

Public Sector funding - Briefing 2

“The pressure on budgets is intense and public spending is not expected to return to 2010 levels in real terms for 16 years.” Christie Commission

About this briefing

The findings in this factsheet are based on detailed analysis of a selected sample of 800 charity accounts and reports for the financial year 2012-13, combined with additional data on the ‘regulated third sector’, including data on:

- 19,635 charities from the Office of the Scottish Charity Regulator (OSCR)
- 162 housing associations from the Scottish Housing Regulator
- 107 credit unions from the Bank of England

Key findings

- Cuts to public sector budgets have started to have a real impact on third sector finances, with public sector funding dropping from £1.87billion in 2010 to £1.68billion in 2013 – a 10% cut in cash terms. Taking inflation into account, this is a reduction in real terms of £376m and a cut of 18%.
- The public sector now only accounts for a third (34%) of the sector’s funds, down from 42% in 2010 - the lowest level for over a decade.
- The 500 largest organisations in Scotland receive twice as much public sector funding as all the small and medium-sized organisations put together.
- 69% of third sector organisations in Scotland receive no money from the public sector.
- Small and medium-sized organisations have experienced the sharpest level of cuts, with income dropping by a third between 2010 and 2012, and continuing falling in 2013.
- There has been a continuing shift from grant-based funding to more contractual models. In 2004, contracts accounted for only 18% of public sector funding. Less than a decade later, the figure now stands at 70% in 2013.
- Contracts appear to be geared towards large-scale procurement, with few opportunities for smaller organisations to tender.
- While many contracts have seen little in the way of inflationary increases, they have so far been shielded from the worst of the cuts. Public sector cuts to date have primarily affected grants programme.

Background

Over the last decade the third sector has enjoyed a high level of financial support from the public sector, with around 40% of the sector's total income coming from local authorities, Government and other public sector funders.

The sector's growth has been driven by increased activities around public service delivery and recognition by policy makers that community-run services and facilities have the potential to offer better quality, better value and more sensitivity than large-scale 'top-down' statutory provision.

Between 2004 and 2010 public sector funding quadrupled from £468m to £1,870m in 2010. But this growth trend has now been reversed, with austerity policies and funding cuts leading to a 10% drop in public sector monies between 2010 and 2013.

Who gets public sector funding?

- 4 in 5 of Scotland's smallest organisations (83%) currently receive no money from statutory sources
- 1 in 5 of Scotland's largest organisations receive no money from statutory sources (21%)

69% of third sector organisations in Scotland receive no money from the public sector at all. As organisations get larger they are more likely to have some of their activities funded by the public sector - see Figure 1 below.

For some large organisations, public sector contracts can account for more than 90% of their revenue, particularly in the care sector. This may have serious implications for these organisations' services if cuts to statutory funding are to continue at the levels predicted.

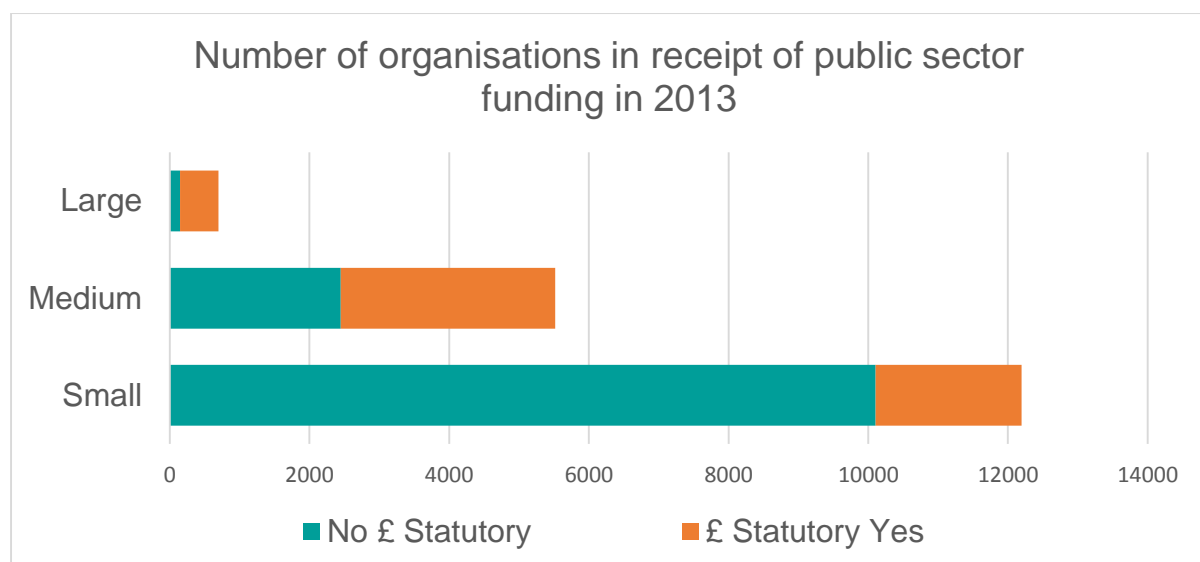


Figure 1 Number of organisations in receipt of public sector money

Top 10 charities by public sector income

The table below shows the Top 10 Scottish third sector charities by the amount of public sector funding they receive. Nine out of the ten charities are health and social care providers. Services provided by large organisations like these account for the bulk of public sector funding, primarily in the form of contracts with local authorities. The 500 largest organisations in Scotland receive twice as much public sector funding as all the small and medium-sized organisations put together. The Richmond Fellowship alone received £58m in 2013 – 6 times the amount of public sector income of the 12,000 smallest charities put together.

Top 10 Scottish charities by public sector income	
1	Richmond Fellowship Scotland
2	The Church of Scotland (including Crossreach)
3	Cornerstone Community Care
4	Enable Scotland
5	Turning Point Scotland
6	Capability Scotland
7	Kibble Education & Care Centre
8	Scottish Autism
9	Scottish Association of Mental Health
10	Carr Gomm

Figure 2 Top 10 by public sector funding

Public sector income sources

Local authorities are the largest public sector funder, accounting for half of the sector's statutory income. The Scottish Government is the second largest funder, accounting for 20%. The rest is made up from Non-Departmental Public Bodies, NHS and UK Government. Multi-agency partnerships and unspecified statutory funders make up the other 14%.

This 50:50 distribution of income from local authorities to income from other public sector bodies has been consistent for many years.

In figure 5 below we can see that between 2012 and 2013 there was very little overall movement within the various public sector funders. Local authority income increased in this period, but by less than 1%. Note that while Scottish Government funding appears to have decreased, this may be linked to the increase seen in the income from 'various' public sector funders.

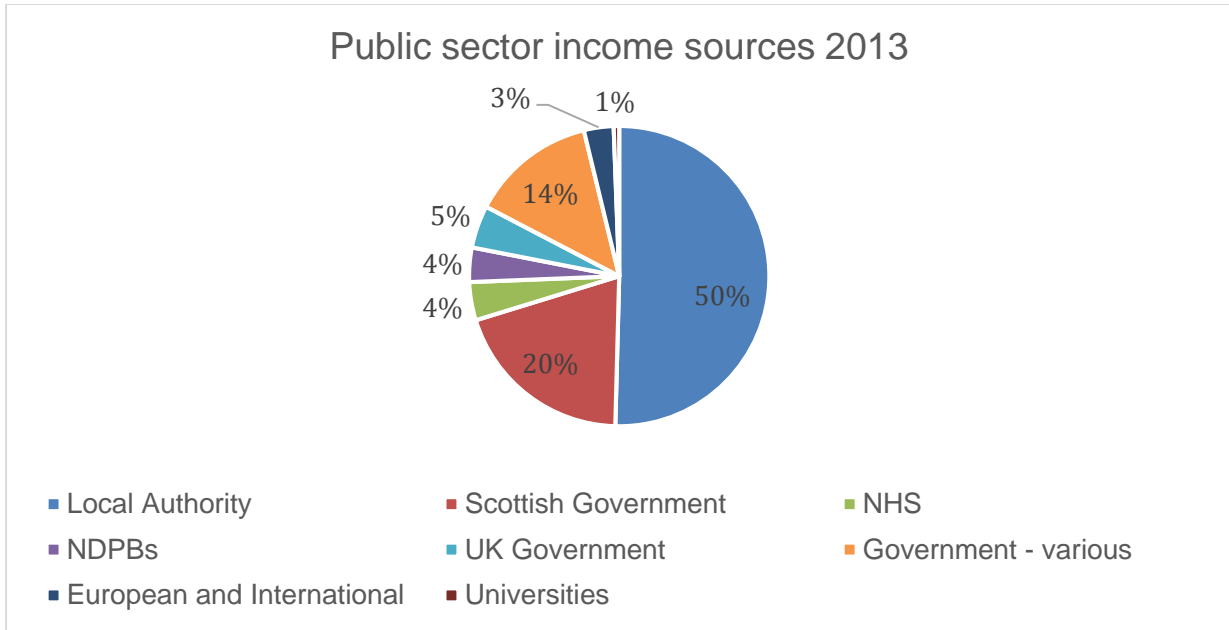


Figure 3 Income sources 2013

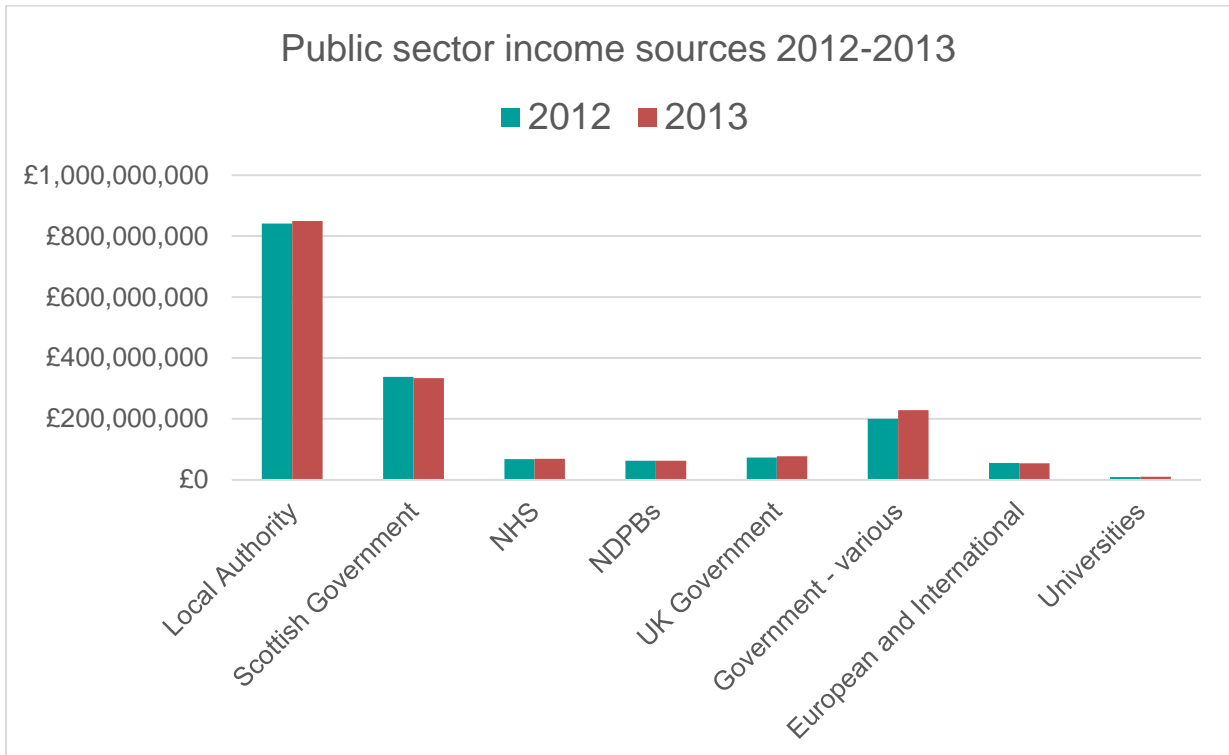


Figure 4 Income sources 2012-2013

Public sector funding cuts

In figure 4 we can see that between 2004 and 2010 public funding to the sector rose in cash terms, almost doubling from £988m to £1,870m. Public sector funding's contribution to overall income also rose, increasing from 38% to 42% of the total income.

After 2010 there was a steep decline in public sector funding, which dropped by £220m to £1,650m in 2012, a drop of 10%. In 2013 we saw income levelling out, growing by a modest 2% from £1,650m to £1,685m. This slight bounce back has not impacted significantly on the overall picture.

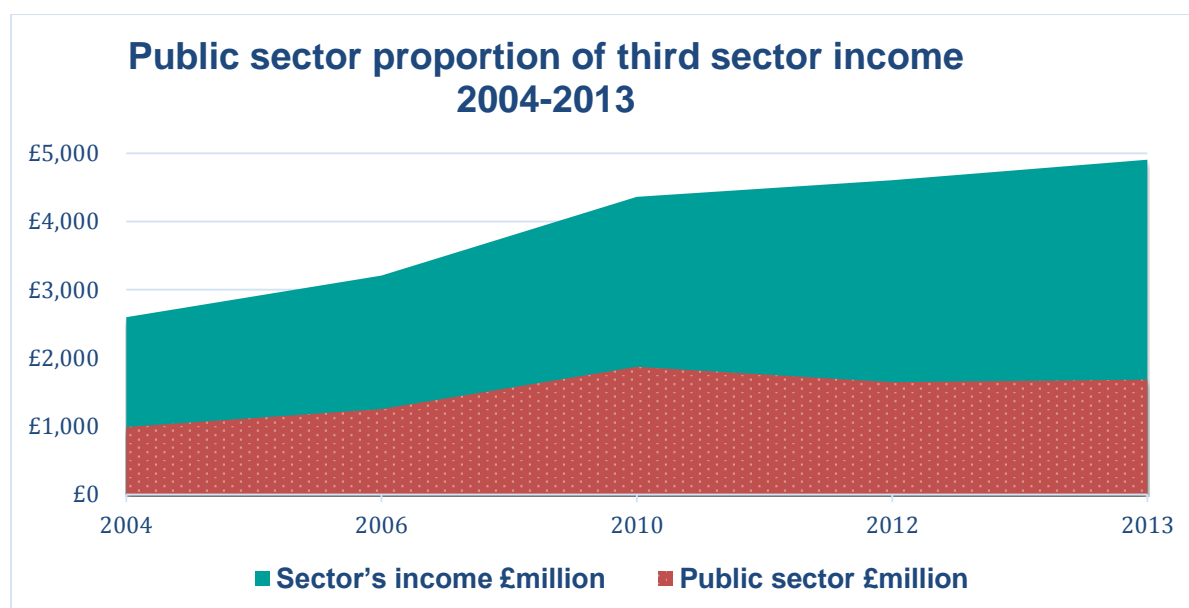


Figure 5 Public sector proportion of income 2004-2013

The freeze on public sector income means that its share of the overall funding to the sector has reduced significantly, from 42% in 2010 to 34% in 2013. As the table below shows, this is the lowest level of public sector funding relative to overall income since the late 90's and marks a historic low.

Year	Sector's total income	Sector's total expenditure	Public sector income	Public sector income as a % of total
2013	£4,905m	£4,674m	£1,685m	34%
2012	£4,603m	£4,501m	£1,650m	36%
2010	£4,360m	£4,176m	£1,870m	42%
2006	£3,210m	£3,180m	£1,252m	39%
2004	£2,600m	£2,480m	£988m	38%
1998	£1,800m	£1,644m	£468m	26%

Figure 6 Public sector income 1998-2013

Variations by organisation size and type

However, this apparent stability does mask a more volatile funding landscape, particularly for smaller organisations. While large organisations with contracts have been shielded to some extent, smaller organisations have seen their share of public sector funds drop.

Small and medium-sized organisations, despite making up the bulk of the third sector, receive only a relatively small amount of funding from the public sector. They have also experienced the sharpest level of cuts. From Figure 6 below we can see that organisations of all sizes experienced cuts between 2010 and 2012, with medium-sized organisations experiencing the sharpest cuts, losing a third of their public sector funding. Between 2012 and 2013 small and medium-sized organisations saw public sector income continue to fall, albeit now in single figures. The larger over £1million turnover organisations saw public sector income make a recovery, but only to 2010 levels.

The drop in public sector funds to small and medium-sized organisations may be linked to the shift from grants to more contract-based funding - see below. Many smaller organisations report being unable to bid for contracts, which are often geared towards large-scale service delivery.

Public sector income and changes 2010 – 2013					
Size of organisation	2010 £ public sector	Change 2010 to 2012	2012 £ public sector	Change 2012 to 2013	2013 £ public sector
Small 12190 orgs	£9.4m	-16%	£7.9m	-6%	£7.5m
Medium-sized 5479 orgs	£518m	-33%	£348m	-3%	£338m
Large 556 orgs	£1,197m	-3%	£1,159m	3%	£1,193 m

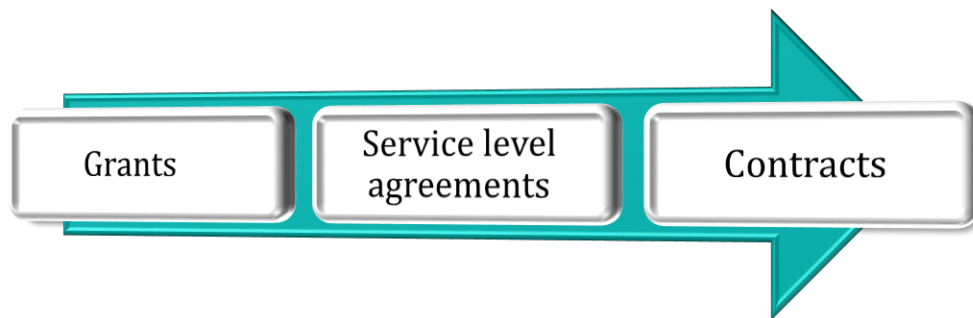
Figure 7 Changes in public sector income by organisation size 2010 to 2013

The cuts have affected organisations working across all types of activity, although some sub-sectors have suffered more than others.

Perhaps unsurprisingly, organisations such as environmental and cultural groups have experienced cuts.

More surprisingly perhaps given current government priorities, other sub-sectors experiencing cuts include: community development, advocacy, employment and training, services for children and families, services for people with disabilities, services for women, and young people's services.

Shift from voluntary income to contracts



The most noticeable change in public sector funding patterns in the last decade has been the continuing shift from grant-based funding to more contractual funding agreements.

- In 2004 contracts accounted for only around 18% of public sector funding, and were worth about £200million to the sector
- This figure has now risen to around £1,173 billion, and makes up 70% of public sector funding
- After a sharp drop in grant funding after 2010, both grant and contract income have remained stable between 2012 and 2013, at 30% and 70% respectively.

While some charities clearly state in their accounts whether income is grant or contract based, not all make this distinction and the lines can be blurred. As budgets have been tightened, organisations are having to meet stricter conditions in return for public sector money. This affects contracts and service level agreements, but we can also see more conditionality being placed on core grants, and targeted grants programmes linked closely with public sector priorities replacing more open funding programmes.

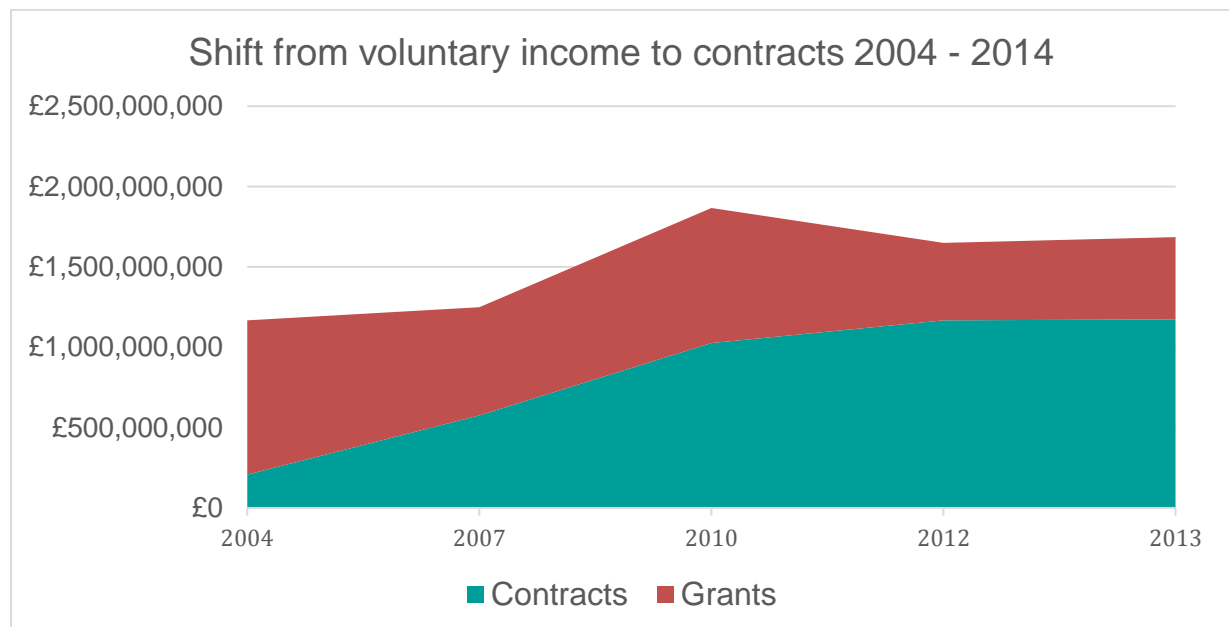


Figure 8 Shift from voluntary income to contracts 2004 - 2014

Year	Contracts	Grants	% Contracts	% Grants
2013	£1,173,000,000	£511,200,000	70%	30%
2012	£1,167,000,000	£482,600,000	71%	29%
2010	£1,026,300,000	£839,700,000	55%	45%
2007	£576,000,000	£672,000,000	46%	54%
2004	£208,000,000	£960,000,000	18%	82%

Figure 9 Contracts and Grants split 2004-2013

Observations

While the figures and graphs above give a good idea of the overall picture in terms of public sector funding of third sector activities, analysis of individual accounts and trustee reports show that there are some important trends operating below the surface:

- **Core grants:** for almost all organisations core grants are at standstill. Many organisations mention that core funding has been cut or has not increased for years, in some cases receiving no inflationary increase for 5 years or longer.
- **New activities and projects:** organisations report that they are often maintaining their income levels by carrying out new projects and activities funded by public sector. The projects are often innovative and in line with organisational objectives as well as meeting public sector priorities, but may create issues around sustainability if these are only short-term projects.
- **New funding streams:** The welcome impact of small but influential funding programmes is apparent in the accounts, such as the Enterprise Growth Fund and Change Funds.
- **Complexity of funding streams:** While new projects and funding streams are to be welcomed, it is also apparent from the accounts that organisations are having to chase and manage ever more complex funding streams to stay afloat.
- **'Super-contracts':** Not only are we seeing a shift from grants to contracts, but we are also seeing a reduction in the numbers of smaller contracts in favour of single large ones. This can make it easier for the funder to manage the bidding process and monitoring, but creates complexity for the sector which often has to bid as part of a consortium. While collaboration is to be welcomed, working in partnership can have complications, including practical and ethical conflicts.
- **Social care and health:** while many third sector organisations already provide early-intervention and person-centred care, trustees report that they are working hard to ensure that they adapting business models to be in the best position to meet changes driven by self-directed support and prevention agendas. Some organisations such as hospices, while keen to support early intervention and care at home, raise concerns that the full costs of providing this sort of service is not recognised by funder

Additional Tables

Top 30 'third sector' charities by public sector income		2013 £ public sector
1	Richmond Fellowship Scotland	£58,051,000
2	The Church of Scotland, including Crossreach	£45,274,000
3	Cornerstone Community Care	£30,791,757
4	Mercy Corps Scotland	£27,050,776
5	Enable Scotland	£26,701,833
6	Turning Point Scotland	£25,228,795
7	EMMS Nazareth	£24,043,000
8	Capability Scotland	£23,117,000
9	The HALO Trust	£22,391,000
10	Kibble Education & Care Centre	£21,044,284
11	Scottish Autism	£20,325,988
12	Scottish Association of Mental Health	£19,197,581
13	Carr Gomm	£18,149,309
14	Sense Scotland	£17,252,448
15	Cora Foundation	£16,499,489
16	Erskine Hospital	£14,120,000
17	The Mungo Foundation	£13,981,627
18	Aberlour Scotland's Children's Charity	£13,224,000
19	Aberdeen Association of Social Service	£12,125,000
20	Scottish Opera	£11,969,160
21	Alzheimer Scotland	£10,871,630
22	SCVO	£10,818,246
23	Gowrie Care	£10,451,734
24	Community Lifestyles	£10,259,375
25	Royal Conservatoire of Scotland	£10,201,000
26	Loretto Care	£9,870,544
27	Citizens Advice Scotland	£9,071,682
28	Penumbra	£8,997,711
29	Inspire (Partnership Through Life)	£8,104,746
30	Voluntary Action Fund	£7,729,100

Figure 10 Public sector income data, based on OSCR data and annual accounts

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