0	
Urban II (VCS Share)**	0.3	0	0	
Leader + (VCS share)	0	0	0	
EQUAL (VCS Share)	0	0	0	
Interreg III (VCS Share)	0	0	0	
European Programmes total	17.8	19.4	25.5	
Potential loss from 2005/06		1.5	6.1	7.6

*Source: URS Funding Analysis and Calculations *Estimations of actual allocations for projects who will spend to 2008. ** VCS share estimated by funders. This figure appears high, but represents the high numbers of projects who have to end of 08 to spend current allocation.*

Whilst this represents an increase to 2008, this is explained by the high numbers of Objective 1 projects who will spend current allocations by 2008. For Objective 2 and 3, we do not have data on spend to 08, therefore current allocations are frontloaded in 05/06 financial year, although will be spent to 2008. Subsequent ESF and ERDF will begin in 2007 and will be lower than in previous years. This is explained below.

European funding 2007-2013

The National Strategic Reference Framework covering the period 2007-2013, (highlighted in the last section), sets out likely objectives for further ESF and ERDF, focused around skills employment and competitiveness. However, at this stage it is not possible to provide precise figures for the amounts to be received by the North West.[18]

Further ESF and ERDF for the period 2007-2013 will be significantly lower than previous years. The North West Development Agency have specified a budget of £0.25bn of EU funding in the region between 2006-2009[19]. Excluding Objective 1, this equates to around £33m per annum, compared with £133m per annum between 2000-2006. This will be allocated in line with the Regional Economic Strategy and Sub-regional Implementation Plans.

The Objective 1 programme in Merseyside will receive £300m for the 2007/13 period. This equates to around £43m per annum between 2007-2013 (i.e. £300m over 7 years), compared with £129m per annum between 2000-2006 (i.e. £900m over 7 years), a drop of approximately £86m per annum. This will result in significant reduced funds to the VCS.

Lottery Funding

The Community Fund and New Opportunities Fund merged to form the Big Lottery Fund (BLF), which was formally amalgamated in 2006. The BLF has launched a range of new programmes, with a view to becoming more strategic and demand led. Lottery funding has overall declined during the period 2000-2006 this is particularly true for the BLF.

Lottery Funding Achieved 2000-2006

We agreed a list of Lottery funds relevant to the VCS in the North West at inception. Our analysis of Lottery Funding is based on Heritage Funding, Awards for All and Big Lottery Funding. Between the period 2000 and 2006 the North West has secured **£928m** of Lottery Funding from these programmes.

Table 7: Lottery Funding 2000-2006

Source	North West (£M)
Big Lottery Fund (NOF & Community Fund)	706
Awards for All	25
Heritage Lottery	197
Total	928

Source: URS Funding Analysis and Calculations

Each of these funds do not collect data on applicant type, and it is not possible to estimate VCS share of these funds. However, anecdotal evidence suggests that VCS share is high, particularly for BLF and Awards for All.

Lottery Funding Post 2006

Table 8 illustrates the change in funding post 2006. Whilst this appears to show an increase in funding between 05/06 and 06/07, this is set within an overall context of a significant decline in Lottery funds. The BLF Corporate Plan estimates nationally that the BLF will decline from approximately £900m in 2005 to £400m in 2009. In terms of the North West share of Lottery funding, the largest decline occurred at the end of the 04/05 financial year.

Table 8: Lottery Funding Post 2006

Lottery programmes	05/06	06/07	07/08	Total
Big Lottery Fund (NOF & Community Fund)	55.6	55.6	55.6	
Awards for All	6.1	9.5	9.5	
Lottery programmes total	**61.6**	**65.1**	**65.1**	
Potential increase from 2005/06		3.5	0.0	3.5

Source: URS Funding Analysis and Calculations

The Lottery are unable to provide detailed projections on allocations by programme and by region, so it is difficult to estimate lottery funding post 2006. Allocations for Heritage Lottery Funding are not

[18] So far it has been announced that an estimated £300 million will be ring-fenced for Merseyside and the total for the whole of the North West will be approximately double this.
[19] Please refer to Regional Funding Allocations, North West Development Agency, Jan 2006

available, and have therefore been excluded. BLF is based on an estimation of the North West share of the new BLF programmes.

Trust Funding

The nature of Trust funding means it has not been possible to secure sufficient data to gain a complete picture of the regions success in attracting this type of funding. Many Trust funds are subject to the financial performance of their organisations, however, anecdotal feedback from funders so far suggests these sources will remain steady. It is also worth noting that Trust funders commonly make one-off grants that are targeted geographically or thematically.

Trust Funding Achieved 2000-2006

At inception, the steering group for this research identified the following trust funds as particularly relevant to the North West:

- Lloyds TSB Foundation for England and Wales
- LankellyChase Foundation
- Esmee Fairburn Charitable Trust
- Henry Smith Foundation
- Northern Rock covering Cumbria
- Baring Foundation
- Charities Aid Foundation
- John Moores Foundation covering Merseyside
- Francis C Scott Charitable Trust covering Cumbria and North Lancashire
- Tudor Trust

Many trust funders were unable to provide the data or allocations by region, or beyond the 2005/06 financial year (although we secured data to 2005). Our analysis suggests the North West was successful in securing **£39.9m** of Trust Funding between 2000 and 2005, although we expect the true picture to be much larger than this, since there are further funds active in the North West Which are excluded from the analysis.

Table 9: North West Trust Funding 2000-2005

Source	Total (£M)
Lloyds TSB Foundation	14.0
Northern Rock	4.4
Baring Foundation	0.7
John Moores Foundation	2.4
Francis C Scott Charitable Trust	6.4
Tudor Trust	12.0
Total	**39.9**

Source: URS Funding Analysis and Calculations

Trust Funding Post 2006

It has not been possible to estimate Trust Funding beyond 2006. Many funders reported that future allocations depend on the financial performance of their organisation.

Conclusions

The overall picture highlights the decline in grant-based funding post 2006. We have estimated the overall drop in VCS funding, based on Government Programmes, European Programmes and Lottery Funding. We assume Trust Funding will remain constant and therefore not included in this analysis. Taking into account the VCS share of funding, the overall drop in VCS funding using 2005/06 as a base year is potentially **£10m** for the VCS. Analysis is presented in summary, in Table 10:

Table 10: Overall Decline in Funding Post 2006

	01/02	05/06	06/07	07/08	Total
Government Programmes Total	99.7	205.6	189.6	184.5	
European Programmes total	27.7	17.8	19.4	25.5	
Lottery programmes total	155	61.6	65.1	65.1	
Total	**282.4**	**285.1**	**274.0**	**275.0**	
Potential loss from 2005/06			11.0	-1.0	10.0

Source: URS Funding Analysis and Calculations

Government sources have increased overall since 2000. This reflects the Governments increased commitment to the VCS. However, total Government funding is set to fall post 2006. The end of outstanding SRB monies in 2008 will see a further decline beyond 2008. New programmes such as LEGI and the Rural Communities Programme may offset this fall. The analysis does not take into account money available in the region through the Single Pot. Whilst it is not known the extent to which the VCS in the North West has benefited from this, the opportunities must be explored more fully.

European funding has decreased significantly as a result of European enlargement and increased prosperity of the UK overall. Whilst figures for further ESF and ERDF funding is not formally agreed, the levels of funding will be significantly lower than in previous years. Likely objectives for further EU funding may mean that some sections of the VCS are less likely to benefit from this money, than in previous years.

Lottery funding has decreased significantly, although the most significant decline occurred at the end of 04/05 and therefore some impacts of this may have already happened.

Trust funds depend on organisations performance. Anecdotal evidence from funders suggest these sources will remain largely constant.

This analysis does not take into account the growing opportunities for the VCS through new programmes and new ways of working. The Local Area Agreements may provide further opportunities for the VCS as resources get pooled at a local level and enable Local Authorities to negotiate resources in order to meet local outcomes. Each Local Authority must provide a Statement of Involvement for the VCS, and the level of funding allocated at this local level will depend on the Local Authorities individual relationships with the VCS. Other opportunities include tendering for public service agreements and self-sustaining through other means, i.e. subscriptions, selling services, donations and so on. Therefore the impact may not be as significant as expected, and may emphasise VCS response to the overall changing funding context. The impacts of an overall decline in funding on the VCS are covered in the next section.

4 Impacts of Change in Funding

This section explains and quantifies the economic, social and organisational impacts of a change in funding for the VCS in the North West. This section draws on the results of the funding analysis, the survey and consultations.

Economic Impacts

The VCS has grown significantly as a result of grant based funding programmes such as SRB and European funding. Current research in the North West commissioned by Voluntary Sector North West will provide a clear picture of the overall size of the VCS and its contribution to the regional economy. In the absence of this baseline of the VCS in the North West we have estimated the economic impacts resulting from the decline in funding, estimated at £10m between 2006 and 2008.

Funding and Impacts on Turnover

Our funding analysis suggests that overall grant based funding has declined since 2004/05. In our survey, we asked organisations about changes to their turnover during this period. 75% of our sample's turnover had either increased or stayed the same despite an overall drop in funding available for the VCS in the region. (51% of the sample had experienced an increase).[20] However this should be treated with caution, given that a decline in funding may not have had enough time to impact on organisations. However 23% did experience a decrease. Of the minority who had experienced a decline over 50%, stated that it was completely or mostly related to a decline in funding.

A £10m decline in the sectors funding between 2006 and 2008 (and potentially further beyond 2008) will no doubt impact on the sectors turnover if the sector is unable to secure income from other sources. The survey asked VCS organisations about their expectations on turnover over the next 12 months. Over two thirds (64%) of our sample expect their turnover to increase or stay the same despite the decline in funding available to the sector. 28% expect a decrease.

Whilst the majority of organisations have not experienced a decline in funding in the last 12 months, we anticipate some sections of the VCS have suffered, and are at risk from further subsequent declines in grant based funding. We explored the data to identify common trends across organisations who had experienced a decline in funding or expected to experience a decline. The results showed a real mixture of organisations covering the different thematic areas, with a wide range of organisation sizes, and geographical coverage across the sub-regions.

Employment Impacts

Assuming existing grant funding largely covers staff salaries, a fall in funding of £10m could equate to a reduction of over 500 VCS jobs, and a possible further approximate 250 jobs in the region as a result of multiplier effects. The VCS so far, appears to have remained stable, despite a decline in funding in the region in the previous years. However, this should be treated with caution, given that a decline in funding may not have had enough time to impact on organisations. Whilst a decline in grant funding has occurred, it appears organisations are responding by securing funding from other sources. We cover this in more detail in Section 4, Post 2006 Sustainability. We explain our analysis below.

Method for Estimating Employment Impacts

We have estimated potential employment impacts in two ways. First, by assessing the potential loss of funding and deriving job numbers from this figure. Second, we have taken into account feedback from the survey, which asked VCS organisations to estimate whether the number of employees was going to increase, decrease or stay the same over the next 12 months. We explain the analysis below.

We have derived the potential reduction in jobs in the VCS by dividing the loss of funding by average salaries for the North West. [21] This equates to a gross direct impact of 2449 job losses in the North

[20] The survey was undertaken in May 2006, therefore responses to this question relate to May 05/06, where the largest drop in funding occurred.
[21] Average North West annual salary estimated at £19,680 taken from the Annual Survey of Hours and Earnings - Resident Analysis (2005)

West VCS. We have applied a multiplier using Treasury Guidance to take into account the wider job losses resulting from indirect and induced employment effects[22]:

- Indirect multipliers: the knock on effects on employment arising from services and supplies provided to the VCS.
- Induced multipliers: the income of the VCS workers and suppliers that would be spent locally.

This results in a net direct and indirect impact of 765 jobs between 2005/06 and 2007/08. However, feedback from the survey suggests the VCS is more optimistic. We asked organisations about the numbers of paid employees in their organisation. In the last 12 months, 79% said the number of paid employees had either increased or stayed the same. 19% had experienced a decrease.75% of our sample expects the number of employees to increase or stay the same in the next 12 months with 17% expecting a decrease.

Impacts on Volunteering

Our survey sample currently engages over 14,000 volunteers collectively. On average, organisations reported that volunteers gave around 6 ¼ hours per week to their organisation. A decline in funding could result in an increased dependence on volunteering, if paid employment in the sector falls.

In the last 12 months, 91% of VCS organisations reported that the level of volunteers has either increased or stayed the same and VCS organisations expect the level of volunteering to increase in the near future. We asked organisations to rate whether they expected the numbers of volunteers to increase, decrease or stay the same over the next financial year. 39% of our sample expected it to increase, 45% expected it to stay the same and only 7% expected a decline. This suggests that despite a decline in funding, our sample is optimistic about the future role of volunteers in their organisation.

Whilst this could be interpreted as an increased reliance on un-paid volunteers, our survey suggests that optimistic perceptions on the levels of paid employment do not reflect this. Therefore our survey suggests volunteering will increase alongside paid employment, rather than replace it. An increase in volunteering would result in additional positive impacts, taking into account the economic benefits of volunteering.

Impacts by Organisation Size

Anecdotal evidence suggests that smaller organisations will be most affected by the changing funding climate. Our survey sample was formed of predominantly smaller organisations, with over half (51%) of the sample employing between 1 and 10 paid staff.

Social Impacts

Impacts on Beneficiaries

Our survey demonstrated that the VCS in the North West region supports a considerable section of the population. Of the organisations surveyed approximately 277,526 people have made use of the sample's projects or services in the last year. This is a diverse sector and contains organisations that deal with as little as 20 people right up to some that reported 76,000 beneficiaries in 12 months. This would suggest the level of support provided to each individual varies significantly, based on the type of services offered.

We asked organisations about the ways in which the changing funding climate would impact on their beneficiaries. Approximately half expressed deep concern over potential future impacts on beneficiaries. A selection of responses is provided below:

- 'They would not get the help they need'

[22] The Treasury Green Book refers to guidance produced for English Partnerships that provides a 'ready reckoner' of composite multipliers – the combined effect of indirect and induced multipliers. This states that where there are average supply linkages the composite multiplier is 1.1 at the local level and 1.5 at the regional level. Using this guide, we have assumed that the appropriate multiplier for the North West is 1.5.

- '[Beneficiaries would] go elsewhere or have to seek more expensive, less sustainable options'
- 'Our opening hours cannot stay the same or increase and waiting times will lengthen, we will be unable to offer the range of services we would like'
- 'Any decline would mean that we are less able to provide services and meet the needs of the people for whom the organisation exists'
- 'Some will stop receiving a service, others will be provided a service by other organisations'; and
- 'Beneficiaries currently supported would not be directly affected. The number of new beneficiaries would be reduced'.

However, it must be noted that some organisations did not feel that the changing funding climate would impact negatively on their beneficiaries. And that end beneficiaries would not be affected as their organisation moved to a different funding stream.

These positive comments are reinforced by the 56% of the survey respondents who believed that over the next financial year the number of beneficiaries in their organisation is likely to increase. This compares to approximately 10% who felt their number of beneficiaries was expected to decline. VCS organisations anticipate funding changes as having mixed impacts on beneficiaries and service provision. This merely reflects the diversity of the VCS.

Case Study – Wai Yin Chinese Women Society

Originally set up to help the needs of Chinese women, the Wai Yin Chinese Women Society has developed a range of employment, educational, and community services for Chinese women. This organisation exemplifies how funding changes have replaced a specialised local scheme with a more general and 'top down' national initiative.

Wai Yin has previously relied on a mix of grants and public sector contracts. Yet with the shift towards self-sufficiency Wai Yin believes that the quality of the service will decline. Previously the society was able to offer IT training specifically for the Chinese community, however it is now required to send people on central national schemes that prove difficult for non-English speakers.

Impacts on Other Services

Many VCS organisations act to 'fill the gap' where public service provision has been unable or unwilling to reach. Therefore, increased delivery of mainstream service provision through the VCS may improve public services.

Some concerns raised in consultations with stakeholders suggested a decline in VCS delivery capacity could increase the burden on mainstream agencies and mean that the more vulnerable groups in society miss out on necessary services. For example, the mentally ill and the elderly are two such groups that, without grass roots VCS schemes to assist them, could suffer if the sole reliance is on delivery from government agencies.

The changing funding climate has meant that VCS organisations are encouraged to be self sufficient, and one option includes tendering for public service contracts with mainstream agencies. The survey showed that 36% of the organisations believed their ability to tender for service contracts would increase in the next year. 47% believed their ability would stay the same whilst only 9% predicted their tendering ability would in fact decrease. Therefore, our survey suggests the VCS capacity to deliver services is optimistic.

Organisational Impacts

Impacts on Staff and Capacity

VCS organisations are struggling to cope with the increased amount of staff time spent applying for funding. This takes time away from delivery and improvement of the service. Other messages from case studies and consultation with stakeholders, suggested that the uncertainty of funding impacted on staff morale, and limited the organisations ability to invest in people. Further, the nature of short term funding means that VCS jobs are less secure, and staff may move on to jobs with better terms and conditions. Stakeholders anticipate that this trend will continue although initiatives such as Futurebuilders partly address the issue.

The need for greater advice and support on tendering for public service contracts was a key message to come out of the survey. Of the six possible areas for VCS development, help on public service contracts was regarded as a 'high priority' by approximately 37% of organisations.

Impact on Fundraising

Our survey and consultations suggests that organisations are already adapting to the changing funding climate, by diversifying their income streams. For example, funders in particular commented that VCS organisations are developing professional business plans (see below), including risk management strategies that seek to minimise the impact of one reliance on one source of funding by diversifying income streams ensuring a range of funding sources are needed to fund project activities. Some of the more diverse funding streams and revenue being targeted included private sector finance contributions, loan finance, charging for services and public sector service contracts.

Impacts on Organisation Culture

A major impact of the changing funding climate is that VCS organisations are increasingly becoming more business-like in their approach, attitude and structure. The results of the survey gave some evidence of this, where 43% of organisations said they have become more entrepreneurial in the last 12 months (However, 47% felt they had stayed the same).

Case Study – Breakthrough UK

Breakthrough UK is an organisation that supports disabled people by working with individuals, employers and generally tackling discriminatory policies and practices.

Breakthrough UK is symptomatic of many of the organisations within the VCS. It was previously reliant on local and national government sources for the majority of its funding. However, with the expected funding changes in mind it is currently formulating a business plan in order to consider alternative revenue sources. This business-like approach is indicative of the current entrepreneurial climate.

Stakeholders in consultation felt that VCS groups were becoming increasingly business-like in an organisational sense and also in their overall approach to securing funding i.e. non reliance on grant funding but diversifying of income streams as noted above. One stakeholder gave a good example of a VCS organisation that has begun charging for services when citing a Manchester-based charity that works with young offenders – this VCS group has recently begun charging public and private sector clients for services involving gardening and groundwork repairs and thus generating a sustainable income stream. The strategy has allowed the organisation to plan long term and develop a successful continuation strategy.

Case Study – Coldwell Inn Project

The Coldwell Inn Project began in 1985 and is a converted activity centre for young people, serving the surrounding areas of Burnley and Pendle. Coldwell specialises in providing holidays for young people, including those with a disability or from a disadvantaged background.

Coldwell is an appropriate example because it is aiming to become completely self-sufficient. Currently approximately 90% of funding originates from sales and contracts, with the remaining 10% coming from grants. However, with the expected funding changes and the promotion of self-sufficiency, Coldwell aims to be funded 100% from sales and then use any future grants obtained for additional activities such as marketing and promotion.

Further evidence of the VCS's overall organisational transition to a more business and professional approach were given – these included the development of robust business plans, clear and defined management structures, increased collaboration with other agencies, and bringing experts in from management agencies to advise on how best VCS groups can influence commissioning bodies. Stakeholders also felt that VCS groups were further developing in an organisational sense through increased research capacity, and by getting more robust evidence about the future needs of the beneficiary communities in order to justify the funding need. This points towards a more professional approach from groups that are adapting to increased competition for what are essentially smaller pots of funding.

Despite the emerging shift of VCS organisations from a predominantly grant funding reliance to a more business-like approach in recent years, both stakeholders and funders felt that smaller VCS organisations would not have the capacity to adapt. Such groups are inevitably still going to rely on grant funding for the foreseeable future and may need greater support from agencies and larger VCS organisations that have more capacity. Successful VCS organisations could best advise on how to diversify funding streams and offer general advice on networking, formal partnering and forming consortia.

Impacts on Partnership and Governance

Funding changes will have a knock-on effect on the nature of partnerships, 38% of survey respondents believe changes in funding will have a negative impact (20% of respondents foresee an improvement). However, this must be set within the context of changing partnership characteristics. Traditional forms of partnerships are declining and organisations are instead sharing functions and joining forces to secure contracts. From case studies, some projects had partly addressed this issue, by sharing the responsibility for back office functions with partners, for example the Delivering Inclusion Network.

Case Study – The Delivering Inclusion Network

The Delivering Inclusion Network in Manchester, includes three projects related to mental health and social inclusion;

- YASP (Young Adult Support Project) a sister organisation to HARP
- Access All Areas, delivered by Mind in Manchester
- The Roby Counselling Service

The Network is currently funded by Neighbourhood Renewal Fund (NRF). HARP, the accountable body for YASP is the larger of the three projects and has taken responsibility for key back office functions for the three projects, to reduce the overall project management costs, including for example, accounting support and performance monitoring. This has worked well in practice and has resulted in cost savings and efficiency gains.

However, for some organisations this approach may raise some issues. One VCS organisation raised concern about this approach. While there are benefits of pooling resources from a cost angle, you lose understanding from an individual not directly related to your organisation, who does not understand your mission or function. In addition to this VCS needs support in estimating the costs of project overheads and estimating time spent on governance and management.

Therefore, despite a number of organisations predicting a decline in their partnerships, we are confident that this is explained by the changing nature of partnerships. Partnerships are still expected to play an integral part to VCS development.

The survey asked VCOs about who they partnered with and whether their partnerships were progressive, average or weak. We applied a weighting to progressive, average or weak to determine an overall score for the value of each partnership. We ranked these partnerships, to determine which partnerships were most valuable. Our survey reported that 91% of organisations partnered with other VCOs and that these partnerships were most progressive. 43% of VCOs said they had a progressive partnership with Local Authorities, which is encouraging given the emerging Local Area Agreements. Results are presented in Table 11 below:

Table 11: Partnership Arrangements

Partner (ranked according in order of most progressive)	% With partnership[23]
Other voluntary organisations/ community groups	91%
Local Authority (or LA led partnerships)	88%
Health Authority including PCTs or other trusts	76%
Regional organisations such as North West Development Agency, Government Office North West, North West Regional Assembly	69%
Other authorities (e.g police/ fire/ youth offending teams)	69%
National government organisations	72%
Housing Associations / Registered Social Landlords (RSLs)	63%
Learning and Skills Councils	66%
Connexions	64%
Job Centre Plus	61%

Source: URS Survey 2006

[23] Includes all partnership arrangements including progressive, average and weak. See Appendix A, Question 11 for specific breakdowns on VCOs' perceived quality of all partnership arrangements.

The weakest partnership arrangements were with Connexions and Job Centre Plus where 36% and 39% respectively had weak partnership arrangements.

With the emergence of public sector service contracts as a major source of funding for VCS groups, there is a general consensus among stakeholders that in order to survive, smaller organisations in particular may need to merge or form consortia with similar-sized local VCS groups. This allows for a pooling of resources and sharing of expertise so that smaller VCS organisations can compete with larger VCS organisations as well as public sector organisations for service contracts. Our survey suggests these partnerships are already emerging and are beginning to show positive results for partners, based on the high rating of partnerships with other organisations as above.

Mainstream agencies in consultation, identified the benefits of a social enterprise approach for organisations dealing with the funding challenges. However, stakeholders felt that this was not suitable for all VCS organisations including smaller groups, who may have less capacity. With regards to smaller VCS organisations, some funders and those stakeholders working closely with groups in a support capacity described the highly localised nature and defined focus (i.e. Black Minority and Ethnic (BME), elderly, youth, faith) of such groups. One funder had emphasised the difficulties and complexities around building partnerships between different organisations in a local area. This requires sensitivity and careful negotiation.

Case Study – Trinity Community Partnership

Trinity Community Partnership is an independent community based development trust that works towards developing sustainable social, cultural, environmental and economic enterprise. It works in partnership with public sector and the VCS and seeks to engage with socially excluded groups including the young, the elderly, the disabled, and black and minority ethnic groups.

Trinity Community Partnership exemplifies the ways in which VCOs are having to diversify their income streams. The trust was previously funded through a mixture of government and private grants. However, with the end of their ESF funding budget last year the partnership has had to focus on becoming less reliant on grant funding. Trinity Community has therefore created a franchise with a local educational establishment and also joined up with Lancashire Council to promote and develop new sports provision.

Stakeholders, funders and mainstream agencies all pointed towards the diversity within the VCS – which can range from national organisations such as the Prince's Trust to small residents groups. This diversity was reflected in our survey of organisations where:

- 40% of respondents primarily provided support services to individuals
- 17% worked towards empowering communities
- 17% provided support services for the voluntary sector; and
- 22% focused their activities in other areas.

Consultees felt that there can never be a 'one size fits all approach' for VCOs with regards to sustainability strategies purely because of this diversity.

Stakeholders highlighted the concept of 'mission drift'. At least three consultees identified that an impact of the changing funding climate is that organisations are not only spending increased amount of time chasing funding, but they are also chasing more diverse pots of funding and delivery contracts, which do not fit with what that organisation was initially set up to achieve. This skews the overall message of that organisation and results in increased 'mission drift'.

Impact by Thematic Areas and Areas Most at Risk

Taking into account our analysis of the overall changing funding context we have identified some key areas, which will be most at risk as a result of the changing funding climate.

The decline in funding will be more severe in the Merseyside sub-region given the volume of change for Objective 1 funding.

Impacts may be more noticeable in rural areas, based on the following:

- The survey suggests higher grant dependency in rural areas. 50% of rural organisations expected to rely on grant based funding in the next 1-3 years compared to 36% of urban organisations. This could suggest rural organisations are more vulnerable to the changing funding climate.
- A greater proportion of rural organisations predict a decrease in their turnover over the next financial year (36%) than those based in urban areas (26%); and
- Previous European Programmes focused on rural development issues. Many area-based programmes focus on inner urban areas; therefore funds are more likely to be concentrated in towns and cities. This is particularly prevalent given the emerging focus on City Regions, which in the North West include Preston, Liverpool and Manchester.

Some sub-sectors within the VCS are at greater risk due to the increased focus of funders priorities on hard economic measures. This may include projects focused around prevention, which may not demonstrate an impact on economic targets, but can prevent further economic costs for society.

Conclusions

The funding analysis reveals an overall decline in grant based funding for the VCS, which in turn could result in potential job losses. However, wider feedback is more optimistic about their future prospects of the VCS, despite the decline in funding. Key messages are:

- VCS organisations themselves are optimistic overall about their future prospects. However, approximately less than ¼ of our sample expect to be affected negatively by the changing funding climate which was also supported by our consultations. Future strategies must target those most at risk.
- Some stakeholders felt that a decline in grant funding would lead to a loss of jobs, services and expertise, with a wider impact of damaging the overall regeneration in the region.
- Funders, mainstream agencies and some stakeholders felt that although there may be a decrease grant funding post 2006, the overall picture for the VCS would be one of growth in terms of number employed in the VCS, the numbers volunteering and the overall revenue.

Consultees flagged up the emergence of public sector service agreements, in which the Government is, and will most likely continue, to invest heavily. The challenge for VCOs is to adapt to this changing funding climate – the VCS as a whole will need an attitudinal change if it is to switch to public sector service contracts and generate of its own revenue as oppose to continued reliance on grant funding.

There is clearly a consensus among stakeholders, funders and mainstream agencies that organisations are feeling the impacts of the evolving funding climate. Whilst there are mixed feelings as to whether VCOs will be adversely affected in the long term or whether they will begin to thrive with the transition to alternative approaches to sustaining their organisations.

5 Sustainability and Forward Options

This section explores the overall sustainability of the VCS in the North West today. We draw upon survey findings to examine how VCOs expect to adapt to the changing funding climate in the next few years.

This section will appraise identified forward options and we identify possible strategies to support the VCS post 2006. Identified strengths, weaknesses, opportunities and threats for each option are drawn from our case study research, survey, consultations and wider research.

Post 2006 Sustainability

So far our research demonstrates that overall the North West VCS expects to grow despite the decline in grant based funding. The survey suggests that the VCS has so far survived a drop in funding in the last financial year and remains optimistic about their survival and growth over the next year. This may suggest that the VCS has already begun to adapt to the changing funding climate and our research demonstrates signs of this. However, the VCS has not fully adapted and there is more work to do. We have also identified some areas of concern, which must not be ignored.

Current Funding Patterns

The majority of organisations have already spread risk by diversifying their funding streams. Over three-quarters of our sample indicated that they are funded by more than one funding stream.

52% of our sample reported that they were able to secure an income through self funding, including sales, payment for services, subscriptions and so on, and has generated over £55M in a year through this approach. Table 12 gives an overview of funding type and total revenues generated from this.

Table 12: Funding sources of surveyed organisations

	Total organisations (%)	Total revenue (£M)
Government Funding	54	22.2
Self Funding	52	55.5
Trusts/foundations	47	6.2
Donations	38	10
European funding	34	4.9

Source: URS Survey of VCS 2006

Despite some positive signs, many organisations are still funded through grant-based programmes including Government and European funding. We asked organisations about their dependency on the range of Government and European Programmes. 85% of our sample is currently accessing funding from one or more of the sources listed in Table 13.

Table 13: Number of organisations dependent on grant-based programmes

Source	Number	%
Lottery Funds	39	36
Neighbourhood Renewal Fund	23	21
European Social Fund	23	21
European Regional Development Fund	15	14
Single Regeneration Budget	12	11
Community Learning Chests	12	11
Community Empowerment Fund	11	10
Capacity Builders	6	6
Community Champions	5	5
Community Initiatives	3	3
Other	**49**	45

Source: URS Survey of VCS 2006

45% of our survey reported ‘other’. These responses included a combination of funding from Local Authorities, Further Education and Higher Education, Learning and Skills Councils (LSCs), the Single Pot, various trusts, NHS, PCTs, and including sales. This may indicate some hidden funding issues, for example, funding through LSCs may be European funding at source. However, responses largely indicated that the VCS had accessed funding from a range of sources, including mainstream agencies.

Forward Strategies

We asked organisations about how they expect to be funded over the next three years and what measures they were taking to seek alternative funding in the future. Whilst organisations have already made some progress in seeking alternative approaches to funding, many still expect to rely upon grant based funding as their main source of income over the next one to three years, this is particularly prevalent in organisations with less than 20 employees. This continued reliance on grant based funding may suggest that levels of self funding are not sufficient to sustain the whole cost of running a service or project.

Table 14: Anticipated main sources of funding for the next 1-3 years

Main source of funding over the next 1-3 years	Total (%)	Over 20 employees (%)	Under 20 employees (%)
Funds accessed/ grant based funding	39.4	39.6	46.9
Income generated/ social enterprise	26.6	6.3	18.4
Procurement/ contracts	11.9	25.0	28.6
Other (please specify)	7.3	8.3	2.0
Blank	6.4	10.4	4.1
Donations	8.3	10.4	0.0
Total	100	**100.0**	**100.0**

Source: URS Survey 2006

Organisations are currently looking at a range of measures to seek alternative funding in the future. Around 29% of organisations maintained that their strategies focused on becoming self sustaining. Half aimed to achieve this by establishing some form of trading activity and half aimed to achieve this through procurement. Examples of comments included:

“Essentially, we are two-thirds through capacity building our project so that it can be self-sustaining. This will only be possible if sales income increases whilst other income sources are accessed (e.g. Recycling Credits, new Government initiatives). We are also increasing formal partnering opportunities.”

“We are examining trading and entrepreneurial approaches. We are looking to restructure and we are also spending more time in finding alternative sources of funding”

“Developing commercial income generating activities and stronger partnerships to bid for joint projects are our priorities”

"Creation of wholly owned trading arm delivering commercial services to subsidise our organisation and sector. We now have closer working relationships with the Local Authority to accommodate new Government initiatives. Diversification of funding streams / cycles to allow more sustainability is the key"

"We are looking at developing income from SLAs instead of grants and to generate revenue from consultancy and distance learning courses, in order to reduce our dependence on grants. However, we are always on the look out for appropriate grant funding as we have expertise in bidding for these"

"We are always looking for new funding opportunities. We hope to acquire assets (well on the way to acquiring a building), which we hope will generate a sustaining income. However, this will depend on funding in the short term"

Source: URS Survey 2006

Around 30 organisations maintained that their forward strategy involved improving their ability to secure grant based funding, either through continuing to apply for funding, partnership approaches or employing fund raising staff in house.

Areas for Action

Despite some positive signs and overall optimism among the VCS, the survey indicates there is more work to do. A small proportion of our sample, almost a quarter (24%) relies solely on a funding source, which will significantly decline Post 2006. Half of these rely on lottery funding, approximately 15% on European and 23% on government funding. These organisations are at most risk.

There exists a clear concern among stakeholders around the issue of **full cost recovery**. Previously, many funders have not traditionally provided VCS organisations with full cost recovery for areas such as office overheads and administration support. This has resulted in under investment in internal management systems and processes and capacity within VCS organisations. Full cost recovery is generally accepted as an agreed solution to this issue, and funders such as the Big Lottery Fund and Futurebuilders have signed up to this. However, stakeholders in consultation suggested that VCS organisations are still finding it very difficult to cope, and in many cases non project specific related costs are still less likely to be funded.

As grant based programmes begin to wind down the VCS will need to increase its ability to self sustain and procure funding at a similar rate, to avoid a post 2006 crisis. Messages from this research suggest this transition is happening. However, whilst organisations have demonstrated progress towards becoming self-sustaining and securing income through procurement, there is still a strong dependence on grant based funding. The VCS will definitely need further support over the next two years to enable it to fully adapt to a new funding climate.

Forward options

Option 1: Maintain the Current Situation

Under this option, the VCS will continue to rely on short term and area based grants. VCS organisations who fall outside of the objectives of new and emerging programmes will suffer. Some organisations will strive in a public service contract role and some will become self-sustaining, although many organisations will be lost. Key features of this option include:

- Smaller organisations would continue to be predominantly reliant on grant funding (survey results support this),
- Medium and larger organisations would continue to be reliant on a mix of funding sources although self funding, including public sector service contacts would be the predominant source of funding (survey results support this),
- Organisations of all types would spend increasing amount of time bidding for services contracts or chasing grants. As a result there will be an increase in 'mission draft' among organisations; and

- VCS organisations will spending increasing amounts of time submitting and completing grant funding monitoring forms, which often differ significantly depending on the funder.

Table 15: Distribution of revenue by organisation size

Revenue source	Over 20 employees	Less than 20 employees
Government funding	18 %	49 %
European sources	3.9 %	11.3 %
Trust/foundations	5.9 %	9.1 %
Self funding	62.2 %	18.9 %
Donations	10.0 %	11.7 %

Source: URS Survey of the VCS 2006

We analyse the strengths, weaknesses, opportunities and threats of this approach in the tables overleaf.

Table 16: SWOT Analysis: Maintain the Current Situation

Strengths	Weaknesses
• Many VCS organisations have developed their experience and expertise through bidding for grant funding – they have become accustomed to the processes and have the skills to continue on this basis • Applying for grant funding and research associated with developing bids is helping develop the capacity of VCS	• VCS organisations increasingly chasing obscure and diverse funding resulting in 'mission drift' • VCS organisations spending increasing staff time and resources bidding for grant funding • Many funding stream that VCOs are traditionally reliant on (i.e. EU, SRB, Lottery) are likely to decrease post 2006 with SRB ending in 2008. • Reliance on different grant based funders means that organisations have to collect different monitoring data for each funder, which can be time consuming and places extra burdens on staff. • Smaller VCS organisations do not currently have the expertise or capacity to bid for public sector service contracts, despite the onset of initiatives such as Futurebuilders
Opportunities	**Threats**
• Grant funding, or a large proportion of it, could be earmarked solely for smaller VCOs • Larger and some medium sized VCOs are increasingly developing more professional management structures, business plans and risk mitigation strategies i.e. diversification of funding sources • Some VCOs are beginning to charge for their services and are taking a pro-active approach to the changing funding climate • There is evidence that the VCS is adapting fairly well to the competitive nature of bidding for funds and contracts • Informal traditional partnership working can be replaced with more formal collaborations and mergers between VCOs	• The changing funding climate is causing considerable uncertainty among VCOs • Attitude of VCS - the VCS is traditionally reliant on grants – there will need to be an attitudinal change if it is going to charge for services which runs against the grain of many charities • Increasingly VCOs are struggling to cope with the lack of full cost recovery • Lack of understanding of tendering processes for public sector contracts • Many smaller VCOs are unlikely to be able to bid for public sector service contracts through lack or capacity and know how • Many VCOs cannot charge for their services so are reliant on grant funding e.g. those reaching out to hard to reach groups or advocacy type services

Option 2: Social Enterprise

Social enterprises are businesses with a social purpose, which tackle a wide range of social and environmental issues. In A Strategy for Success, 2002, the Department of Trade and Industry describes a social enterprise as follows;

"A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

Social enterprises are diverse. They include local community enterprises, social firms, mutual organisations such as co-operatives and large-scale organisations operating nationally or internationally. There is no single legal model for social enterprise. They include companies limited by guarantee, industrial and provident societies and companies limited by shares; some organisations are unincorporated and others are registered charities."

By using business solutions to achieve public good, advocates, including the Government, believe that social enterprises have a distinct and valuable role to play in helping create a sustainable and socially inclusive economy. The social enterprise sector is extremely diverse, encompassing co-operatives, development trusts, community enterprises, housing associations, social firms and leisure trusts, among others.

Table 17 identifies the strengths, weaknesses, opportunities and threats of social enterprises as a potential forward option for the VCS in the North West.

Table 17: SWOT Analysis: Social Enterprises

Strengths	Weaknesses
• Increasing the diversity of income sources helps spread the organisation's financial risk • Trading activity can be developed around a particular expertise or competence, which in turn can lead onto further enterprising activity • Trading income can be used to increase the control an organisation has over its future development • Financial surpluses generated can be invested back into other areas of activity which reflect the organisation values, and which might otherwise not attract funding • By taking a business like approach, organisations can create new ways of thinking and operating i.e. business plans. Our research suggests this is already happening. • There is already critical mass of VCS organisations in the region.	• Approaches to securing finance in the VCS (particularly smaller organisations), appear to be rooted in a grant funding culture • There are a significant number of potential sources of support to VCOs needing help to develop social enterprise approaches – many organisations are unaware of who to approach or what help is available • Some VCS orgs do not have the capacity or resources to make use of relevant support services • Business support services are often not accessed by the VCS because of their cost • The social enterprise model is not suitable for all organisations
Opportunities	**Threats**
• 52% of the survey sample are already engaged in some form of enterprise activity. • Stakeholder consultees generally responded quite favourably to development of the social enterprise approach • There are an increasing number of infrastructure organisations providing advice on development of social enterprises as well as the wider social enterprise agenda	• Cultural divide: the tension between earning income and the wider social objectives of the organisation. • Many VCS orgs do not have the legal protection of limited liability or are normally without a capital asset that can provide some security against loan finance • Many VCS organisations seem to be relatively unaware of the current and potential contribution of VCS organisations through social enterprises • The lack of support for a business culture.

Option 3: Bid for Public Service Contracts

The Government is also currently encouraging voluntary and community sector involvement in public service delivery. While many VCOs have no wish to work with the public sector, public service delivery can provide an opportunity for VCOs to achieve their aims by reaching more people or improving the quality of the service they provide. Public service contracts can be large contracts - teaming up with other VCOs by developing consortia can be the only way for smaller organisations to get involved. VCOs working in collaboration to deliver public services can bring significant advantages.

VCOs collaborating on public service delivery not only have a contract with a public body, they also have to forge and maintain agreements with their voluntary or community sector partners. This adds complexity to bidding for public service contracts.

Table 18: SWOT Analysis: Bid for Public Sector Service Contracts

Strengths	Weaknesses
• Most VCS organisations have a direct interest in public sector reform • The VCS, with its community and social focus, has a very good chance to shape services around the needs and desires of service users • Strengthening the communities in which services operate, building communities that can cope and ensuring the development of the voice of the user are important functions in the development of the reform and modernisation of the public services – the VCS has always placed community capacity building as its ethos • The voluntary sector brings expert knowledge, a degree of credibility with users and within the wider community, and an authority that flows from direct experience ○ Strengths of collaborative VCS working as part of service contracts include: ○ Services are better linked to hard to reach groups ○ Complementary expertise combines to provide a more holistic service across sub sectors ○ Greater overall capacity to improve outcomes, with more effective management, delivery and monitoring of the service	• Smaller VCS organisations do not have the capacity to tender for public sector service contracts individually, unless they are part of a formal consortium or structured collaborative working – which some groups do not desire. Written agreements for collaborative working take time and resources to develop. The diversity of the VCS and varying size of organisations means collaborative working is often not possible in reality • Business risks: while improving in this sense, the VCS does not traditionally have the business capacity or expertise to run large lucrative contracts • The voluntary sector is likely to be asset poor which affects their ability to enter into a trading market • Some VCOs have no interest in delivering public services • Lack of a level playing field
Opportunities	**Threats**
• The opportunity to develop more innovative organisations, able to respond entrepreneurially to the challenges ahead of them, is a strong argument for transfer of services to VCOs • Transferring services can result in a more competitive market, in which the needs of users for high quality services can really drive performance of VCS organisations • There are schemes to give the VCS an incentive to engage in public service delivery, such as Futurebuilders fund. • The CVS (through the NVCO) reports a 60% increase in competitive tendering by local authorities • Lower overheads freeing money for frontline work	• VCS needs to be able to demonstrate to all stakeholders and to the public that it can really improve services There is a major risk that the service will not be transformed or significantly improved – the cost of the transfer financially is therefore likely to be disproportionate • VCS organisations providing the services need to demonstrate that they can be relied upon for the long term • Whilst a VCO might be democratically accountable to its members or users, it is not democratically accountable to the public at large which is expected of those delivering public services • An over-expansion into public service delivery can skew the focus of an organisation and the original mission of a VCO can become marginal • Significant expansion and hence dependence on public service contracts can make an organisation vulnerable to changes in government policy priorities and funding priorities

VCS Areas for Development

As part of the survey, VCOs were asked which types of support would most appeal to their organisation. We asked respondents to rate each option on a scale of 1 to 4, where 1 is a low priority and 4 is a high priority. Ratings were weighted to produce an overall score and each priority was ranked in order of importance. The suggested types of support were ranked in order of importance:

Table 19: Areas for support

Rank	Score[24]	Areas of support most useful
1=	278	Advice/support on tendering for public sector contracts
1=	278	A funding forum
3	259	Enterprise and business support
4	246	Support with partnership development
5	225	Support with understanding policy
6	210	Support with monitoring and evaluation

Source: URS Survey of VCS 2006

VCOs were also asked which types of activities they feel are needed to help support the VCS. Again, a weighting system was applied, which we have combined to provide an overall ranking of priorities:

Table 20: Areas of support needed for the VCS as a whole

Rank	Total Score	Activities needed to support VCS
1	306	Providing networking/ partnering opportunities
2	303	Lobbying activities
3	286	Raising quality standards
4	280	Policy development
5	269	Training and advice
6	251	Research and development
7	244	Voluntary sector trade association

Source: URS Survey of VCS 2006

Ideas on Actions

We provide some initial ideas on actions for the top three priorities for the VCS, cited as advice/support on tendering for public sector contracts; a funding forum; providing networking/ partnering opportunities. However the level of activity will depend on resources available.

We recommend further research is undertaken in addition to further consultation with the VCS, to provide a more robust demand assessment and explore the feasibility of each idea for action. For each idea we highlight key features.

Advice/support on Tendering for Public Service Contracts

Tendering for public service contracts can be a complex process. At this stage we envisage the VCS will need support with the following:

[24] The score is calculated by multiplying the level of response by the attitude rating (1-4). These are then added up to obtain a total for that category. This method provides a more balanced reflection on the level of support for each category.

Identifying opportunities. Many VCS organisations may not know where to look for tender opportunities. Some public sector organisations, for example Local Authorities, who wish to tender services externally place adverts on their web-sites. However, other opportunities can be identified through informal networking and partnership working. A regional infrastructure organisation could provide a 'tender watch' service which draws together the range of tendering opportunities in a central place, which could be accessed potentially by web-site. An infrastructure organisation, may undertake networking with the range of commissioners active in the region to encourage them to advertise tender opportunities in this central location. VCS organisations would not be able to rely on this resource alone, and networking opportunities should be encouraged.

Gearing up for tendering. Commissioners will require VCS organisations to have a range of governance, management, financial and administrative arrangements in place, to ensure accountability and reliability. This could include for example, policies (e.g. investment in staff, equal opportunities) strong project management systems, quality standards, and performance management systems. Others will include effective governance systems including details of accountability, codes of conduct, ethics and culture and so on. A regional infrastructure organisation could provide support to the VCS in the form of guidance in tendering with public sector organisations, or signposting to existing guidance where it exists. For example, sample policy documents could be provided so that organisations can adapt and implement a policy of an accepted standard to meet the requirements.

A Funding Forum

Many organisations struggle to identify the range of sources available to them and the option of a funding forum was a high priority for the VCS for obvious reasons. A funding forum could have a dual role of supporting the VCS in accessing funds, but also in lobbying funders on behalf of the VCS to ensure effective and pro-active representation of the VCS with the range of funders. To some degree this is already happening. In Section 2 we have highlighted emerging opportunities for new ways of working. This includes opportunities for the VCS to become engaged in the delivery of the Regional Economic Strategy and Sub-regional Implementation Plans, as well as Local Area Agreements at the local authority level. A funding forum could ensure that these existing opportunities for representation are used to maximum advantage. However, further opportunities must be explored. In Merseyside, trust funders meet throughout the year, and this approach could be adopted across the sub-regions or opened to a regional forum.

The VCS are likely to need support with funding in a number of ways:

- An understanding of the overall funding context, which raises awareness of the changing funding climate specific to the North West VCS. Also to highlight the alternative approaches to funding. This could be in the form of a bulletin or a quarterly meeting.

- Support with identifying opportunities. However, services already exist which provide access to up to date information on funding. A regional funding organisation should not replicate what is already there. Such services can be costly to subscribe to and some VCS organisations may not have the resources to do this. Therefore opportunities must be explored to make best use of existing resources at a central point, which are then distributed to the VCS.

- Support with writing 'winning bids', which may be in the form of capacity building with the VCS. Guidance already exists on how to write a funding bid, action based learning (i.e. learning from personal experience and that of others) could be an effective mechanism for building this expertise within organisations.

- The VCS would benefit with support in identifying the ways in which their organisation impacts on key targets, such as PSA floor targets, RES targets, targets for subsequent stages of EU funding. This would enable them to demonstrate the ways in which they contribute to wider objectives and strengthen their ability to secure funding.

- Support could be provided on developing new and innovative approaches to fundraising, and drawing on good practice from elsewhere.

Providing Networking/ Partnering Opportunities

Networking opportunities provide an effective mechanism for the VCS to share their experiences with others, seek advice and develop knowledge. Many networking activities and events occur across the North West and a regional infrastructure organisation could provide a central point to advertise and promote the range of existing opportunities. But also lead on new opportunities, events could be programmed and structured around different themes, for example, events targeted at organisations who serve a target beneficiary group, those who operate in a specific geographical area, those who have similar funding models, and so on.

Partnering opportunities may emerge from networking. However, the existing VCS databases within the region could be better exploited to help broker partnerships between organisations. However, working in partnership is complex. For some partnerships it is difficult to see the collaborative advantage, (i.e. what they gain by working together that they wouldn't have gained otherwise). A regional infrastructure organisation could provide guidance on working in partnership, access to partnership development tools, for example, setting common objectives, agreeing a mutual vision and so on.

6 Conclusions and Recommendations

Conclusions

The funding context and operating context for the VCS is changing. At a strategic level, there is increased commitment to work with the VCS at national, regional and local levels, although this is still filtering through to front line VCS organisations.

The sector traditionally relies on grant-based funding, which will decline post 2006. Our funding analysis suggests that grant-based funding will decline by £10M between 2006-08 and further declines are expected beyond 2008.

As well as overall declines in grant based funding, the operating context for the sector is becoming more competitive and key funding programmes have demonstrated a shift to harder economic targets, which are not always directly relevant to the VCS. The VCS will struggle to demonstrate how it impacts directly on hard economic targets. Further, these economic targets do not take into account the economic value of prevention work undertaken by the VCS, which could result in significant cost savings to the public purse.

Beyond grant-based funding, the VCS is expected to self-sustain through contracting for services with mainstream agencies and social enterprise. This will require a cultural shift and capacity building within the VCS to make best use of these opportunities.

The VCS is already demonstrating positive signs that it is adapting to this climate, although requires grant based funding in the short term. The survey shows positive signs that organisations have demonstrated progress towards becoming self-sustaining and securing income through procurement. although these approaches are not appropriate to all VCOs, and raise serious challenges for the sector. As VCOs continue to chase more diverse funding streams and tender for public sector service contracts that are not necessarily in line with their core area of work, they are continuing to suffer from the effects of 'mission drift' – that is their original mission and purpose becomes skewed.

As grant based programmes wind down the VCS will need to increase its ability to secure income from alternative sources a similar rate to avoid a post 2006 crisis. There is still a strong dependence on grants, and there will continue to be into the next three years. The VCS will definitely need further support in adapting to this new climate over the next two years to ensure that the VCS continues to grow. Feedback from the VCS at the workshop event held on 27th June 2006, suggested existing support was not enough.

Some VCS organisations will struggle to respond. Those who are particularly vulnerable are those with high dependency on grant based funding, around a quarter of our survey. This is more prevalent in rural based organisations. Others include smaller organisations with less capacity to tender for public service contracts and organisations that either do not contribute to harder economic targets or cannot demonstrate their role in the delivery of these.

Recommendations

Our recommendations have been developed with North West Network, Voluntary Sector North West and Merseyside Network for Europe. We took feedback from the VCS at the workshop event on our suggested recommendations. Our key recommendations are directed at funders, procurement agencies and partners; and infrastructure organisations and the VCS.

Recommendations to Funders, Procurement Agencies and Partners

- At a regional level, there is evidence of commitment to working with the VCS across all funders and mainstream agencies. However, this needs to be filtered through to a practical level. We would recommend that regional agencies monitor these commitments by regularly reviewing levels of funding earmarked for the VCS at regional and sub-regional levels.

- Regional and sub-regional infrastructure support and partnerships need to be developed and strengthened by perhaps building on the existing ChangeUp consortia. A clear message from the workshop event involved building on existing infrastructure organisations, and improving co-ordination. Clearer dialogue is required between VCS infrastructure organisations and the

Government Office for the North West (GONW), the North West Development Agency (NWDA), and the North West Regional Assembly (NWRA) about the role of the VCS and the commitments that the public sector has to working with the VCS at a strategic regeneration level. In particular, this is a prime time for the VCS to contribute to the Comprehensive Spending Review 2007.

- Further, agencies with a responsibility for service delivery, service improvement and regeneration should provide a clear message on how they see the VCS as helping them to achieve their objectives, defining specific roles for the VCS. Such agencies could work with VCS infrastructure organisations around procurement.
- Funders, procurement agencies and partners have generally accepted the issue of full cost recovery. Again, funders must ensure this filters through to a practical level, to enable VCS organisations to invest properly in the infrastructure required to deliver projects effectively including support staff, overheads and other essential non-project related activity. Feedback from the workshop event suggested this is not yet filtering through to the front line fully.
- The Big Lottery Fund have signed up to full cost recovery and have agreed a ring-fenced amount of 60-70% of funds to the VCS. However the VCS should be further engaged in shaping and influencing funding priorities for the region through consultation as policy makers and funders develop funding programmes.
- NWDA should ring-fence an amount of non-committed funds to the VCS. The VCS will require a minimum of 3% of the Single Pot budget in 2006/07 and 1% of the Single Pot Budget in 2007/08 to offset the decline of Government Sources post 2006.[25]
- Support the development of the VCS Regional Investment Strategy to strengthen delivery of wider strategies, for example, the Regional Economic Strategy and associated sub-regional strategies.
- The NWDA and Government Office North West should support the VCS in shaping and accessing subsequent rounds of ESF and ERDF by providing support and assistance with funding as much as possible.
- Local Area Agreements are supported by a Statement of Involvement of the VCS. Local Authorities must strengthen this by providing real opportunities for the VCS to tender for service contracts through pooled budgets, and outlining the benefits to the VCS of this new approach.
- All funders should provide an opportunity for the VCS to contribute to programme design through consultation and involvement in development stages of the programmes.
- Recent changes will result in increased competition for resources. The VCS is increasingly competing against organisations who are better equipped for the competition and therefore do not compete on a level playing field. Funders should therefore provide additional support to VCS infrastructure to level the playing field.
- Funders must give greater recognition to the role of regional and sub-regional infrastructure organisations and its need for long-term support in the specialist area of funding, including match funding and the obvious links to tendering (e.g. through the LSCs and Connexions).
- Greater support for existing regional and sub-regional specialist infrastructure through Change Up/ Capacity Builders is needed.
- While the VCS acknowledges the beneficial impact that programmes such as Change Up and Futurebuilders will have on the sustainability of the VCS in the shorter term, there is a feeling that longer term infrastructure funding needs to be in place to ensure that the social enterprise approach can thrive in the future.

[25] These percentages are based on URS calculations assuming proportion of Single Pot required to offset decline in SRB. Figures for Single Pot were taken from the NWDA's Regional Funding allocation report.

Recommendations to Infrastructure Organisations and the VCS

- Infrastructure organisations need to develop appropriate mechanisms to provide advice and support to the VCS on tendering for public sector contracts. The VCS ranked this as the number one area of need in the survey. In particular, feedback suggests smaller organisations have less understanding of tendering processes and procurement and need the most support.

- The VCS needs to demonstrate the way it impacts on harder economic targets to funders, policy makers and the wider public. This publicity of the additional benefits of the sector to wider audiences will help quantify how the VCS is contributing to regeneration. The infrastructure organisations must support the VCS in doing this but ultimately the VCS must demonstrate robustly the economic contribution it is making to regeneration. One option could be to provide a selection of indicators and advice on appropriate tools for measuring progress against indicators.

- In addition, there needs to be a wider economic impact assessment of the contributions of the VCS, this should be regularly reviewed a strategic co-ordination body such as the National Council for Voluntary Organisations (NCVO). However, some Voluntary and Community Organisations (VCOs) do not create direct economic benefits but provide invaluable services such as pre-employment out reach work and assisting groups such as the elderly, the mentally ill and drug abusers – therefore direct economic benefits are not always obvious.

Work could be undertaken to measure the economic benefits of prevention. Regional infrastructure organisations can help the VCS to identify the ways in which they save costs to the public purse as a result of prevention work. It is recommended that the public sector continues to support the capacity building of the VCS it has so far demonstrated through some of it recent programmes such as Capacity Builders and that it supports them in accessing the wider range of funds and improving systems for doing so.

- Providing networking and partnering opportunities was another area where the VCS felt a regional and strategic organisation could support the role of the VCS. This is particularly important given the trend towards more collaborative approaches.

- The VCS needs to be pro-active to ensure full representation on regional, sub-regional and local levels and maximise these opportunities. During consultations some VCS organisations questioned the extent to which the VCS representatives chaired formal partnerships such as LSPs. This point raised staff capacity issues and the need for VCO representatives to donate their own time to participate in partnership meetings whereby it is perceived that public and private sector representatives on formal partnerships are paid for their involvement.

- There needs to be a greater effort to ensure that the voice of the VCS does not become diluted as it feeds into the regional higher-level representation. It is important that the co-ordination of the sector is bottom up i.e. local level upwards.

- Infrastructure organisations should support the VCS in developing new partnerships, which will enable them to collaborate to compete for public service contracts. While the is a general acceptance among VCOs that collaborating and networking with other VCOs is a good thing in terms of tendering and procurement, VCOs were quick to point out the differences of collaboration/networking with mergers - which were perceived as detrimental to individual VCOs' missions. In addition, collaboration was perceived in some ways to be contradictory to the emerging culture of competition that had developed between VCOs.

- Infrastructure organisations should continue to monitor the level of all types of funding available in the region and the VCS' success in accessing such funds. The VCS should also pay attention to the levels of mainstream budgets, which are also in decline and may impact adversely on them. Again a strategic organisation such as the NVCO could collect such information and circulate annually through a reasonable means to VCOs such as through newsletters or through its web site.

- Infrastructure organisations should continue to monitor VCS reactions to the changing funding climate. Research is currently underway to measure the role of the VCS in the regional economy. These findings will provide a useful baseline against which to measure impacts on the VCS beyond 2008.

- There needs to be a continued two way culture change between the public sector and the VCS i.e. the public sector must make greater efforts to understand and appreciate the role and function of the VCS and the VCS must make greater efforts to become less reliant on the grant funding culture and increasingly self sufficient / entrepreneurial.
- The VCS or a national/regional organiser of the VCS such as the NCVO should explore how the VCS survives in other regions of England, where there is less funding available. Best practice should then be disseminated as much as possible.

Appendix A: Survey Questions and Results

A web-based survey of the VCS was completed securing 180 responses. Of these, 109 were valid responses. 71 invalid responses were removed, including a small number of tests and duplications, and the majority of invalid responses were insufficiently complete

The survey was conducted over the Internet over a four-week period during May 2006. The web link for the survey was distributed by email and newsletter through existing networks and contacts databases of VSNW, Network North West and Merseyside Network for Europe.

Survey Results

1. In which sub-region are you based? (if based in more than one sub-region, please indicate your main sub-region of activity)	Number	%
Cheshire and Warrington	9	8.3
Cumbria	11	10.1
Greater Manchester	50	45.9
Lancashire	21	19.3
Merseyside	18	16.5
Grand Total	109	100.0

2. Which best describes your geographical location?	Number	%
Rural	13	11.9
Urban	96	88.1
Grand Total	109	100.0

3. Which best describes your organisation type?	Number	%
Branch of national charity/ voluntary organisation	9	8.3
Community/ resident group	3	2.8
Other (please specify)	6	5.5
Registered charity and / or company limited by guarantee	80	73.4
Social enterprise (not limited by guarantee)	2	1.8
Voluntary organisation	9	8.3
Grand Total	109	100.0

4. What is the overall focus of your organisation?	Number	%
BME	4	3.7
Children and young people	17	15.6
Disabled (physical/ mental)	8	7.3
Education	8	7.3
Elderly	2	1.8
Employment	5	4.6
Environment/ waste/ recycling	6	5.5
Faith	1	0.9
Gender/ sexuality	1	0.9
Health	3	2.8
Housing/ homelessness	1	0.9
ICT	2	1.8
Infrastructure (e.g. supporting other VCS organisations)	22	20.2
Sport	1	0.9

Other (please specify)	28	25.7
Grand Total	109	100.0

5. What is your MAIN area of activity?	Number	%
My organisation is aimed at empowering communities, for example, engaging communities in decision making, influencing the way services are delivered, building relationships, capacity building, etc	19	17.4
My organisation provides core services directly to the community, for example, childcare, transport, waste management, housing, financial/ legal, etc.	4	3.7
My organisation provides support services to individuals/ communities, for example, advice and guidance counselling, mentoring, advocacy, befriending, training, etc.	44	40.4
My organisation supports the voluntary sector through, for example, business support, manage / co-ordinate volunteering, networking, training, lobbying, etc.	18	16.5
Other (please specify)	24	22.0
Grand Total	109	100.0

6. Who do you provide services to?	Number	%
BME	6	5.5
Children and young people	11	10.1
Disabled	7	6.4
Elderly	2	1.8
Families	8	7.3
Low skilled/ long term unemployed	2	1.8
Most or all members of the community	26	23.9
Other (please specify)	21	19.3
Other VCS organisations	20	18.3
People with multiple and complex needs e.g. mental health problems etc	2	1.8
Refugees/ asylum seekers/ new arrivals	3	2.8
Young mothers or single parents	1	0.9
Grand Total	109	100.0

7. Approximately how many people or organisations have used your projects/ services in the last year? (102 responses)	Total: 277,526

8. How many paid staff do you employ?	Number	%
0 paid staff	1	0.9
1-10	56	50.1
11-25	19	17.4
26-50	11	10
51-100	5	4.5
101+	6	5.4
Blank	12	10.9
Total employment	**4,820**	~

9. How many active volunteers (including board members and trustees) are currently engaged with your organisation? (108 responses)	14,268

80 VCOs had over 50 volunteers while 28 VCOs had over 50 volunteers

10. On average, how many hours does each volunteer give per week? (85 responses)	Average of 6.25 hrs

11. Does your organisation work in partnership with any of the following organisations? (For each partner, please rate the nature of the partnership as weak, average or progressive.)				
Partner	% With partnership	Weak	Average	Progressive
Other voluntary organisations/ community groups	91%	4	33	62
Local Authority (or LA led partnerships)	88%	11	38	47
Health Authority including PCTs or other trusts	76%	26	41	16
Regional organisations such as North West Development Agency, Government Office North West, North West Regional Assembly	69%	24	34	17
Other authorities (e.g police/ fire/ youth offending teams)	69%	30	29	16
National government organisations	72%	38	27	13
Housing Associations / Registered Social Landlords (RSLs)	63%	35	20	14
Learning and Skills Councils	66%	37	28	7
Connexions	64%	39	20	11
Job Centre Plus	61%	38	20	9

12. If applicable, please specify any other organisations not listed under Question 11 that your organisation works in partnership with and your relationship with them (32 responses)
Most notable were 6 organisations working with schools/universities and 3 with religious groups.

13. How is your organisation currently funded? Please estimate amount of funding (in £ sterling) secured in the last 12 months from each source (51 responses)	Amount of funding (£)
Government funding e.g. Neighbourhood Renewal Fund (NRF), Single Regeneration Budget (SRB), New Deal for Communities (NDC), etc	22,188,677
European Sources e.g. European Social Fund (ESF), European Regional Development Fund (ERDF), Community Initiatives, etc.	4,866,756
Trusts/ foundations e.g. Tudor Trust, Princes Trust, Lloyds TSB, etc.	6,178,731
Self funding e.g. Through sales/ payment for services, subscriptions, etc.	55,491,510
Donations	10,003,297

14. Is your organisation dependent on funding from any of the following sources?	Number	%
SRB	12	10.9
Community Empowerment Fund	10	9.1
NRF	22	20
Lottery funds	38	34.5
Community Initiatives (i.e. EQUAL, Leader +, Urban II, Intereg III)	3	2.7
ESF	21	19.1
ERDF	15	13.6
Capacity Builders	6	5.5
Community champions	5	4.5
Community Learning Chests	11	10

15. In the last 12 months, how has your organisation changed in terms of the following:

Number of paid employees	Number	%
Stayed the same	46	42.2
Increased	40	36.7
Decreased	21	19.3
Blank	2	1.8
Grand Total	109	100.0

Number of volunteers	Number	%
Stayed the same	54	49.5
Increased	45	41.3
Decreased	8	7.3
Blank	2	1.8
Grand Total	109	100.0

Number of beneficiaries	Number	%
Stayed the same	27	24.8
Increased	70	64.2
Decreased	10	9.2
Blank	2	1.8
Grand Total	109	100.0

Annual Turnover	Number	%
Stayed the same	27	24.8
Increased	55	50.5
Decreased	25	22.9
Blank	2	1.8
Grand Total	109	100.0

Ability to tender for service contracts	Number	%
Stayed the same	64	58.7
Increased	34	31.2

Decreased	9	8.3
Blank	2	1.8
Grand Total	109	100.0

Ability to secure service contracts	Number	%
Stayed the same	70	64.2
Increased	25	22.9
Decreased	12	11.0
Blank	2	1.8
Grand Total	109	100.0

Progression to entrepreneurial approach	Number	%
Stayed the same	51	46.8
Increased	47	43.1
Decreased	9	8.3
Blank	2	1.8
Grand Total	109	100.0

16. Please describe any other ways that your organisation has changed, if not listed under Q15 (38 responses)
Of these responses, 8 are negative in nature and cover issues such as redundancies, a reduction in services, volunteers not having as much time and a general move towards downsizing. The remaining responses cover topics including changing their setup to greater cope with self generation, embracing social enterprise, and increasing capacity to generate income.

17. If you expect a decline in any of the areas listed under Q15 and/or Q16 in the near future, to what extent are these changes directly related to changes in funding?	Number	%
Blank	8	7.3
Completely related	26	23.9
Mostly related	29	26.6
Not applicable	31	28.4
Not at all related	4	3.7
Partly related	11	10.1
Grand Total	109	100.0

18. In your next financial year, how do you expect your organisation to change in terms of the following?

Number of paid employees	Number	%
Stay the same	55	50.5
Increase	27	24.8
Decrease	18	16.5
Blank	9	8.3
Grand Total	109	100.0

Number of volunteers	Number	%
Stay the same	49	45.0
Increase	43	39.4

Decrease	8	7.3
Blank	9	8.3
Grand Total	109	100.0

Number of beneficiaries	Number	%
Stay the same	28	25.7
Increase	61	56.0
Decrease	11	10.1
Blank	9	8.3
Grand Total	109	100.0

Annual turnover	Number	%
Stay the same	25	22.9
Increase	45	41.3
Decrease	30	27.5
Blank	9	8.3
Grand Total	109	100.0

Ability to tender for service contracts	Number	%
Stay the same	51	46.8
Increase	39	35.8
Decrease	10	9.2
Blank	9	8.3
Grand Total	109	100.0

Ability to secure service contracts	Number	%
Stay the same	50	45.9
Increase	38	34.9
Decrease	12	11.0
Blank	9	8.3
Grand Total	109	100.0

Progression to entrepreneurial approach	Number	%
Stay the same	41	37.6
Increase	49	45.0
Decrease	10	9.2
Blank	9	8.3
Grand Total	109	100.0

19. Please describe any other ways that you expect your organisation to change in your next financial year, if not listed under Q18 (33 responses)
The majority of these answers do not differ from the seven options in Q.18, with the bulk of them explaining how their organisation is going to adapt to the reduction in grant funding and become more entrepreneurial.

20. If you expect a decline in any areas listed in Q18 and/or Q19 what would happen to the beneficiaries currently supported by your organisation? (38 responses)
There is a mix of responses ranging from those organisations that predict a decline in service delivery to others that are more optimistic and feel that through restructuring their beneficiaries will not be affected.

21. If you expect a decline in any areas listed under Q18 and/or 19, to what extent are these changes directly related to changes in funding?	Number	%
Completely related	31	28.4
Mostly related	13	11.9
Not applicable	27	24.8
Not at all related	3	2.8
Partly related	5	4.6
Blank	30	27.5
Grand Total	109	100.0

22. How will changes in funding impact on your partnership arrangements?	Number	%
Decline	41	37.6
Improve	22	20.2
Not applicable	14	12.8
Stay the same	23	21.1
Blank	9	8.3
Grand Total	109	100.0

23. What measures is your organisation taking to seek alternative funding in the future? (80 responses)
The majority of responses make reference to developing a funding strategy, applying for a greater number of tenders, looking at alternative ways of generating income, and diverting more time to fundraising.

24. What do you expect will be your main source of funding over the next 1-3 years?	Number	%
Funds accessed/ grant based funding	43	39.4
Procurement/ contracts	29	26.6
Income generated/ social enterprise	13	11.9
Other	8	7.3
Donations	7	6.4
Blank	9	8.3
Grand Total	109	100

25. Which types of support would most appeal to your organisation? (Rate importance of each option on a scale of 1-4 where 1 is a low priority and 4 is a high priority)	Rank
Advice/ support on tendering for public service contracts	1=
A funding forum	1=
Enterprise & business support	3
Support with partnership development	4
Support with understanding policy	5
Support with monitoring and evaluation	6

26. Please state any other areas not listed under Q25, where you feel you need support and rate their importance (1-4) (12 responses)
Responses included full cost recovery training, help in understanding the needs of BME communities/children/disabled, and simply extra funding.

27. Which types of activities do you think are needed to help support the VCS sector? (Rate importance of each option on a scale of 1-4 where 1 is a low priority and 4 is a high priority)	Rank
Providing networking/ partnering opportunities	1
Lobbying activity	2
Raising quality standards	3
Policy development	4
Training & advice	5
Research and development	6
Voluntary sector trade association	7

28. Please state any other areas not listed under Q27, where you feel you need support and rate their importance (1-4) (8 responses)
Responses included the need for greater faith awareness (not just BME) and support from the business sector.

Appendix B: List of Case Studies and Consultations

Case Studies

John Butler - Delivering Inclusion Network

Dave Walton - Coldwell Activity Centre

Sylvia Sham – Wai Yin Chinese Society

Geoff Jackson – Trinity Community Partnership

Gary Timperley – Breakthrough

Caroline Downey – MERCI

Consultations

Chris Dabbs – NHS Network for Social Enterprise

Claire Glossop – Sustainable funding project

Collette Taylor – Lancashire CDL

Graham Worrell – Merseyside Social Enterprise Network

Ian Hill – Regeneration support team, Cumbria

James Hadleigh – North West Network

Janet Seymour – Princes Trust

Jo Lappin – Government Office of North West

John Butler – Manchester Alliance for Community Care

John Garrett – JC Plus

Ray Begley– LSC Lancashire

Tara Parveen – John Moores Foundation

Viv Gee – North West Regional Development Agency

Appendix C: Literature Review

A Survey of Social Enterprises Across the UK (2005) The Small Business Service

Beyond Grants: Sustainability for the voluntary and community sector in the east of England (2004) East of England Development Agency

Changing Funding Programmes: Impacts and Consequences (2005) European Regional Business & Economic Development Unit

Community Foundation Report – VCS Funding Post 2006 (2004) European Economic Development Services Limited

Developing Capacity: Next Step for ChangeUp (2005) Home Office

EU Structural Funds Programmes: 2007-2013 (2006) Department of Trade and Industry

Exploring the role of the third sector in public service delivery and reform (2005) HM Treasury

Funding the Voluntary and Community Sector (2005) Leeds Community Foundation

Futurebuilders – Strategic Plan, Investing for Impact (2005) Home Office

Local area Agreements: Guidance for Round 3 and Refresh of Rounds 1 and 2 (2006) ODPM

Manifesto 2005 – Britain Forward Not Back (2005) The Labour Party

National Statistics, available at http://www.nomisweb.co.uk/

North West Regional Economic Strategy (2006) Northwest Regional Development Agency

Out of SRB into the Pot (2003) Urban Forum

Regional Funding Allocations: The Advice of the Northwest Region (2006) Northwest Regional Development Agency

Short term funding, Short term thinking (2005) Amicus

Social Enterprise – a strategy for success (2002) Department of Trade and Industry

The Compact, available at http://www.thecompact.org.uk/

The future contribution of the VCS to the Yorkshire and Humber Region (2005) University of Hull

The Role of the Voluntary and Community Sector in Service Delivery – A Cross Cutting Review (2002) HM Treasury

The voluntary sector delivering public services: transfer or transformation? (2005) Joseph Rowntree Foundation

UK Voluntary Sector Almanac (2004) National Council for Voluntary Organisations

UK Voluntary Sector Almanac (2006) National Council for Voluntary Organisations

Valuing the voluntary sector: health and social care in Leeds (2000) Voluntary Action Leeds

Working with the Third Sector (2005) National Audit Office