

Meeting between third sector networks and the Minister for Finance and Trefnydd

20 June, 2019

Value of the third sector: implications for Welsh Government investment

Introduction

1. Voluntary organisations and volunteering play a vital role in improving people's wellbeing. 28% of people volunteer in Wales, with an estimated economic value of £757m. Almost 10% of employment in Wales is in the third sector. The combined annual income of charities registered in Wales is £1.2 billion, of which 35% comes from the public giving. Spending on the third sector is just 1.9% of Welsh Government's total spend¹.
2. Third sector organisations are independent value-driven organisations, committed to reinvesting surpluses to further their mission and provide public benefit. In the face of significant challenges ahead - from the impact of austerity to, Brexit, climate change and globalisation - a strong third sector has a vital role to play in increasing wellbeing in Wales. A healthy and active third sector should be at the forefront of responding positively to these challenges, speaking out for the most marginalised, driving local solutions and contributing to a fairer economy.
3. There are over 32,000 third sector organisations in Wales. Together, they touch on all of our lives. It might be as a nursery group or after school club when we're growing up, or through the care we receive at the end of our lives. It's about how we meet friends and have fun at the end of the day, through to movements that tackle the big economic and environmental issues of our time. It includes businesses with values at their core - social enterprises and co-operatives.
4. The third sector contributes to society through the diverse services and activities it delivers; in its contribution to a healthy democracy; and by providing spaces where people can connect, share ideas and debate differences and problems. The third sector makes a vital contribution to improving well-being in Wales. A thriving third sector in Wales is vital for achieving Welsh Government's ambitions.

¹ WCVA, Third Sector Data Hub: <https://www.wcva.org.uk/what-we-do/the-third-sector-data-hub>

Sustainable resources for the third sector in Wales

5. Despite the crucial role it plays, there is no guarantee that the third sector will be able to play its full role in the future. We are living in a time of huge change and uncertainty. Demand is rising, not only on services, but also to speak out and ensure the values that we hold dear shape debates on the bigger changes taking place. At the same time, resources look likely to diminish further, and this is likely to be particularly acute in the event of a [no-deal Brexit](#).
6. This isn't all about money or funding. Engaging people in a range of voluntary action and responding positively to change, including digital, is crucial. But money also matters and there are financial challenges and opportunities that we need to navigate to secure a thriving sector, able to play its full role.
7. Data from WCVA's [Third Sector Data Hub](#) has shown that third sector income in Wales increased between 2011 and 2016, as has the UK average. However, income levels per head of population in Wales continue to be significantly lower than in other parts of the UK. The income of charities registered in Wales per capita is £386 per head, compared to £767 per head in England and £732 in Scotland. Wales has relatively few charities with an income of over £1 million².
8. Underneath this, we are seeing a changing picture of income for the sector in Wales, including changes in the balance of main sources of income. The proportion of funding from government is decreasing, down from 55% in 2010-11, to 46% in 2015-16. Meanwhile, income from public giving was up from 29% in 2010-11 to 35% in 2015-16, totalling over £400m. Whilst still representing small proportions of overall income, legacy funding, the private sector and return on investment were all up and in 2015-16 totalling nearly £120m.
9. A recent WCVA roundtable brought together third sector organisations, Welsh Government, WLGA, funders and academics to discuss the key issues around sustainable funding and what we might collectively be able to do. The report suggests a range of collaborative actions, many of which are already under way.
10. The report is much broader than government funding. It includes the importance of wider organisational development and resilience, giving charity leaders the space to lead and diversifying income.
11. A recurring theme where Welsh Government could make a real difference is commissioning. This includes grants and contracts and the balance between the two. Several reports in recent years have underlined the damaging impact that public sector approaches to commissioning are currently having on third sector organisations in Wales³. This is despite the Wellbeing of Future Generations Act

² Kapitsinis, N. (2018) [Income and funding of the Welsh Voluntary Sector in the post-2010 austerity period](#), Wales Public Services 2025

³ Wales Audit Office, January 2017, [Local Government Funding for Third Sector Services](#)
Lloyds Bank Foundation, June 2018, [The Value of Small](#)
Lloyds Bank Foundation, [Commissioning in Crisis](#)

and the Social Services and Wellbeing Act creating positive legislative and policy frameworks. There is little evidence that these Acts have yet achieved 'alternative delivery models'.

12. One driver of the difficulties organisations are experiencing has been Government's decision to shift towards contract funding rather than grant funding. There is clearly a place for contracts, and certainly for clear accountability, but we are concerned that the different role and purpose of grant funding is recognised. We would welcome a clear statement from Welsh Government underlining its continued commitment to grant funding voluntary organisations (as the UK Government has recently given).
13. Another barrier is the ability of the commissioning process to value local knowledge, expertise and connections as well as the traditional commercial value. Procurement, finance and legal teams lack the expertise and experience to support and enable commissioning for social value and wellbeing. Getting this right is important to achieving Government's vision for the foundational economy as well as the wider Wellbeing Goals. The Commissioning workforce across the public sector in Wales need to be supported to achieve this.
14. Current commissioning practice has a particularly negative impact on small and medium-sized organisations who are no longer able to compete successfully for contracts. Specialist organisations, for example BME organisations, often struggle as public bodies demand suppliers who can deliver all aspects of a service. Whilst organisations are collaborating well, smaller organisations tend to lose more financially as management costs are held by the larger organisations. Third sector organisations need to look at mutually supportive ways of working.
15. Whilst this paper has focussed on the impact this is having on third sector organisations financially, the most important issue is our concern that these approaches are leading to worse services for people and communities across Wales and having a negative impact on the wellbeing of the end user.
16. Third sector organisations have been discussing proposals for what can be done to change this with officials in Welsh Government, WLGA and other funders. There have been some positive developments. Voluntary organisations have also been developing solutions, such as the [Collaborative Commissioning toolkit](#) for domestic abuse services.
17. We welcome the Deputy Minister's recent commitment to relaunch the Third Sector Partnership Council's Funding and Compliance sub-committee to include more strategic discussion and public sector partners beyond Welsh Government.
18. We welcome the Welsh Government's [Open Government Action Plan](#), which commits to continuing to publish annual data of Welsh Government grants over £25,000, alongside new commitments to publish data about ongoing grants. We would like to explore what data is published on contracts. We welcome Local Health Boards publishing data openly. However, probably the biggest distributor

of funds to voluntary organisations are local authorities. No regular data is published on this, making it impossible to understand trends or use the evidence to focus policy and practice.

19. However, there is still work to be done to create the shift in practice if commissioning is to be in line with the principles of the Wellbeing of Future Generations Act. We continue to explore with officials how different mechanisms could be used to support the change, such as the National Commissioning Board, professional and workforce development for commissioners, mapping behavioural competencies needed to align with the Wellbeing of Future Generations Act and Social Services and Wellbeing Act.

Wellbeing of Future Generations Act as a lens for budgeting

20. Previous meetings have discussed the Wellbeing of Future Generations Act as a lens for budgeting. We are pleased to see progress on a number of the areas we've discussed, such as the definition of preventative budgeting.

21. In practice, we are concerned that budget uncertainty appears to be driving Welsh Government and public bodies to move to short term annual funding. This has a huge impact on voluntary organisations' strategic and longer term planning. Reductions to public sector budgets mean that non-statutory services are under threat, and yet they are often where preventative action happens.

22. Wales Environment Link has shared evidence on preventative budgeting to build our natural capital (see Annex). Welsh Government's definition of preventative budgeting is short and open to different interpretations. There is an underlying assumption that preventative budgeting is primarily a health and social care agenda. Wales Environment Link has concerns that the environment will still not be considered properly. We would welcome the opportunity to work with officials to support the environmental interpretation and application of preventative spend.

23. We welcome the Welsh Government's addition of biodiversity as a priority theme in the fiscal budget. This shows a commitment to tackling our ecological collapse and is world leading in sustainable fiscal budgeting. This will be challenging to implement. We offer our support to the Minister and officials in this work stream.

Discussion points and potential action:

- Will Welsh Government make a statement on the importance of strategic investment in the voluntary sector in Wales?
- How can we support colleagues to create commissioning and procurement practices that support wellbeing?
- How can Welsh Government and voluntary organisations encourage local government to publish open data on grant and contracts?
- How might government officials and environmental organisations work together to integrate environmental goals into preventative budgeting