

# STATE OF THE SECTOR

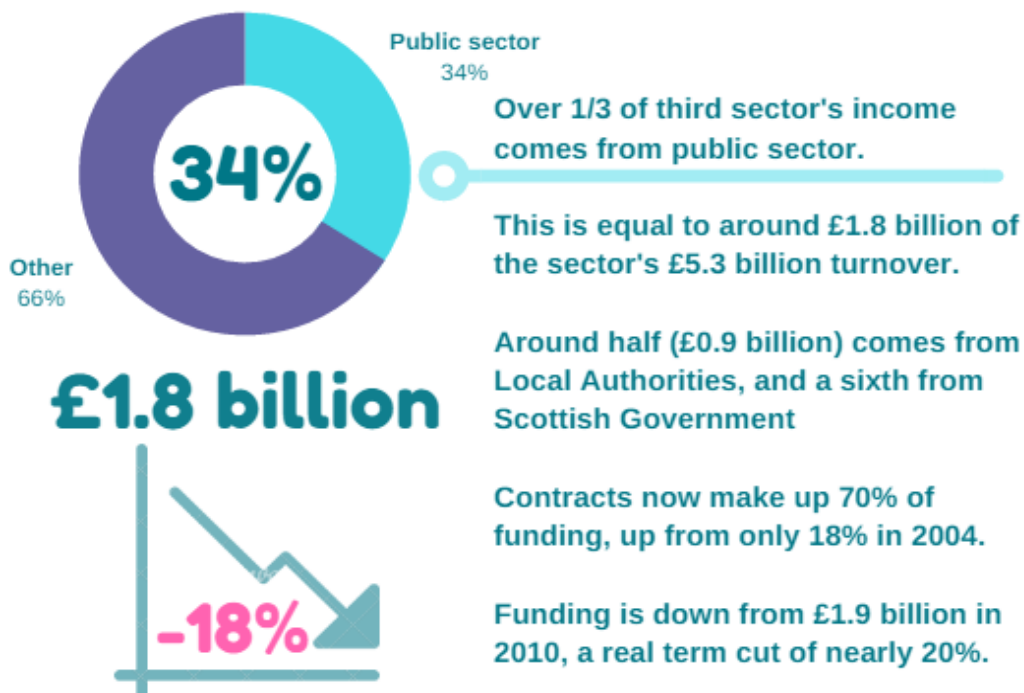


## Insights for 2017: public sector

This briefing explores public sector funding into the third sector, its importance, concerns and opportunities. More data and insight on all of these issues can be found in the following longer reports from SCVO:

- [Local authority funding survey 2016/17](#)
- [SCVO Sector Forecast for 2017](#)
- Data from [Income and spending 2014](#) and [Public Sector funding 2014](#)

### Importance of public sector funding to third sector



**8 in 10  
large**

8 out of 10 **LARGE** charities receive public sector funding. On average government funding makes up **HALF** of their income

**4 in 10  
medium**

4 out of 10 **MEDIUM-SIZED** charities receive public sector funding. On average government funding makes up a **THIRD** of their income.

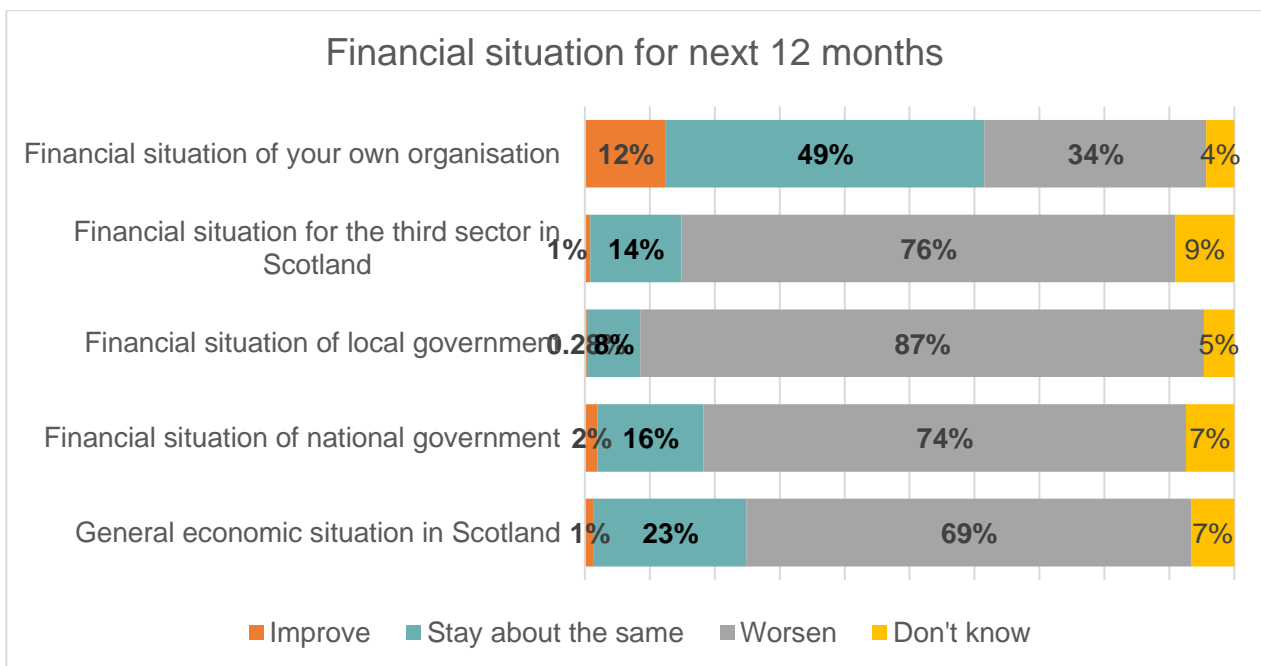
## Concerns about public sector funding

Given the importance of public sector money to the work of so many third sector organisations, and the continued pressure on the public purse, it is not surprising that worries about public sector funding topped concerns for SCVO members in our **Sector Forecast for 2017**.

72% of the respondents to the Sector Forecast anticipate demand for their services to increase. The majority of those expecting to see a rise in demand are also those who receive public funds in return for delivering vital services in local communities. Half of respondents also anticipate a rise in expenditure.

Respondents to the Forecast were pessimistic about the financial situation improving to meet increased demand and rising costs:

- Only 4% of SCVO members think that their public sector funding will increase.
- Only 1% of respondents to the Forecast believe the financial situation of the third sector will improve over the next year, and 76% think it will worsen.
- Only 1 respondent (0.28%) anticipates the funding situation of local authorities to improve, while 87% think it will worsen
- Only 2% think the funding situation of national government will improve, while 74% think it will worsen



When asked about funding pressures, almost half of our members raised issues around public sector funding, including both local authority and Scottish Government. The word cloud below shows phrases raised by respondents, with size increasing with frequency, eg short-term funding was mentioned by 5 respondents, while Local Authority by 39 separate respondents (13 mention 'council' and 16 referred to 'local government'):

**Q8 Over the next year, what do you think the biggest external pressures on your funding situation will be?**

Answered: 299 Skipped: 105



It is important to consider what these concerns around public sector budgets and potential cuts means for us as a sector. Short of a miracle, we are unlikely to see public sector funding of the third sector rise substantially, council tax increases or not. So if 'more money' isn't a realistic answer, how can the public sector and third sector work together to make the most of tight budgets and deliver the outcomes and services we both want to see?

## **Possible solutions**

### **Longer-term funding and increased stability**

Short-term funding continues to create unnecessary problems for our sector, despite wide-spread recognition that longer-term funding could take some of the sting out of reduced or stand-still budgets.

3 out of 4 third sector organisations remain unable to plan ahead for more than a year – and despite positive noises from many parts of government over the last decade, this figure shows no sign of improvement.

One of the main concerns raised by members was the constant merry-go-round of funding applications. This impacts on our members in many ways, including:

- Difficulty in developing organisation plans and setting long-term objectives
- Inability to offer staff reassurances re employment, leading to a stressed workforce, and experienced staff leaving
- Inability to establish long-term relationships with service users, impacting on trust and the ability to work together on longer-term personal journeys and outcomes
- Constant rounds of funding applications taking staff away from their core roles

One of the difficulties cited by local authorities (the main public funder of the sector) is that they themselves only receive their funding annually. However, by this logic every council project and worker would – like their third sector partners – be looking at annual disruption and risk of redundancy. While the exact amount of money is perhaps not known, it is clear that money will be allocated to local authorities, and that the services supplied by the third sector will continue to be required. So a relationship with third sector organisations that recognises this reality, would be very welcome.

### **Improved funding application processes**

“Uncertainties due to short-term nature of funding awards, e.g. for longer-term planning, staff recruitment, staff retention, and leasing premises. Massive amount of ongoing effort to keep repeating/ developing/ reporting on funding bids/ awards - takes away from time to actually deliver the work.”

Our **Local Funding Survey 2016** highlights some good practice around funding such as a dedicated third sector procurement contact point, support with applications, collaborative approaches etc.

However, some areas for improvement were also identified, including:

- Simplification of bidding and application processes
- More consistent support and feedback

- More consistent application forms and processes
- Support for smaller organisations considering partnerships and consortium bids

### **Improved funding conditions**

“We have had a standstill in funding since 2011 and have 10% reduction this year and 10% next year but are expected to provide the same service.”

“It was explicit in the tender document that we were not allowed to include any wage uplifts for the three year contract.”

Our survey found that **2 out of 3 charities do not get inflationary increases or wage uplifts on multi-year grants and contracts.**

This lack of inflationary and/or minimum wage increases have been putting a strain on many organisations. While many of our members' feel grateful to be getting funding at all, they are finding it harder and harder to make ends meet, with staff working extra unpaid hours and funds from other activities being used to sustain projects.

### **Core costs**

Respondents to both our surveys singled out concerns around core funding, particularly that core funding from both national and local government is likely to be cut, or already has been cut. Respondents spoke of the challenges around finding alternative funding sources to cover core costs, or having to use assets set aside for other activities. In our local funding survey only 56% of grant recipients, and 50% of contract/service level agreement recipients, felt that their funding was sufficient to cover core costs. Respondents report that public sector funders often have mixed practices around covering core costs, meaning that many organisations need to spend disproportionate amounts time scraping around for funds to make up for shortfalls.

Funding should match the service levels required, and full project costs including realistic core costs have to be taken into account when calculating funding.

## **Providing mixed funding programmes**

One-size-fits all funding not an option. Our surveys have shown how important it is to offer funding that fits with the needs and capacity of small, medium and large organisations. Funds need to take in to account differences in size, capacity, cash flow, as well as the value of unique projects that offer tailored support. Our surveys also highlighted that many respondents were concerned that funders were bundling funding into complex contract packages that only the largest organisations – or private sector companies – can bid for.

Since 2004, contracts have shifted from being the minority funding type and making up only 18% of public sector funding to now making up 70% of funding. The disappearance of small grants has led to many small and medium sized organisations seeing their public sector funding disappear completely – but small grant programmes can make a huge difference to communities. We believe that such grants should be encouraged and, if need be, re-instated.

## **Social Enterprise**

Many respondents hope that trading activities will generate sustainable and more stable income streams. However, ever-tightening budgets mean that many charities lack the cash-flow, assets and financial confidence to make the most of enterprise opportunities.

Recent funds from the Scottish Government and others, alongside advice and support bodies such as Just Enterprise, have helped many third sector organisations diversify their funding streams.

Public investment is more important than ever if more charities are to have the capacity and skills to grow their enterprising activities.

It's worth noting that while social enterprise has often been touted as the solution to many third sector funding problems, for many third sector organisations, monetising their work in this way is simply not an option available to them, or there is little scope locally to expand enterprising activities.

So whilst supporting enterprise, and using procurement to buy-in from social enterprises and charities should be encouraged, public bodies can and should continue to be aware that for many third sector organisations, a grant will always be the only option.

## Encouraging collaboration

“The procurement system as applied mitigates against achieving the maximum benefit for collaborating and may force greater straight competitive tendering leading to more contracts going to for-profit providers which will mean poorer services”

Our surveys have found that:

- 74% of charities expect competition for resources to increase
- 72% expect collaboration to increase

Many in the third sector are worried that relationships within the sector will suffer as charities chase the same funding pots. While 72% hope to collaborate more, only 21% actually plan to join a new consortium or partnership. Partnerships can be easy to initiate, but require constant investment of time and effort to work in the long run.

Therefore, it is important that funders continue to do as much as they can to encourage collaboration and joint bids.

## Supporting innovation

A number of government programmes in recent years have been very successful in encouraging the third sector to be more innovative and enterprising. However, many members were worried that cuts, particularly at local level, would result in local authorities **retreating into themselves** by, for example:

- Withdrawing contracts, and bringing services in-house
- focussing purely on own targets, and only funding activities which help meet those targets – meaning no funding for innovation or slightly ‘outside the box’ activities
- focussing only on the bottom line, not on added value, meaning the cheapest bids succeed,

If local authorities are keen to find improved ways to deliver services and support communities, or wish to make sure that people at a very local level are really connected to services, it is important that they keep working with third sector organisations throughout this period.

## **Conclusion**

The third sector has increasingly taken on the delivery of public services, and has been funded to do so by local authorities, Scottish and UK governments, NHS and others. However, after decades of growth the last few years have seen austerity measures leading to cut backs across the board. As demand continues rise year on year, while funding does not, many in the third sector are feeling the squeeze. Shaving slices off public sector budgets every year and hoping for the best has worked surprisingly well for a couple of years, but it feels as though we are reaching a crunch point. Both the third sector and public sector need to ask ourselves some tough questions – how long can we keep going on like this? What can we do to ensure that the services people rely on remain high-quality and sustainable?

It is not large amounts of money that are needed to improve this situation for the sector, but rather small improvements to funding terms and processes that can make significant differences. We know that local authorities wish to achieve the very best outcomes they can for the communities they serve, so it makes sense for us all to work with the together. By making application processes simpler; improving terms and conditions of funds – including covering core costs; lengthening grant and contract periods when appropriate; giving plenty of notice when funding will or won't be renewed; and so on, public bodies will be able to support the sector in a way that does not leave organisations in precarious financial positions. This is not a case of one-size-fits all, but rather of finding the approaches that work best according to the outcomes desired. By collaborating together in this way, both sectors can produce real gains for those living in Scotland.