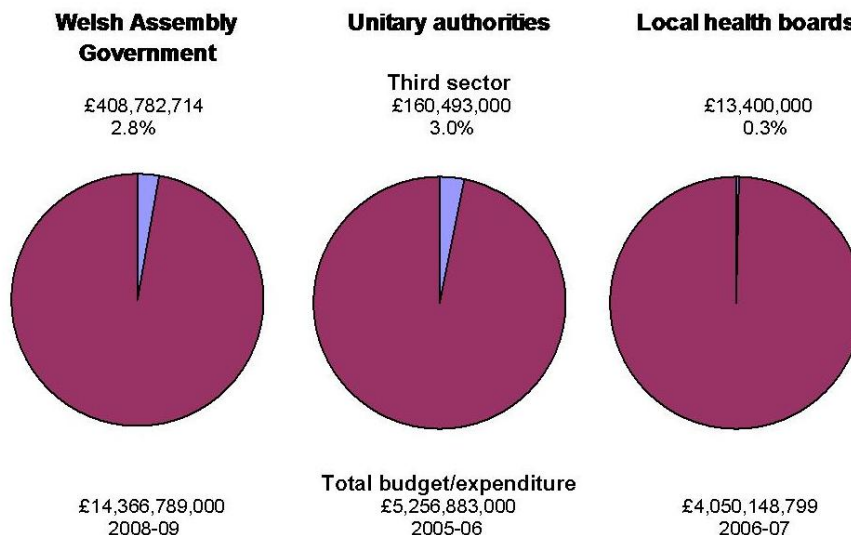


**The third sector and public expenditure**

**Introduction**

1. This paper has been prepared by the third sector. It considers the implications of the public expenditure situation on the third sector, and how it is responding.
2. Many third sector organisations neither seek nor receive public funding. They are small groups and self finance their own activities. Public sector funding is, however, of major importance to many organisations, and to the people and communities with whom they work. It provides the platform for a wide range of activities and services that are an essential component of the wider public services on which people and communities depend.
3. Over the last decade WCVA’s third sector almanac has assembled an increasing accurate understanding of how the third sector is funded in Wales. The most recent figures available indicate that around 32% of the sector’s funding in Wales is from the Welsh Assembly Government and UK Government, and around 13% is from local government and local health boards.
4. Whilst this is vital for the organisations concerned, it represents a tiny element of the total budgets of the public sector funders - see below.



5. Although funding from national and local government has increased over the past ten years, the Welsh Assembly Government only spent 2.8% of its total budget on the sector in 2008-09. Local government spends only 3%. Funding from health bodies has failed to keep pace with inflation over the same period, and only 0.3% of total health spend in Wales is invested in the third sector.

6. The most significant aspect of central government funding is its “strategic long term funding commitment” to the core funding of organisations, networks or partnerships with Wales-wide coverage. Local government is a significant core funder of local organisations, with the trend showing an increase in service level agreements and contracts rather than in grants.
7. Uniquely, most third sector organisations add direct cash value to any funding received from the public sector, securing funding from additional sources as well as adding value-in-kind through volunteer effort.
8. The current pressures on public expenditure are well recognised by the third sector and it is understood there will be reductions. However, the concern is that, wherever possible, these should not fall on front-line services. Achieving savings by simplifying and streamlining public sector administration systems must be a high priority as part of the efficiency and rationalization process.
9. Previous experience shows that when the public sector is under pressure to reduce expenditure, the first instinct is to reduce or cut funding altogether for services and activities which are out-sourced or provided by others, rather than those the public sector itself provides.. It is unsurprising that the third sector is fearful of the effects that a disproportionate cut in funding will have on their capacity to serve their communities.
10. There are good reasons, however, to protect funding for the third sector in the current economic climate. It employs over 50,000 people, and involves over 1.8m people as volunteers who not only provide real benefits for people and local communities, but who also develop their own skills and abilities through their volunteering, and through their engagement in their communities. Mobilising community effort and self-help has always been important, and becomes increasingly so in the current environment.
11. Local enterprise and community involvement are equally important in contributing to community and economic regeneration, helping to create employment, raise skill levels and tackle poverty-related problems. The challenge of climate change requires action at all levels with increasing recognition that individual and community action will precede the political action which will ultimately be needed. Both the campaigning and grass- roots action are likely to be driven by the third sector.
12. If it is accepted that the third sector is an appropriate way to achieve some of these wider goals, it follows that the third sector and government should work in partnership to understand more fully the social return on investment that the third sector represents and to work together to maximize the full potential the sector can make to Welsh public life and civil society in a changed economic landscape.
13. The sector recognises the pressures that there will be on the budget, but short term cuts in support for the sector could store up problems in the future. Priority therefore should be given to spend that:
  - Addresses the immediate service needs of people in Wales
  - protects the integrity of the sector to enable it to continue to address the current and unanticipated needs in the long-term
  - offers the best value for the Welsh pound by leveraging in resources (financial and human) from other sources
  - fosters self-help and initiative, and individual and community responses to needs

## Budget planning

14. At this stage in the budget planning process, it is difficult for the trustees of organisations funded by the Assembly Government and other public bodies to prepared detailed budget plans. The recent joint Ministers/WCVA letter has been very helpful in setting out the timescale and overall planning assumptions, as well as the commitments to engage in dialogue with the sector, and assess the impact of budgetary decisions on the third sector.
15. WCVA has drawn up a budget strategy which includes:
  - Setting out a timetable showing how and when decisions will be made and involving staff and trustees
  - implementing a pay freeze
  - reaffirming priorities
  - developing new business
  - reviewing activities to assess effectiveness and value for money
  - adjusting workloads if staff are reduced
  - streamlining process, management and back office services
  - ensuring its suppliers freeze their costs (or seeking alternative suppliers)
16. Other organisations are preparing budget scenarios based on the assumptions being used by their funders (in line with or in some cases higher than the assumptions currently used by the Assembly Government). Inevitably they will not be able to finalise budgets until funding decisions have been made, probably February at the earliest.
17. County voluntary councils are working to development dialogue between the sector in their areas, and local authorities and local health boards. A number of local authorities are entering into discussions with the sector in their area about the funding situation, not only to keep organisations informed, but also to discuss options for service delivery and new ways of working together. For example, through the compact with the third sector, some local authorities have agreed with the CVC to establish joint third sector/local government working groups, or to arrange a cycle of meetings with the sector, to discuss the impact of the budget.
18. There is similar joint working within health. For example, Hywel Dda Health Board is working collaboratively with the county voluntary councils in its area to "co-design" what the third sector role can become as part of the whole health, social care and wellbeing system. They are exploring how to maximise the third sector's role and that of carers and volunteers. They are also exploring a procurement portal across the Hywel Dda area in partnership with Local Authorities and the CVCs in order to generate more appropriate service specifications which can be met by collaborative tenders from a cohort of third sector organisations from the large national charities to the small local groups. Hywel Dda believes this co-design, if it is to be done well and really deliver better services within the reducing financial envelope, will need twelve to eighteen months and therefore will aim to roll forward existing contracts into next financial year to allow this development work to be done, prevent service gaps and if necessary enable organisations to have sufficient time for a planned exit strategy.

## Efficiencies

19. Third sector organisations generally operate with very lean administration and back office services, and are constantly reviewing costs (for example, one organisation has reported that there has been no increase in the running costs of its Wales office in last 5 years). There are only limited opportunities to be leaner without a direct impact on services provided.

20. Given the current small scale of public sector funding for the third sector as part of total government spend, cost savings by third sector organisations will have a marginal impact on the wider public expenditure saving that needs to be made. Reduced funding will, however, have a significant effect on the ability of third sector organisations to mobilise and lever in additional resources, which they could normally secure. Therefore the negative impact on people and communities will be proportionately greater; leading to a greater burden on public expenditure in the longer-term.
21. Nevertheless, there are a number of ways in which different third sector organisations are responding to the current public expenditure situation.
22. A number of organisations have entered into mergers and other forms of joint working. However, the sector would be concerned about funding being used to introduce in-appropriate rationalisation. Different organisations exist to serve the needs and interests of their client or citizen base having established local roots and developed their specialist services, through their ability to engage and involve their local communities. These are qualities that should not be lost.
23. There are however, circumstances where mergers and joint working make sense, which could lead to the provision of better and more secure services for citizens. This could also help with cost saving, although the focus should be more about consolidating and extending services and adding value rather than solely being concerned with cost reduction.
24. For example:
  - Community Housing Cymru and Care & Repair Cymru have created a group structure, under a single Group Chief Executive, that shares back office services, as well as pooling policy and other expertise to create additional efficiencies. Nick Bennett Group Chief Executive commented *“It is important that our organisations demonstrate to government a real commitment to providing better value for money for public expenditure. These collaborative arrangements, between two strong and respected third sector organisations, will provide a stronger housing voice, help deliver our services more effectively and achieve better value for money.”*
  - Age Concern Cymru and Help the Aged in Wales have merged to create Age Cymru
  - There have been mergers between two Women’s Aid Groups and Llamau, enabling the Women’s Aid services to benefit from the infrastructure provided by Llamau and to strengthen their service provision
  - A group of third sector substance misuse providers have created, with support from the Assembly Government, a new joint company which has bid successfully for national contracts, and has the potential to develop shared services and support
  - St David’s Foundation Hospice Care and Usk House Day Hospice, have merged and will be able to enhance their services across a wider geographical area
  - AWETO and Cardiff and the Vale Coalition of Disabled People are merging and will share office space, creating a mutually beneficial one stop shop
  - The Crossroads schemes in Ceredigion, Pembrokeshire and Powys have formed a single organisation, Crossroads Mid and West Wales, unifying their administrations and operational management, and creating a more sustainable entity that would provide a vehicle for more cost-effective and efficient administrative support systems; facilitate access to larger funding opportunities and contracts; increase the volume of service provision; and allow wider partnership working with the public sector. This was done with no interruption to

service provision, no compulsory redundancies and no reduction of employee terms and conditions.

25. There is also scope for increasing collaborative working, for example the drive within youth services in Wales for a more 'joined up' way of working between the third sector, the maintained sector and the Assembly Government, with the intention being that service delivery and opportunities for young people in Wales are not only of the best possible quality but improved, wherever possible. Collaborative working implies that each organisation involved in a programme of work understands the role being carried out by each component and can hold each other accountable for the success or failure of that work - the inference being that there are potential efficiency gains where strengths and weaknesses are identified and addressed early on in the process. Extra savings and efficiencies could well be developed further by the sharing of premises and back office duties but also involving joint strategic plans etc.
26. The latter is gaining currency within youth services - the methodology being employed and advanced from within the Youth Work Strategy Branch in the Assembly Government clearly encourages the use of shared premises as a way to improve choice for young people by housing voluntary and maintained sector staff/volunteers 'under one roof' and could be an alternative to losing paid staff in the process.
27. There are many examples of organisations sharing premises, ranging from two organisations operating from a single office to large initiative providing a base for a range of organisations, benefiting from common reception, telephone systems, IT networks and other facilities.
28. CVCs and volunteer centres are taking a number of steps to work more effectively together, and to work with the sector in their own areas to generate efficiencies. Examples include:
  - Shared accommodation and third sector resource centres in a number of areas, offering low cost rents for local groups, together with shared services (shared reception, meeting and conference facilities, IT networks, telephony, printing facilities, mail franking and pick-up service)
  - Payroll services for other organisations; one organisation has over 120 clients covering 400 plus employees
  - Independent Examination and financial advice services for local organisations
  - Energy Club providing a cost saving scheme to member organisations from the bulk buy rate negotiated by using collective bargaining, expected to generate at least a 10% saving on utility costs
  - Market-testing existing contracts and services (*eg* insurance, HR services, energy) and renegotiating to reduce costs
  - Shared approaches between organisations to various supplies and services (*eg* printing, photocopying, postage, IT, training *etc.*)
  - Working with local public sector partners to improve office connectivity, reducing the cost of this improvement as a result of it being completed alongside work already being carried out, and reducing IT and telephone costs
  - Shared posts with neighbouring CVCs
  - Shared representation on cross-boundary public sector partnerships
  - Agreeing formal absence cover arrangements for key staff with neighbouring organisations
29. More generally, there are other initiatives to achieve efficiencies. WCVA is providing access to a range of discounted services available to third sector organisations, including:

- Corporate promotional products
  - discounted accommodation and conferencing facilities
  - discounted computer software
  - discounted translation service
  - meeting room facilities
  - payroll service
  - discounted HR advisory and indemnity service
  - discounted health and safety advisory service
  - specialist telecommunications for the sector
  - third sector insurance
  - Webspring (Website development)
  - third sector recruitment service through *Recruit 3* website, *Network Jobs* (weekly) and *Recruit 3 pages in Big Issue* (weekly)
  - mailing service through *Network Wales* and helpdesk
  - opportunity for members to develop online trading through [www.3to3.org.uk](http://www.3to3.org.uk)
  - GrantFinder consortium licence for county voluntary councils
30. WCVA has also agreed arrangements with Value Wales to enable third sector organisations to access supplies and services through framework contracts negotiated for public service purchasers.

## Reducing and avoiding costs, and adding value

31. The bigger challenge is to ensure continued support for relevant third sector organisations whose work:
- Focuses on prevention or early intervention, avoiding or reducing much greater public expense over a relatively short period of time
  - Draws in additional resources (financial and human) to provide more value for people and communities
  - Builds capacity in communities to take their own action and enable people to support each other and promote mental well-being
  - Is indispensable in that no other agency or group of agencies could credibly provide the service offered
  - Provides more efficient and effective ways of meeting objectives
32. The benefits of supporting the sector are illustrated by the following examples.
33. Uniquely, the third sector almost always adds direct cash value to any funding it receives from the public sector, drawing in funding from additional sources as well as adding direct value in kind through volunteer effort. Research carried out by WCVA on behalf of the Welsh Assembly Government mapped the health, social care and well being services provided by third sector organisations in Wales. This found that the sector provided an estimated total service budget of £292 million; of this, just under 50% was provided by the Welsh Assembly Government, local authorities and the NHS. For every £1, the sector secured over an extra £1 from other sources. The same research showed that at least 120,000 people were involved in providing these health and social care services. There were over 30,000 employees, 5,000 trainees, and 85,000 volunteers. Volunteers, in fact, provided the equivalent of nearly 30,000 full time posts.
34. Care & Repair Cymru has identified that each £1 it spends on its Rapid Response Adaptations programme saves public services around £7.50 by speeding up hospital discharge and reducing bed blocking, preventing hospital admissions, and avoiding the costs of residential care and more expensive support.

35. The Matrix research into housing-related support - commissioned by the Assembly Government - showed that for every £1 spent, £1.68 was saved across other policy areas such as community safety and health. Housing-related support in Wales is provided primarily by third sector organisations. One organisation that provides accommodation for seven adults who require an intensive level of support saved the local authority £0.5m in its first year by bringing clients who were based out of county back to their home area.
36. Research in England into the Partnerships for Older People Projects (POPPs) pilot programme demonstrates that prevention can be both effective and deliver value for money: for every £1 spent on preventive services, there was an average £1.73 benefit to the health and social care economy, even in the short term. POPPs has increased the evidence base on the benefits of prevention, early intervention and integration by promoting joint approaches to independence in place of hospital or long-term institutional care. Key messages from the research are that meeting people's needs with a preventative approach can create efficiencies; these efficiencies are available across the health and social care system; quality of life can be improved through preventative approaches; and preventative services can be sustained (as they often win the argument by demonstrating their cost-benefit).
37. Each £1,000 provided by Environment Wales to community projects levers in a further £2,000 in cash or kind from other sources, and recruits 7 volunteers. In 2009-10, 160 grants totalling £610,335 enabled 6,641 volunteers to undertake 171,440 hours of action for the environment and levered in £1,305,146 in additional funding.
38. Bron Arfon Community Housing is changing from traditional housing management to a focus on developing sustainable communities, influencing all aspects of its business and procurement, and engaging with tenants and residents on creating allotments and community growing spaces, renewable energy street and courtyard lighting.
39. Organisations that provide services for vulnerable people are reducing costs that would otherwise be faced by other public bodies. For example, the Cyrenians Community Centre works with some of the most disadvantaged sections of the Swansea community in one of the most deprived wards in the UK. The centre is achieving significant savings for the NHS and in crime prevention, as well as providing a route for re-integration to society.
40. For the past three years, initially Brecknock & Radnor Crossroads and then Crossroads Mid & West Wales, has been delivering a pilot project in Powys, aimed at supporting people living with cancer and their carers. It is a well-established fact that the stresses under which carers are placed, as a result of their caring role, has a hugely negative impact on their own health and well-being, which almost invariably results in consequential costs on health and social care services when carers themselves are no longer able to maintain their caring role. In palliative care situations, this effect is even greater, as the mortality rate for female cancer sufferers is approximately 44% and for men 57% (*Cancer Recovery Foundation data 1976-2005*). The choice of where to die and to be able to die with dignity is of high importance and the impact of the pilot project has been considerable in this regard. During the period of the project to 31 August 2010, 119 patients and their carers have benefited; 59 patients had a terminal diagnosis and 47 (80%) were able to die at home. The estimated savings to the NHS during this period exceeds £250,000, generated by a service that costs £50,000 p.a.

41. A Survey of Funding of Municipal Waste Management Kerbside Collection in Wales undertaken by RPS Planning in Development in 2007 indicated that community recycling organisations collected recyclates at a cost per individual collection of £0.24, significantly less than private contractors (£0.59) and local authorities (£0.72). The same study estimated that the headline figures of the costs of kerbside recycling collection services in Wales could be reduced by £21.2m *per collection* by using community recycling organisations as the most cost effective providers
42. The Citizen's Advice Bureau in Rhondda Cynon Taff has directly contributed to significant savings in benefits administration resulting from the Corporate Services Scrutiny Committee review of this issue. The local authority's Child Poverty Scrutiny work was chosen as a winner in the Joint Working category at the 2010 Centre for Public Scrutiny (CfPS) Annual Conference. This review highlighted how Scrutiny can act as a facilitator, in this instance bringing together benefits officers and the Chief Executive of the local Citizens Advice Bureau. This resulted in 17 recommendations for improvement, all of which have been implemented, which have dramatically reduced the processing times for new Council Tax and Housing Benefit claims, improved the web site to make it more user-friendly and made resources available for a 2-year funded benefits maximisation programme. For an outlay of £25,000 in the first year of the project, this has shown a return of new benefits claimed of £506,000 - equivalent to £20.24 for every £1 invested in the project activity. The Benefits Officers and CAB continue to meet regularly, such is the strength of their working relationship, and improvements continue to be made with a new e-claiming system going live on 30 June 2010.
43. Following on from this work, resources were identified to fund an outreach project. This CAB work has secured £750,000 in its first 18 months and remains on course to secure £1 million over 2 years, in return for the original investment of £50k over the same period. The local authority has fed back that the scrutiny work improved processing times, meant less double-handling and resulted in a more streamlined and effective service. Its view was that the CAB served as the critical friend that it needed, helping to simplify processes for the benefit of individuals and the service provider.
44. Safer Wales provides "target-hardening", ie making the home secure of a victim of domestic or sexual violence, so that they can remain in their home rather than move out to a refuge or priority housing. An approximate cost of £250 per household spend saves at least £2000 of the public purse.
45. In the youth justice system, a prison place or young offender's place can cost up to £200,000 a year per person, whereas a one to one mentoring scheme, costs on average about £1000 per person a year. Support to those at risk of offending or re-offending will have massive savings against other public costs, reduction of anti-social behaviour, and if localised can be managed to support community cohesion and stability. The third sector is best placed to manage this.

## **Public service innovation**

46. The preceding examples illustrate the benefits of partnership with third sector organisations in public service design and delivery.
47. The Assembly Government's Efficiency and Innovation Programme is at an early stage, and to date has largely focused on the public sector, and how its existing services can be delivered more efficiently. It is increasingly important to develop the innovation theme in the light of both the future demographic pressures and needs, and the public expenditure situation.

48. There are ways of developing future public services which create a bigger 'cake' and which deploy, not just public sector staff and budgets, but also users, families, neighbours, local third sector organisations and the wider community in a 'total service' which goes beyond traditional service provision and releases new resources, skills and energies. It means commissioned services and self-organised support complementing each other rather than operating in isolation. This needs a new equation that measures the *total value* of a service and benefits for the citizen (taking account *all* resources deployed - employed staff time, user input, volunteer time, community support groups) against the public sector investment. The prize is to use our public funding in ways that lever in additional resources - to achieve better value for the citizen.
49. This could mean a new approach based on co-design and co-delivery of public services, where activities and services are designed and delivered by a wide range of actors - bringing together the independent third sector and the public sector with the citizen and the community at the centre. It means investing in community capacity and initiative in order to provide mutual support that complements, and reduces demands on, other services. The approach can involve:
- Citizen-directed support
  - Service user led services
  - Community led services
  - Mixed volunteer and staffed services
  - Integrated services.
50. This is already happening in Wales, delivering enhanced services at reduced cost. Examples include:
- Out-of-hours transport from hospital and support for older people who are clinically able to return to home, helping to avoid re-admissions. The saving on the cost of re-admissions more than covered the cost of the service in 2009.
  - Involving volunteers in longer term support and relationships with young people leaving care and, in turn, care leavers volunteering themselves through Millennium Volunteers
  - Involving volunteers in enhancing the experience of patients in hospitals in an organised, union approved way.
  - Integrating statutory and third sector services into a seamless Intermediate Care Service.
  - Direct payment schemes which increase user satisfaction, independence and control, and also produce both savings and an enhanced service.
  - Community alliances bringing together people needing care and support with local groups to build formal and informal networks and structures to meet their needs.

## Conclusion

51. In conclusion, public sector funders are asked to consider the following issues drawn from this analysis:
- Public sector funding for the third sector is a very small part of overall expenditure, and reductions will have a negligible impacts on the savings to be made
  - Nevertheless organisations are acutely aware of the funding situation, and are always exploring ways of reducing costs

- Reductions in funding for the third sector may have a multiplier effect by losing additional funding and resources levered in on the basis of public sector funding
- Reducing funding for preventative work, early intervention and building community capacity and resources will lead to greater demands for more expensive statutory services
- Building on the sector's ability to deliver services in new ways that draw on co-production and community resources should be a priority for the public service Efficiency and Innovation programme
- The assessment of budget decisions on the third sector should focus on the outcomes and added value that result from government funding, and not simply the cost.