Evaluation of the South Yorkshire Social Infrastructure Programme

Report B: Changing Policy Agendas and Contexts

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Report B: Changing Policy Agendas and Contexts

Yorkshire Forward: South Yorkshire Social Infrastructure Programme

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Executive Summary

Introduction

The South Yorkshire Social Infrastructure Programme (SYSIP) was supported by Yorkshire Forward, the South Yorkshire Objective 1 Programme and the South Yorkshire Learning and Skills Council which together committed investment funds of around £36 million to voluntary and community sector infrastructure in South Yorkshire between 2006 and 2009. This funding has now ended. A key aim of the programme was to increase the sustainability of the organisations supported.

SYSIP has been delivered against a backdrop of considerable change for the sector. This report explores these changes, in terms of policy, context and the recession.

Changes in Policy Emphasis

The policy environment affecting VCS infrastructure has arguably become much more complicated in recent years. VCS infrastructure is under the spotlight, and seemingly faces an unprecedented set of issues, concerns and debates, each of which has the potential to unsettle and call into question the way it is organised and funded, particularly at local level.

Policy changes affecting the sector relate both to third sector specific policies (e.g. the Compact, the new Charity Act 2006 or ChangeUp) but also wider sets of policies (e.g. LSPs, Welfare Reform and the opening up of Public Service Delivery). Within South Yorkshire, perhaps more than any other sub-region in the United Kingdom, domestic and EU regeneration funding has since the mid 1990s actively sought to promote the role of the voluntary and community sector. This has left a legacy of a large and diverse sector. However it has also left relatively new organisations without alternative funding streams. Infrastructure organisations (at a district level) have been relatively new to regeneration funding and their involvement reflects a desire to provide support to mitigate against the ‘funding cliff edge’.

Understanding Context

From the National Survey of Third Sector Organisatons (NSTSO) a series of key findings can be identified:

- third sector population: based on per capita statistics there are proportionally fewer registered third sector organisations, employees, and directors/trustees in South Yorkshire than exist nationally
- NI7 - the National Indicator measure of a 'thriving third sector' showed that the four South Yorkshire districts received a score which was broadly in line with the national score
- grants and contracts: a higher proportion of registered third sector organisations in the four South Yorkshire districts received grants and contracts of the local authorities than do nationally
- satisfaction with funding and support available: across the four South Yorkshire areas registered third sector organisations’ satisfaction with local funding and support is broadly in line with satisfaction nationally

- third sector infrastructure: higher proportions of third sector organisations in the four South Yorkshire districts receive support from and are satisfied with their local infrastructure organisations compared to the national picture.

Financial Crisis, Recession and the Outlook for Public Expenditure

The policy agenda of SYSIP and ChangeUp assumed relatively benign macroeconomic conditions and public sector investment continuing to require 'change and modernisation' from the sector, but without sudden shifts in support for infrastructure. The economic events of the last 12 months, the possibility of a new government in the next year, and speculation for future public funding have brought considerable uncertainty in the sector.

The recession will have differential effects across the Third Sector, as it will across other sectors in the UK economy. Moreover the effects of recession, financial crisis and tightening public expenditure will be transmitted in different ways across the sector.

The rationale for public policy support to the sector at this time is important and extends beyond simply identifying those organisations which are most financially vulnerable. **There is a strong case for supporting organisations which are experiencing rapidly increasing levels of service demand due to the recession**. Beyond this there are probably otherwise viable organisations that provide significant benefits to users but are unprepared for the effects of the recession.

The greatest social costs of recession are caused through unemployment and its consequences for individuals, households and areas. South Yorkshire appears to be being hard hit by recession, compounding its relative weak economy and the disproportionate levels of disadvantage many of its population face.

The prospect of reductions in public expenditure is likely to have disproportionate effects on the third sector in South Yorkshire and will be far greater than the immediate effects of recession. Whilst opportunities do exist for the sector around accessing funding for service delivery, these are largely outside the core remits of infrastructure organisations to deliver.

Conclusion: implications for the Third Sector

As a result of the changing environmental context described in this report, the VCS, and its infrastructure, may be variously facing either or both of:

- *a 'shake out'*, with services contracting or stopping, and possibly organisations closing down altogether, and
- *a 'shake up'*, with organisations having to:
  - reshape how services are delivered
  - rethink how services are funded (including being more entrepreneurial or 'business like' in pursuing opportunities, costing and delivering services), and
  - consider options for deeper collaboration and merger to protect services and activities.

The question for VCS infrastructure, and by implication programmes such as SYSIP which invest in it, is the extent to which it can enable voluntary organisations and community groups to negotiate a landscape which is changing increasingly quickly. Risks of 'shake out' (i.e. organisational closure) currently appear to outweigh those of 'shake up' (a changing configuration of organisations).

Epitaph for SYSIP: undertain times for social infrastructure?

The research for this report was conducted from March 2007 to October 2009. This section of the report has been added a year later: it reflects on the changes in policy terrain following the May 2010 General Election, the Coalition Agreement and the prospect of severe cuts in public expenditure. Whilst noting the emphasis placed on the Big Society, it raises concerns around the sustainability of investments made by programmes such as SYSIP.

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1. Introduction

1.1. Background to SYSIP

The South Yorkshire Social Infrastructure Programme (SYSIP) was supported by Yorkshire Forward, the South Yorkshire Objective 1 Programme and the South Yorkshire Learning and Skills Council which together committed investment funds of around £36m to voluntary and community sector infrastructure in South Yorkshire between 2006 and 2009. This funding has now ended. A key aim of the programme was to increase the sustainability of the organisations supported.

SYSIP has been delivered against a backdrop of considerable change for the sector. This has involved both changes in policy direction and emphasis (locally and nationally), shifts in the focus of funding streams as well as delivery mechanisms, and the implications wrought by the financial crisis and recession. These changes will of course have differential effects across the third sector.

1.2. Scope of the Evaluation

This is one of a series of core reports produced for the evaluation of SYSIP. The other core reports include:

- evaluation summary
- programme wide assessment and district reports.

Alongside these core reports we have also produced a series of theme reports and these include:

- investment in volunteering
- acquisition and utilisation of assets
- core infrastructure services
- Academy for Community Leadership (AfCL)
- neighbourhood infrastructure
- partnership: voice, engagement and influence.

Although we cover some policy issues within each report, the material presented here is intended to convey a more strategic assessment of the issues which have faced SYSIP and implications for future funding.

1.3. Structure

The report is structured around the following sections:

- Section 2: About SYSIP and its Evaluation
- Section 3: Changes in Policy Emphasis – a review of policy changes since the design of SYSIP

- Section 4: Understanding Context – an analysis of results from the National Survey of Third Sector Organisations
- Section 5: Financial Crisis, Recession and the Outlook for Public Expenditure
- Section 6: Conclusion: implications for the Third Sector
- Section 7: Epitaph for SYSIP: uncertain times for social infrastructure?

This review report sets the context for the other reports undertaken as part of the SYSIP evaluation. In general, this report highlights how the policy and economic environments in which Third Sector infrastructure organisations exist have changed markedly since the design of SYSIP as well as the implications of this for sector and for the delivery of the programme..

2. About SYSIP and the Evaluation

2.1. Introduction

The **aim of SYSIP** is to increase the sustainability of the voluntary and community sector (VCS) in South Yorkshire through support to infrastructure organisations. Through helping frontline VCS organisations become more effective, this is intended to bring wider economic and social impacts. The programme consists of six elements, each with complementary aims:

1. Barnsley Community Infrastructure
2. Doncaster Social Infrastructure
3. Rotherham Social Infrastructure
4. Sheffield Community Infrastructure
5. Sheffield Community Action Plan Programme
6. Academy for Community Leadership.

The programme was **evaluated** by researchers at Sheffield Hallam University, working in partnership with consultants mtl and COGS, in order to:

- estimate the impacts of the activities over time on VCS infrastructure and the economic regeneration of South Yorkshire as part of the Yorkshire and Humber regional economic strategy.
- help build monitoring and evaluation capacity in South Yorkshire
- capture learning and inform future action during the course of the programme.

The evaluation ran in three phases from **March 2007 to June 2009** and involved:

- reviewing the context, development and delivery of the programme
- assessing the impacts of the programme on the development of VCS organisations in South Yorkshire
- considering whether the programme is effectively meeting the needs of VCS organisations - particularly those from ‘hard to reach’ groups
- identifying good practice developed by the programme and individual elements
- assessing the sustainability of activities developed by the programme
- making recommendations for the future development of social and community infrastructure building programmes.

2.2. Rationale for SYSIP

The core costs of the SYSIP projects were met by Yorkshire Forward, South Yorkshire Objective 1 Programme, and the Learning and Skills Council. The investment in the SYSIP projects was made jointly by these organisations and funding from each (largely) runs concurrently.

The funding provided was in a range of voluntary and community sector 'infrastructure' activities and associated projects. Investment in VCS 'infrastructure' has been part of economic development programmes in the region since 1995 (as part of the EU Objective 2 programmes and linked SRB programmes of this period). Investment under the South Yorkshire Objective 1 programme extended investment, by seeking to invest funds more equitably in deprived neighbourhoods, through the support of communities of interest (e.g. organisations working with black and minority ethnic groups, and people with disabilities), as well as support to district and sub-regional level infrastructure organisations (e.g. local infrastructure organisations such as Councils for Voluntary Service - CVSs and to groups such as the AfCL and the South Yorkshire Open Forum).

Funding under SYSIP was made at a time when VCS organisations faced a reported 'funding cliff edge' with significant declines in UK and EU regional and regeneration funding going to VCS organisations. The **rationale** for SYSIP was therefore very much to provide support for a transitional period which allowed VCS infrastructure to be supported at an appropriate scale (for the funding available) and to seek sustainability without EU Structural Funds and SRB funding. Such sustainability it was suggested would be through VCS organisations attracting funding locally through new commissioning and procurement opportunities, through charging for services, and in some cases reconfiguring the scale/scope of organisations, through for example merger.

Under BERR (now BIS) appraisal guidance, RDAs may intervene for the following rationales: market failure (including provision of public goods, externalities, imperfect information and market power) and equity. The SYSIP projects can be seen to address these in different ways:

Intervention	Equity failure	Market Failure			
	Main rationale for SYSIP – helps to reduce disparities between areas or different groups	Investment in VCS organisations working in deprived areas and with disadvantaged groups can be seen to be seeking to address myriad market failures including public good elements (e.g. advice and guidance available to all residents of a community), externalities (e.g. neighbourhood effects prevent employment or well being) etc.			
	Equity	Public goods	Externalities	Market Power	Information asymmetries
Investment in volunteer centres (continuation of these centres benefits disadvantaged communities or hard to reach groups, including those without work)					
Acquisition and utilisation of assets. This covers asset management and purchase of buildings.					
Core infrastructure services					
Neighbourhood infrastructure					
Partnership					

These issues are considered further in the thematic sections and more extensively in the section on impact.

2.3. Undertaking the Evaluation

The evaluation proceeded in three phases in 2007, 2008 and 2009 respectively. The research in 2007 focused on the development of an evaluation framework, interviewing stakeholders and an initial review of data. The research in 2008 undertook to complete the substantive research tasks around five separate themes and to run a programme of masterclasses. The research in 2009 focused on the primary fieldwork around core infrastructure services, an extensive round of stakeholder interviews, analysis of final monitoring data, and analysis of an array of other data sources (notably the NSTSO and financial account data). Judgements to inform the estimate of impact have also been made.

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3. Changes in Policy Emphasis

3.1. Introduction

The policy environment affecting VCS infrastructure has arguably become much more complicated in recent years. Not only is it changing rapidly as new initiatives are rolled out and new opportunities emerge, but it is filtered through an increasingly complex institutional context operating at different geographical levels. At the same time, the wider public policy context in which VCS infrastructure may be expected to play a role, for example in sub-national governance and regeneration, is also undergoing rapid change. Alongside this, much of the way infrastructure is organised and coordinated is being reviewed and contested. The net effect for many infrastructure organisations, and their members and users, is a bewildering array of institutions, initiatives, influences and issues with which to grapple. As a result the future appears quite uncertain for many organisations. VCS infrastructure is under the spotlight, and seemingly faces an unprecedented set of issues, concerns and debates, each of which has the potential to unsettle and call into question the way it is organised and funded, particularly at local level.

In this section we discuss the changing policy context within which SYSIP operates. In turn, we discuss national and regional policy agendas, the sub-regional context and the implications for SYSIP and the third sector as a whole.

3.2. National Policy Agendas

Over the last 10 to 15 years the relationship between government and the VCS has undergone a major transformation. This has been seen in a number of developments across the range of public policy areas, but perhaps stands out in six main initiatives:

- the November 1998 **launch of the national Compact** on relations between government and the voluntary and community sector (Home Office, 1998). Most local authority areas now have local Compacts, but as the 10th birthday of the Compact draws near, concerns remain that implementation is patchy and there is an ongoing debate through the newly established Commission for the Compact about giving the Compact more 'teeth'
- the **establishment of Local Strategic Partnerships** (LSPs) with an expectation of VCS and community involvement in strategic decision making and the formulation of Community Strategies. In the most deprived local authority areas sector involvement was promoted by the establishment of Community Empowerment Networks (CENs), with dedicated resources to support community representation (Taylor et al 2005). Subsequent changes in funding packages have, however, led to the dissolution of many CENs (Urban Forum, 2006, 2008)
- the Cabinet Office Strategy Unit **review of charitable law** published in September 2002 (Cabinet Office, 2002), which led directly to the Charities Act 2006, designed to reduce regulation on the sector, especially for smaller charities and to provide a new definition of charity with an emphasis on public benefit
- tax changes and marketing campaigns designed to increase **charitable giving** and investment to support **volunteering opportunities**

- the Treasury review into **the role of the voluntary sector in the delivery of public services**, also published in September 2002 (HM Treasury, 2002), signalling an interest by government in boosting the involvement of the sector in public service delivery. Additional resources from the Comprehensive Spending Review established the Futurebuilders (loan finance to enable VCOs to win public service contracts) and ChangeUp (support to improve VCS infrastructure) programmes. Efforts to increase the sector's ability to compete for contracts, and to address commissioning and procurement blockages are ongoing (Office of the Third Sector, 2006)
- the **establishment of the Office of the Third Sector** in May 2006: a dedicated unit in the Cabinet Office set up to lead work across government to develop and support an environment which enables the 'third sector' (taken to embrace social enterprises and co-operatives alongside the VCS) to thrive.

From this central push, there are a number of existing and emerging opportunities for the VCS. The Office for the Third Sector's overall commitment to support the sector was reaffirmed through the extensive consultation during the Cabinet Office/Treasury instigated 'Third Sector Review'; its final report was published in July 2007 (HM Treasury/Cabinet Office, 2007), highlighting a range of mechanisms and resources through which the 'Third Sector' would be promoted:

- supporting voice (e.g. advocacy on behalf of disadvantaged groups) and campaigning for change
- supporting community action, for example through three new programmes: a new £30m Community Assets programme (being delivered by the Big Lottery Fund), an £80m small grants fund for community groups; and a £50m fund to develop local endowments. The latter two are being delivered together by Community Development Foundation as 'Grassroots Grants'
- promoting volunteering, especially amongst young people
- continue the support for the sector's role in public services, for example through training commissioners on the potential of the sector, and further investment in the Futurebuilders fund
- support the development of social enterprise, for example around business support and access to finance.

However, in attempting to promote 'an environment for a thriving third sector', central government has also retained a commitment to support capacity building and infrastructure, most significantly through continued investment (£88m through to 2011) in the *ChangeUp* programme.

3.3. ChangeUp and VCS infrastructure

The original *ChangeUp* framework (Home Office, 2004) emerged from the focus on the role of the sector in public service delivery signalled in the 2002 Treasury 'cross cutting review' (HM Treasury, 2002). As implemented, however, the programme has moved away from an explicit focus on public services towards a more generic emphasis on improving VCS infrastructure's ability to support frontline voluntary organisations and community groups. The premise of *ChangeUp* is signalled in the preface by the minister:

Many groups and organisations, are prevented from achieving their potential because they cannot access the support and expertise they need to improve and expand

(Home Office, 2004: 5)

The high-level aim of *ChangeUp* is:

that by 2014 the needs of frontline voluntary and community organisations will be met by support which is available nationwide, structured for maximum efficiency, offering excellent provision which is accessible to all while reflecting and promoting diversity, and is sustainably funded

(Home Office, 2004: 7)

The reference to infrastructure which is 'structured for maximum efficiency' does not specify or prescribe how this might be achieved, other than by the development of 'Geographic hubs of infrastructure activity', whereby

It is envisaged that at regional, sub-regional and local levels infrastructure should gradually coalesce into geographic hubs of activity with services sharing premises, back office facilities or merging depending on needs.

(Home Office, 2004: 9)

The framework is then set out as a tool to inform more detailed local, regional and national infrastructure planning and development through to 2014. Infrastructure organisations operating within the sub-region were encouraged to form a Consortium in order to develop an 'Infrastructure Development Plan'.

The South Yorkshire ChangeUp Consortium has been in operation since 2004, led by South Yorkshire Open Forum as the accountable body. The initial Infrastructure Development Plan (Meridien Pure, 2004a) informed investment of approximately £1.5 million in South Yorkshire VCS infrastructure through to March 2008. Examples of projects undertaken through ChangeUp in South Yorkshire have included:

- access to Procurement Opportunities (SCEDU/Voluntary Action Sheffield) – including publicity and training around the "Tender Readiness Toolkit"
- IT Skills for Funding (SYFAB) - developing materials and training for funding advice, including the SYFAB Internet Funding Toolkit (SIFT)
- SY Quality Project (Voluntary Action Sheffield) - supporting infrastructure organisations with quality management and maintaining a Quality Practitioners Network.

These were outside activities supported by SYSIP.

Until April 2006, ChangeUp was primarily delivered through regional Government Offices. However, in order to ensure greater co-ordination and more streamlined funding arrangements, a new arm's length agency – Capacitybuilders – was established to take on the responsibility for managing the *ChangeUp* programme (Home Office, 2005). Additional resources of £70 million nationally were made available from April 2006 to March 2008 (Capacitybuilders, 2006), and in the recent Spending Review a further £88m has been allocated from April 2008 to March 2011 (HM Treasury/Cabinet Office, 2007: 93). Capacitybuilders stated aims are to:

improve the quality of infrastructure support for VCOs; encourage extra investment in infrastructure through demonstrating its benefits; ensure *investment reaches diverse organisations; and develop knowledge of other funds available and influence policy and practice of other funders*

(Capacitybuilders, 2006)

During 2007-08 Capacitybuilders has facilitated a broad ranging review of regional and sub-regional consortia working, in preparation for new funding programmes introduced in April 2008. The review has included:

- a review of the Consortia model
- requesting individual Consortia to undertake self-assessment exercises, using a pre-determined template
- reviewing and updating individual 'Infrastructure Development Plans' to develop a one year Business Plan and Three year Strategic Plan operational from April 2008.

The latest South Yorkshire ChangeUp Consortium Business Plan (for 2008-2011) (SYCC, 2008: 4) has the following vision, mission and strategic objectives:

Box 3.1: About ChangeUp

Vision:

- *"to catalyse a step change in support available to frontline organisations for the longer term."*

Mission

- *"to weld top down leadership with bottom up concerns to the future of a vibrant voluntary and community sector (VCS) to enable an independent, innovative, flexible, responsive and sustainable voluntary and community sector which achieves its full potential".*

Strategic Objectives:

- to offer strategic co-ordination, focus, leadership and linkages within South Yorkshire to enable a sustainable and supported voluntary and community sector
- to sustain a core strategic infrastructure plan adding value to local priorities and existing connections through its responsiveness to its beneficiaries at sub regional and district level and informed by impact, performance and policy developments
- to promote effective use of resources and joint working within the sector and with wider partners to enable a quality and integrated package of infrastructure support at district and sub regional level
- to facilitate and manage communication and engagement at the appropriate level and which enables strategic advocacy and frontline group understanding and input.

The ChangeUp programme in South Yorkshire, led by South Yorkshire Open Forum, has recently been awarded funding from the Capacitybuilders 'Consortia Development Fund' for 2008-2011, and at the time of writing is negotiating funds from the 'Modernisation Project Fund' in order to take forward specific project proposals outlined in the Business Plan and stated as priorities by the Consortium. These are broadly for activities which would not have been funded by SYSIP.

3.4. Local government change and community empowerment

Other central government departments have been developing strategies for the role of the VCS, echoing similar themes to the OTS/Treasury 'Third Sector Review' in specific service and policy areas. Among other things, the Communities and Local Government Strategy (CLG, 2007a) focused on:

- investment in Community Anchor Organisations, defined as "independent community led organisations with multi-purpose functions, which provide a focal point for local communities and community organisations, and for community services" (CLG, 2007a: 19) to develop their role in supporting community activity at a neighbourhood level, and
- the promotion of community empowerment (see also section 8.2), including an action plan (CLG, 2007b) and the forthcoming publication of proposals designed to increase active citizenship, promote community regeneration and improve local services through user involvement, in a Community Empowerment White Paper (CLG, 2008a), and the introduction of a new 'duty to involve' local people (effective from April 2009) contained in the Local Government and Public Involvement in Health Act. The draft statutory guidance (CLG, 2007c: 26) suggests three ways in which the 'third sector' may be involved:

  Firstly, local third sector organisations might be affected by, or interested in, a particular authority function. As such an authority might decide that it is appropriate to inform, consult and/or involve the group in some way. Second, third sector organisations might have a role as advocates for local people (particularly marginal and/or otherwise vulnerable groups). Therefore an authority might decide to involve a third sector organisation in addition to individual citizens and groups. Finally, third sector organisations might be able to provide relevant expertise and specialist knowledge that might help the authority in reaching out to marginalised and vulnerable groups.

Central government has also encouraged the development of new local mechanisms for local strategic partners to identify local priorities and coordinate resource pooling to address them. The emerging framework, involving Local Strategic Partnerships, a Sustainable Community Strategy and a Local Area Agreement (LAA), has been evolving over the last three to five years. The reorganisation of local governance towards a more strategic approach to priority setting, and an outcomes and indicators approach to resource allocation and assessing progress, has significant implications for the role and financing of the VCS. As public sector stakeholders identify key issues and targets, and pool resources to address them, some VCOs may find themselves well positioned to respond. However, this is increasingly likely to rely on a clear articulation of the contribution voluntary organisations and community groups can make to particular LAA targets. VCS infrastructure may be able to provide a useful brokering and facilitating role for the sector as a whole in this new framework.

At the same time, the Comprehensive Area Assessment - the new framework for assessing local performance and public services - was introduced from April 2009. This involved a wider assessment of quality of life and other outcomes for residents in local areas, focusing on the role of local authorities and other partners (including the third sector). Local authorities will also be assessed through a new survey of the VCS designed to measure conditions in local authority areas that contribute towards a *'thriving third sector'*, including the quality of the funding relationship with the sector and the quality of consultation by statutory bodies. This is designed to assess performance of local authorities against 'National Indicator 7: An environment for a thriving third sector'. A centrally funded and nationally administered local survey of VCOs has been designed to take place in Autumn 2008, to be repeated in Autumn 2010 (Office of the Third Sector, 2008).

At central government level, therefore, there are clearly some signals of support prioritising public service delivery, assets, enterprise, involvement of sector organisations, and a renewed emphasis on community-based organisations, voice and campaigning. This would appear to suggest a range of new opportunities for the sector (at least as expressed in policy terms, even if new programmes are still in development). What may be unclear, however, is how these may be translated into changed practice, particularly at local level, and whether they are enough to strengthen and sustain the role of the sector.

3.5. The Sub-regional Context

Background

Regional Development Agency and Structural Funds programmes have sought to support the VCS through priorities and projects around community economic development and organisations working in and with the most disadvantaged communities since the mid 1990s, including the development of a strategic framework for enhancing the social economy. The sector has been able to use Single Regeneration Budget, Neighbourhood Renewal Funding and European Structural Funds over several years to make a significant contribution, particularly in the most deprived areas. But the extent to which this activity could be sustained has been questioned as funding regimes change, and concern about the impact of the potential loss of funding from targeted regeneration funds has been growing for some time.

The single main contextual feature affecting the VCS in South Yorkshire is the apparent spectre of the ‘cliff edge’ represented by the loss of major regeneration funding streams (Burnby, 2006, Macmillan, 2007). The move from SRB to 'single pot', the transition to a post 2006 EU Structural Funds regime (including the transition from Objective 1), and latterly the move from Neighbourhood Renewal Funds to the Working Neighbourhoods Fund (involving a tighter focus on activities which might address worklessness) all have implications for the ability of VCOs to continue delivering services. Research in the region estimating the potential scale of change (Shutt and Kumi-Ampofo, 2005) identified that without replacement funding the loss could be as high as £54m over a three year period to 2009, representing 5 per cent of the sector's FTE workforce. This echoes the findings of similar studies undertaken in the North East (Community Foundation serving Tyne and Wear and Northumberland, 2004) and the North West (URS, 2006).

However, there have been some doubts expressed about the projected scale of the 'funding cliff edge' (Craig, *et al* 2005: 4) and the extent to which it may have been mitigated by other funding streams (Local Community Sector Task Force, 2007). The projections about the 'cliff edge' identified losses for the VCS emerging from 2006 onwards. We might therefore expect to see more evidence of the effect of changing funding regimes at the moment. However, it is not clear whether anything beyond anecdotal information is being collected on these trends within the third sector. Examples of organisations restructuring, contracting or closing down may abound, but the actual impact of changing funding regimes might begin to be questioned unless more systematic information is collected and analysed.

Alongside concern that total funding available to the sector may be in decline, therefore, the funding mix is also, it seems, coming under question. In particular there is a growing recognition that the VCS is and may be funded through a range of financing options and arrangements. A recent report, for example, notes the distinction between three different funding styles: 'giving' (grants), 'shopping' (purchasing goods and services) and 'investing' - each suitable for different purposes (Unwin, 2005). However, the national Finance Hub noted, despite a favourable policy environment:

> *a "creeping sense of crisis" regarding voluntary sector funding and a widespread perception in the sector that funding has not only changed markedly in character*

in recent years but has also significantly reduced. In particular, it is felt that 'grant' funding for the third sector available from local authorities has faced the greatest decline, gradually being replaced with more 'restricted' types of funding, such as contracts and funding for the purchase of commissioned services
(Finance Hub, 2008a: 4).

Responding to this concern, a group of national VCS agencies have launched a campaign to identify the value of local grant aid, with associated case study examples (NAVCA, 2007, Cooke, 2007). As well as identifying ten reasons why grant funding is important to the local VCS and local communities, this noted that:

The pressures of efficiency and LAA targets, the heavy emphasis on the role of the VCS in public service delivery, and the current wealth of generic commissioning guidance (which takes no account of the possibilities of grant funding), all seemingly deter local government officers from giving proper consideration to the purpose and the possibilities of grant funding.
(Cooke, 2007: 14)

However, recent Finance Hub research was largely unsuccessful in its attempt to assess the reality behind the concern of a decline in grant funding by local authorities (Finance Hub, 2008a, 2008b). The study found that data of suitable quality and detail was almost non-existent to identify whether grant funding was being replaced by contract funding and service commissioning. However, from those local authorities able to supply more detailed data, the study notes that contract-based funding tends to far outstrip the sums available for grant aid, that a decline of 13 per cent in grant aid was noted over a three year period[1], but that it was not possible to identify whether grant aid was simply declining or being reformulated as contract funding (Finance Hub, 2008a: 5-6).

Nonetheless, the changing financial landscape within which the sector operates has generated a key concern over how VCOs might be placed on a more sustainable footing both in terms of organisational development and financial position. Having attempted to quantify the scale of the 'cliff edge', support agencies and funding bodies have looked to develop strategies in response. To the extent that this involves an enhanced emphasis on independent income generation beyond existing funding streams, it prioritises the development of VCS capabilities in business planning and entrepreneurial strategies, including tendering for public service contracts and trading.

At the same time, these issues raise questions about whether VCS infrastructure is equipped to support the sector to respond to these challenges. A range of initiatives designed to support the sector through a transition to a new funding climate are currently underway. Broadly, *four* kinds of strategic response have been adopted:

- developing campaigns to highlight the issues at stake (for example, the Invest 2006 campaign in the North East)
- using *ChangeUp* resources locally to advance agendas around procurement and commissioning (for example the South Yorkshire *"Sustainability Route Map"* (Dawson and Hedley, 2008), which attempts to offer realistic information and guidance for organisations exploring routes to sustainability, and the work undertaken to develop VCS consortia by Voluntary Action Sheffield)

1 This figure is derived from 27 local authorities (from a stratified sample of 90 across the nine English regions) able to provide precise figures for grant aid, and a further 10 where estimates were supplied. The period in question covered the three years 2004/5, 2005/6 and 2006/7. In this period the aggregate grant aid figure declined from £37.65m to £32.93m (Finance Hub, 2008a: 21).

- initiatives at *national* level designed to broaden the range of approaches to finance and funding the sector. These include: the establishment in 2000, and subsequent expansion, of NCVO's Sustainable Funding Project, with the aim of: "*encouraging and enabling voluntary and community organisations to explore and exploit a full range of funding options to develop a sustainable funding mix"* through seminars, the website, books, guidance notes and diagnostic tools. The *ChangeUp* programme also supported the development of the national Finance Hub (2006-2008), aiming to develop resources for supporting frontline third sector organisations in funding and finance issues. This has been replaced by a new 'national support service' focusing on 'Income Generation' from April 2008 (to March 2011), to be run by a partnership led by the national VCS umbrella organisation for chief executives, ACEVO. NAVCA has also just launched a new 'Local Commissioning and Procurement Unit', funded by the Big Lottery Fund's BASIS programme, to support its member local infrastructure organisations in developing the procurement and commissioning agenda. Other national initiatives include the Futurebuilders programme, designed to increase the capacity of the sector to deliver public services, which joins an array of new financial instruments aimed at enhancing the range of finance options available to the sector in a climate of grant restraint
- the development of more strategically focused funding programmes to increase the sustainability of the sector (such as, for example, One North East's Third Sector Capacity Fund and Yorkshire Forward's investment in Charity Bank). It is arguable that SYSIP might also be regarded in the same light as part of this more 'strategic' response to issues facing the sector.

A key challenge, for third sector infrastructure organisations and funders alike, is how to coordinate these efforts strategically in order to avoid a sense of crowded and bewildering support for the sector in transition.

4

4. Understanding Context

4.1. Introduction

The recently published National Survey of Third Sector Organisations (NSTSO) provides useful data on the third sector across South Yorkshire and enables comparison between the four local authority areas and the national picture.[2] Some of the key findings are summarised in the following sections.

Alongside the publication of the NSTSO headline findings Guidestar UK provided a range of summary statistics for the third sector in each area. The South Yorkshire data are outlined below.

a) Registered third sector organisations

Table 4.1 below outlines the total number of registered third sector organisations and the per capita number of third sector organisations (per 1,000 people) in each area of South Yorkshire.

Table 4.1: Registered third sector organisations

	Sheffield	Rotherham	Barnsley	Doncaster	Nationally
Total number of registered third sector organisations	1,455	485	465	569	170,552
Per capita number of registered third sector organisations (per 1,000 people)	2.79	1.92	2.09	1.96	3.28

Source: Guidestar UK, Ipsos MORI

This shows that there are 2,974 registered TSOs in South Yorkshire - around 1.7per cent of the total national TSO population. Almost half are located in Sheffield with the remainder distributed relatively evenly between Rotherham, Doncaster and Barnsley. It also shows that South Yorkshire has fewer registered TSOs per capita than exist nationally. Rotherham (1.92 per 1,000 people), Barnsley (2.09) and Doncaster (1.96) are significantly lower than the national figure (3.28), while Sheffield (2.79) is closer.

b) New and dissolved third sector organisations

Table 4.2 below outlines the proportion of new third sector organisations registered or incorporated in the last 12 months (i.e. 'births') and the proportion of registered charities dissolved in the last 12 months (i.e. 'deaths') for each area of South Yorkshire.

[2] The NSTSO was conducted from September to December 2008. In total 104,391 TSOs in England, were invited to participate with a total response of 48,939. The survey did not cover 'under the radar' TSOs (i.e. those organisations operating at a community level which are 'unincorporated'). Estimates suggest that this may be as many as 70% of all TSOs - over 500,000 organisations and groups.

Table 4.2: New and dissolved third sector organisations

	Sheffield	Rotherham	Barnsley	Doncaster	Nationally
Proportion of new third sector organisations registered/ incorporated in the previous 12 months	3%	2%	2%	3%	3%
Proportion of registered third sector organisations (charities only) dissolved in the previous 12 months	3%	3%	5%	3%	3%

Source: Guidestar UK, Ipsos MORI

This shows that the 'birth' and 'death' rates of TSOs in South Yorkshire are broadly in line with the national picture. Only Barnsley has significantly fewer new registrations/ incorporations (2 per cent) than removals/dissolutions (5 per cent).

c) Employees working for third sector organisations

Table 4.3 below outlines the total number of employees working for third sector organisations and the per capita number of employees working for third sector organisations (per 1,000 people) for each South Yorkshire area.

Table 4.3: Employees working for third sector organisations

	Sheffield	Rotherham	Barnsley	Doncaster	Nationally
Total number of employees working for third sector organisations (FTEs)	5,225	1,095	974	1,867	640,198
Per capita number of employees working for third sector organisations (per 1,000 people)	10.03	4.33	4.38	6.45	12.69

Source: Guidestar UK, Ipsos MORI

This shows that there are 9,161 third sector employees in South Yorkshire - 1.4 per cent of the national third sector workforce. More than half (57 per cent) work for Sheffield based organisations while a further 20 per cent work for Doncaster based TSOs, 12 per cent work in Rotherham and 11 per cent work in Barnsley. It also shows that Sheffield has the highest per capita third sector employees (10.03 per 1,000 people) in South Yorkshire when compared to Rotherham (4.33), Barnsley (4.38) and Doncaster (6.45) but that all of South Yorkshire lags behind the national figure (12.69).

d) Trustees and directors of third sector organisations

Table 4.4 below shows the total number of trustees and directors of third sector organisations and the per capita number of trustees and directors of third sector organisations (per 1,000 people) for each area in South Yorkshire.

Table 4.4: Trustees/directors of third sector organisations

	Sheffield	Rotherham	Barnsley	Doncaster	Nationally
Total number of trustees/directors of third sector organisations	6,120	1,984	1,670	2,278	772,173
Per capita number trustees/directors of third sector organisations (per 1,000 people)	11.75	7.84	7.52	7.87	15.31

Source: Guidestar UK, Ipsos MORI

This shows that there are 12,052 third sector trustees and directors of third sector organisations in South Yorkshire - 1.6 per cent of the national total. Around half (51 per cent) work for TSOs based in Sheffield while 19 per cent work in Doncaster, 16 per cent work in Rotherham and 14 Per cent work in Barnsley. It also shows that Sheffield has the highest per capita third sector directors and trustees (11.75 per 1,000 people) compared to Rotherham (7.84), Barnsley (7.52) and Doncaster (7.87) but that all of South Yorkshire lags behind the national figure (15.31).

4.2. National Indicator 7 (NI7) in South Yorkshire

National Performance Indicator 7 (NI7) - 'an environment for a thriving third sector' - is one of the 188 indicators which cover the priority outcomes for which Local Authorities and their strategic partners are responsible for delivering between 2008-11. NI7 is intended to measure the contribution that local government and its partners make to the environment in which local third sectors can operate independently and successfully. Three South Yorkshire Local Authorities (Rotherham, Barnsley and Doncaster), have included NI7 as an indicator in the Local Area Agreement (LAA) performance framework as a priority target.

NI7 is based on responses to the following question:

> *"Taking everything into account, overall, how do the statutory bodies in your area influence your organisation's success?"*

The NI7 figure is taken as the percentage of respondents who answer either "very positive influence" or "positive influence" to this question.

Headline findings for NI7 were published in February 2009. The data for South Yorkshire are outlined in table 4.5 below.

Table 4.5: NI7 South Yorkshire comparison

	Very positive influence	Positive influence	Neither positive nor negative influence	Negative influence	Very negative influence	Don't know/no answer
National	1%	15%	51%	9%	5%	19%
Rotherham	4%	12%	48%	15%	6%	15%
Sheffield	1%	13%	51%	9%	5%	19%
Barnsley	1%	12%	45%	16%	10%	15%
Doncaster	2%	14%	52%	15%	5%	12%

Source: Ipsos MORI

This shows that the NI7 scores for Sheffield (14 per cent), Rotherham (16 per cent), Barnsley (13 per cent) and Doncaster (16%) were broadly in line with the national figure (16 per cent).

The NSTSO asks a number of questions regarding TSOs views of funding and support available at a local level. The results of these are outlined below.

a) Local sources of grant funding

Table 4.6 below outlines the proportion of TSOs in receipt of grant funding from key local statutory bodies in each area of South Yorkshire.

Table 4.6: Local sources of grant funding in 2008/09 (percentage in receipt of grants)

	Sheffield	Rotherham	Barnsley	Doncaster	Nationally
Local Authority	21%	19%	15%	20%	11%
Local NHS body	5%	4%	5%	5%	3%
Regional Development Agency	4%	3%	5%	3%	2%
Other statutory bodies	10%	12%	12%	14%	10%

Source: Ipsos MORI

This shows that third sector organisations across South Yorkshire appear to receive higher levels of grant funding from their local authority compared to the national picture. 21 per cent of TSOs in Sheffield, 19 per cent in Rotherham, 16 per cent in Barnsley and 20 per cent in Doncaster identified local authorities as a source of grant funding compared to only 11 per cent nationally. Grant funding from other statutory sources, including the NHS and RDA, was broadly in line with the national picture across the four South Yorkshire areas.

b) Local sources of contract income

Table 4.7 below outlines the proportion of TSOs in receipt of contract income from key local statutory bodies in each area of South Yorkshire.

Table 4.7: Local sources of contract income in 2008/09 (percentage in receipt of contracts)

	Sheffield	Rotherham	Barnsley	Doncaster	Nationally
Local Authority	15%	14%	10%	14%	7%
Local NHS body	7%	3%	4%	6%	4%
Regional Development Agency	1%	1%	1%	2%	1%
Other statutory bodies	7%	5%	7%	7%	4%

Source: Ipsos MORI

This shows that third sector organisations in South Yorkshire appear to receive higher levels of contract income from their local authority compared to the national picture. 15 per cent of TSOs in Sheffield, 14 per cent in Rotherham, 10 per cent in Barnsley and 14 per cent in Doncaster identified local authorities as a source of contract income compared to only 7 per cent nationally. Contract income from other statutory sources such as the NHS and RDA was broadly in line with the national picture across the four South Yorkshire districts.

c) Satisfaction with local funding arrangements

Table 4.8 below outlines TSOs' satisfaction with local funding arrangements across the four South Yorkshire areas.

Table 4.8: Satisfaction with local funding arrangements (percentage very satisfied or satisfied)

	Sheffield	Rotherham	Barnsley	Doncaster	Nationally
The range of grants available	12%	11%	18%	16%	15%
The range of contracts available	5%	6%	5%	8%	6%
Access to loan finance	9%	8%	8%	10%	6%
The process involve in applying for funding/bidding for contracts	10%	13%	11%	13%	10%
The opportunity for 3 year or longer funding/contracts	5%	7%	4%	6%	6%
The ability to recover overheads as well as direct costs (full cost recovery	5%	6%	3%	7%	5%
Overall satisfaction with grant/ contract arrangements	11%	11%	14%	16%	13%

Source: Ipsos MORI

This shows that in South Yorkshire third sector organisation's satisfaction the various aspects of local funding arrangements was broadly in line with the national picture. However, overall satisfaction with grant and contract arrangements was slightly higher than the national picture (13 per cent) in Barnsley (14 per cent) and Doncaster (16 per cent) and slightly lower in Sheffield and Rotherham (both 11 per cent).

d) Satisfaction with local support available

Table 4.9 below outlines TSOs' satisfaction with local support available from all bodies for each area of South Yorkshire.

Table 4.9: Satisfaction with local support available from all bodies (percentage very satisfied or satisfied)

	Sheffield	Rotherham	Barnsley	Doncaster	Nationally
Recruit and retain management and leadership staff	16%	14%	14%	19%	11%
Recruit and retain paid staff	16%	14%	12%	15%	9%
Find volunteers	17%	22%	14%	20%	14%
Find trustees/management committee members	18%	17%	16%	22%	14%
Access advice and support	32%	30%	27%	35%	26%
Have enough space to operate	15%	23%	22%	21%	12%
Maintain sufficient financial reserves	9%	15%	12%	16%	10%
Apply for funding/bid for contracts	13%	14%	14%	15%	11%
Access training	29%	28%	21%	29%	18%
Work with other TSOs to influence local decisions	21%	19%	16%	14%	14%
Work with other TSOs to deliver local services	17%	16%	15%	13%	13%
Overall satisfaction with local support available	22%	20%	22%	27%	22%

Source: Ipsos MORI

This shows that across South Yorkshire third sector organisation's satisfaction with the local support available was generally higher than the national picture but that overall satisfaction with local support available was in line with the national picture.

e) Local infrastructure support

Table 4.10 below outlines the percentage of TSO who receive support from local infrastructure organisations (e.g. CVS, Voluntary Actions) in each of the four South Yorkshire areas.

Table 4.10: Percentage of organisations who receive support from local infrastructure organisations

Sheffield	Rotherham	Barnsley	Doncaster	Nationally
28%	27%	23%	24%	18%

Source: Ipsos MORI

This shows that third sector organisations in South Yorkshire were more likely to receive support from a local infrastructure organisation compared to the national picture. 28 per cent of TSOs in Sheffield, 27 per cent in Rotherham, 23 per cent in Barnsley and 24 per cent in Doncaster, had received support compared to only 18 per cent nationally.

Table 4.11 below outlines TSOs' satisfaction with local infrastructure organisations across the four South Yorkshire areas.

Table 4.11: Satisfaction with support available from local infrastructure organisations (percentage very satisfied or satisfied)

Sheffield	Rotherham	Barnsley	Doncaster	Nationally
25%	20%	17%	20%	15%

Source: Ipsos MORI

This shows that satisfaction with support available from local infrastructure organisations was generally higher in South Yorkshire compared to the national picture. 25 per cent of TSOs in Sheffield, 20 per cent in Rotherham, 17 per cent in Barnsley and 20 per cent in Doncaster, were satisfied with the support compared to only 15 per cent nationally.

4.3. Conclusion

From the NSTSO results presented here a number of key findings can be identified:

- ***third sector population:*** based on per capital statistics there are proportionally fewer registered third sector organisations, employees, and directors/trustees in South Yorkshire than exist nationally
- ***NI7:*** the four South Yorkshire districts received an NI7 score which was broadly in line with the national score
- ***gants and contracts:*** a higher proportion of registered third sector organisations in the four South Yorkshire districts received grants and contracts from the local authorities than do nationally
- ***satisfaction with funding and support available:*** across the four South Yorkshire areas registered third sector organisation's satisfaction with local funding and support is broadly in line with satisfaction nationally
- ***third sector infrastructure:*** higher proportions of third sector organisations in the four South Yorkshire districts receive support from and are satisfied with their local infrastructure organisations compared to the national picture.

5

5. Financial Crisis, Recession and the Outlook for Public Expenditure

5.1. Introduction

The policy agenda around ChangeUp and SYSIP assumed relatively benign macroeconomic conditions and public sector investment continuing to require 'change and modernisation' from the sector but without sudden shifts in support for infrastructure. The impact of the 'funding cliff' was anticipated to fall heaviest on smaller organisations working at community and neighbourhood levels.

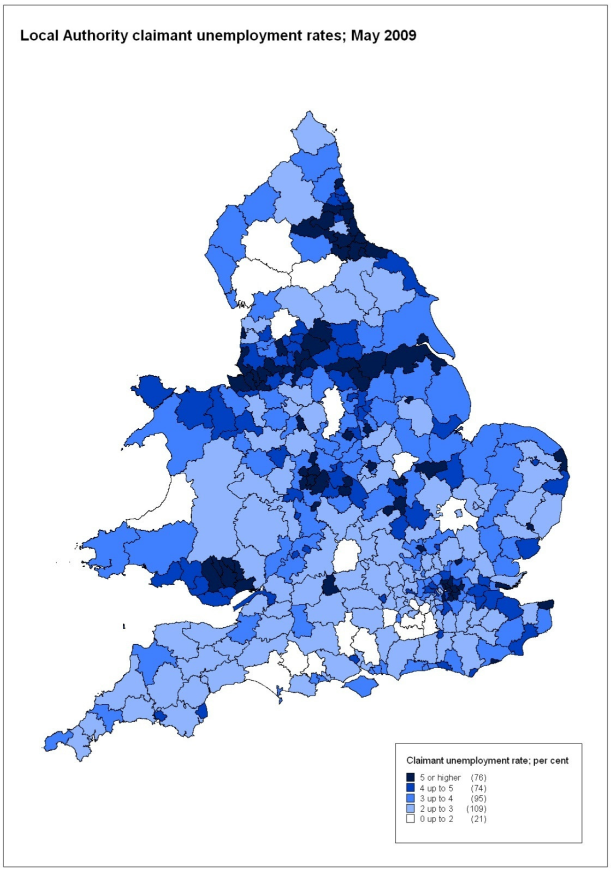
The economic events of the last 12 months, the possibility of a new government in the next year, and speculation for future public funding have brought considerable uncertainly in the sector. It is worth considering three elements in turn: the likely impact of recession on the sector; the longer term outlook for public expenditure; and the response by government to the recession, and the role the third sector plays in this.

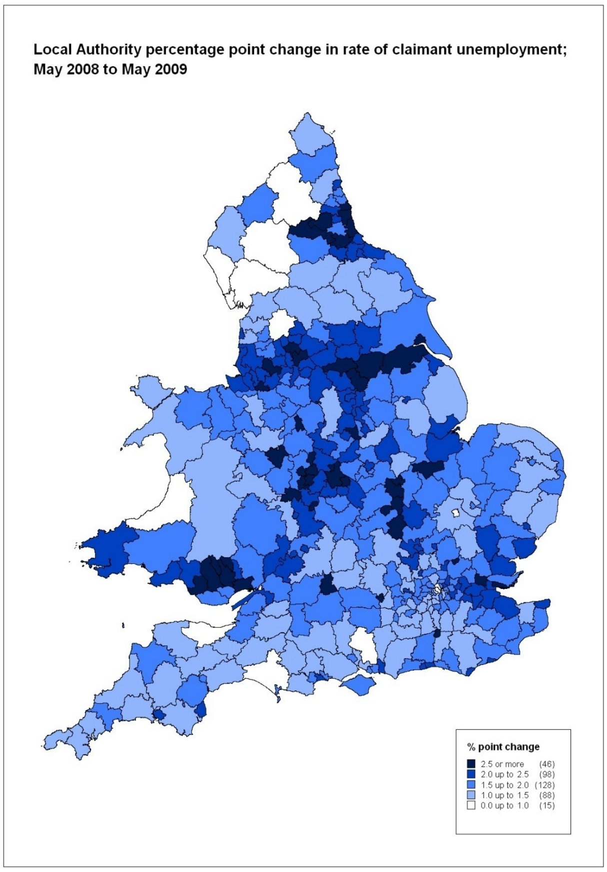
5.2. Impact of the Recession on the Third Sector

The current recession is having uneven effects across the United Kingdom.[3] The following two figures show the current level of claimant unemployment and changes in claimant unemployment over the last 24 months.

3 There has been considerable speculation in the Third Sector media about the impact of the recession on the sector. Whilst some trends are becoming clearer (for instance around demand for advice services) the recession's full impact will only be fully revealed after unemployment begins to fall. A more detailed analysis of the impact of the recession can be found in: Wells, P., Dayson, C., Wilson, I. and Hems, L. (2009), Third Sector and recession: an initial quantitative assessment, (Birmingham: Capacitybuilders).

Figure 5.1: Claimant Unemployed in England and Wales (rate and annual change)



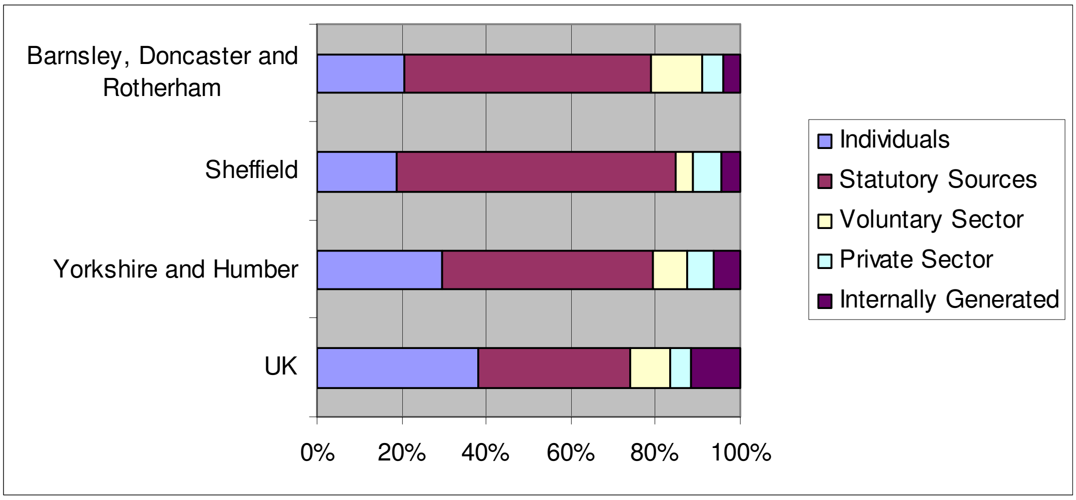


Source: NOMIS/ONS

The implication for the third sector of recession is that it tends to lead to increasing demand for services, particular around welfare rights and housing. The inference is that demand is likely to be rising fastest in areas of high and quickly rising unemployment – which includes Barnsley and Rotherham.

The third sector receives funding from different sources. These include the public sector through grants and contracts (the latter has become of increasing importance), from grant making trusts and foundations, through donations and legacies, from trading income and from investment income. The following figure compares charities in South Yorkshire to regional and national average by the proportion of their income from different sources. It shows the relative significance of public sector funding sources.

Figure 5.2: Sources of Income for General Charities

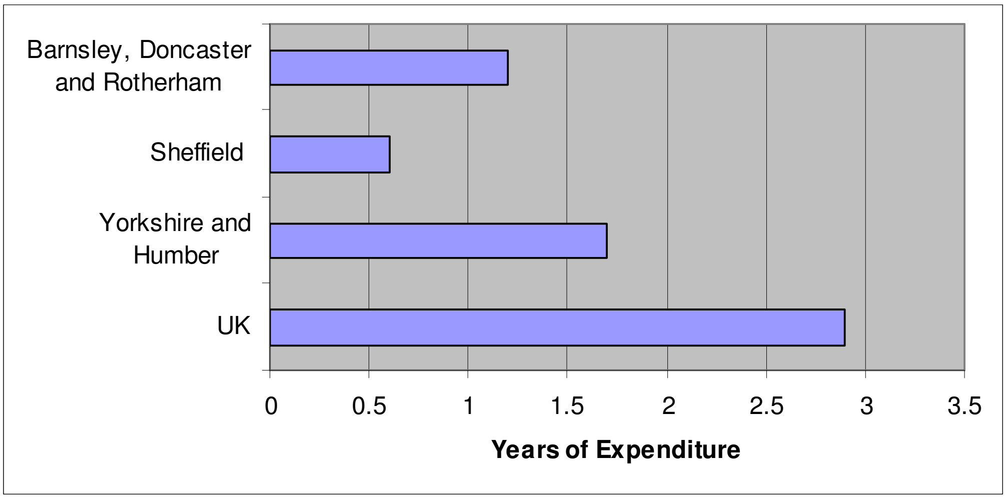


Source: GuideStar Data Services/ Northern Rock Foundation Third Sector Trends study

Unlike the private sector, trends in the third sector tend to lag behind changes in the national economy.
T~~T~~he following give some indication of the resilience (or otherwise) of the third sector to the recession:

- **stock market and property market falls**: reduction in Grant Making Trust and Foundation income and grants are likely to occur. These changes tend not to be immediate to feed through into the availability of grants over two-five years after a recession commences. Other changes also mean that competition for grants increases. These trends have been confirmed through discussions with SYFAB
- **organisational demography**: number of VCS organisations, births/death/mergers and acquisitions. Unlike the private sector, trends in the stock of third sector organisation do not appear to follow trends in GDP. Looking at the stock of third sector over organisations since 1960 (when an official registrar of charities was created), the behaviour the regulator (in purging the register of moribund charities) and the government (for example the establishment of the National Lottery) have had far more significant effects. Nonetheless, recent analysis of the Charity Commission register suggests that the death rate of charities (those being excised from the register) has increased markedly since quarter four last year
- **income, expenditure and reserve levels across organisations and service areas.** The figure below shows that external financial pressures may have an uneven effect on charities in the different places. The slide suggests that charities in South Yorkshire, and especially Sheffield, have relatively few reserves to draw on if there is a disruption to any income streams
- **paid workforce and volunteering**. Paid employees form the major cost for the majority of third sector organisations with staff. The behaviour of third sector organisations facing cost pressures tends to differ here from the private sector. They (generally) seek to maintain levels of service delivery and their staff base for far longer, before making job cuts. Historic evidence on volunteering suggests that it either stagnates or falls in recession. However, evidence from Volunteer Centres and the Institute for Volunteering Research suggest that volunteering levels are currently rising. This may in part be due to the recession, but also due to welfare reform agendas which place a greater requirement on the unemployed to take training, volunteering or other opportunities at an earlier stage of unemployment.

Figure 5.3 Reserve Levels of Registered Charities: years of expenditure



Source: GuideStar Data Services/ Northern Rock Foundation Third Sector Trends study

5.3. Outlook for Public Expenditure

The Budget 2009 and associated commentaries by organisations such as the Institute for Fiscal Studies and the National Institute for Economic and Social Research suggest that public expenditure (revenue and capital) will come under considerable pressure in the periods 2011-2014 and 2014-2017/18, with national debt only returning to 'sustainable levels' towards the end of this period.[4] The implication for the third sector, which has experienced rapid and sustained rises in public funding, is that some of this will be vulnerbale either through budgets being frozen or cut. Prior to the next Spending Review anticipating the effects on the sector is difficult, but the evidence here suggests that charities in South Yorkshire may be more vulnerable than elsewhere (see figures 3.2 and 3.3).

5.4. Public Policy Responses to the Recession

National third sector organisations (notably NCVO and ACEVO) have been active in highlighting the impacts of the financial crisis and recession on the third sector. This included identifying third sector funds which were at risk because they were deposited in Icelandic banks. Two Recession Summits have been held to date between the OTS, NCVO and other organisations. Funding responses have been brought together under Real Help for Communities, sponsored by the OTS. It includes the Modernisation Fund delivered through Futurebuilders and Capacitybuilders, which places a strong emphasis on merger and collaboration between third sector organisations; the Hardship Fund delivered by the Community Development Foundation in areas identified as experiencing financial difficulties; the Targeted Support Fund in areas deemed most at risk from the recession; together with a series of activities to alert the third sector to these funding streams. Whilst the Targeted Support Fund focuses on small and medium sized organisations, there has been some speculation that the Modernisation Fund will be of most benefit to larger service delivery charities. The focus of all funds is on frontline rather than second or third tier infrastructure organisations. Third sector organisations may also benefit from the Future Jobs Fund which is funded by DWP.

4 For a detailed analysis of Public Expenditure see Chote, R. *et al* (2009), Britain's fiscal squeeze: the choices ahead, (London: Institute for Fiscal Studies).

5.5. Conclusion

The recession will have differential effects across the Third Sector, as it will across other sectors in the UK economy. Moreover the effects of recession, financial crisis and tightening public expenditure will be transmitted in different ways across the sector. Indeed considerable caution should be shown suggesting that all changes occurring in the sector will be wrought by recession. They will not.

The rationale for public policy support to the sector at this time is important and extends beyond simply identifying those organisations which are most financially vulnerable. **There is a strong case for supporting organisations which are experiencing rapidly increasing levels of service demand due to the recession**. Beyond this there are probably otherwise viable organisations that provide significant benefits to users but are unprepared for the effects of the recession. Both these groups may require a range of short term financial (grants and loans) and non-financial support. Assessing the financial vulnerability of these organisations is a logical next step, as organisational closure here may have the greatest social costs.

The greatest social costs of recession are caused through unemployment and its consequences for individuals, households and areas. Increasing unemployment is uneven with some localities and groups (the young and those with fewest qualifications) worst affected. South Yorkshire appears to be being hard hit by recession, compounding its relative weak economy and the disproportionate levels of disadvantage many of its population faces.

Reductions in public expenditure are likely to have disproportionate effects on the third sector in South Yorkshire. Whilst opportunities do exist for the sector around accessing funding for service delivery, these are largely outside the core remits of infrastructure organisations to deliver.

6

6. Conclusion: implications for the Third Sector

Many of the proposals emanating from the Third Sector Review aim to respond in some way to the changing funding landscape by offering new opportunities, even if they are unlikely to compensate for the demise of other funding streams. Within the sector, smaller local groups and organisations may face greater competition for work from larger voluntary organisations, some operating at regional and national levels. In particular there are concerns for ordinary voluntary organisations and community groups around complexity, being 'business like' and impact:

- *complexity*: The task of establishing new groups, or re-funding successful initiatives, or growing organisations through new contracts and complex funding packages, is becoming ever more demanding. This may make the task of encouraging more people into the sector, including new volunteers and community activists, more challenging
- *being 'business like'*: The ability to survive and flourish in the new funding environment may require organisations to become more 'business like' and entrepreneurial, and may therefore demand the encouragement of new skills and approaches
- *impact*: Organisations may have to become much clearer in their articulation of what they do, what contribution this might make to local strategies, and what difference the work makes.

In summary, the VCS, and its infrastructure, is facing a complex new environment of *'threats'* (changing funding regimes and expectations around being 'business like' and identifying outcomes and impact) and emerging *'opportunities'* (new policy developments and funding programmes potentially reaffirming government's support for the sector in terms of voice, community empowerment and public services). These debates have been amplified by the recession and prospects of public expenditure cuts.

A wide ranging conversation is now taking place about the role of finance in the sector, including discussion of the impact of different forms of funding on the resilience and capacity of individual organisations. As a result of the changing environmental context described in this report, the VCS, and its infrastructure, may be variously facing either or both of:

- *a 'shake out'*, with services contracting or stopping, and possibly organisations closing down altogether, and
- *a 'shake up'*, with organisations having to: *reshape how* services are delivered; *rethink how* services are funded (including being more entrepreneurial or 'business like' in pursuing opportunities, costing and delivering services); and *consider opt*ions for deeper collaboration and merger to protect services and activities.

The question for VCS infrastructure, and by implication programmes such as SYSIP which invest in it, is the extent to which it can enable voluntary organisations and community groups to negotiate a landscape which is changing increasingly quickly. Risks of 'shake out' currently appear to outweigh those of 'shake up'.

7

7. Epitaph for SYSIP: Uncertain Times for Social Infrastructure?

7.1 Setting the Scene

The policy, economic and public expenditure climates in 2010 are very different from 2000. Senior commentators on the VCS have referred to the last 10 years as a golden decade for the sector. The annual Almanac on the state of the voluntary and community sector published by the National Council for Voluntary Organisations (NCVO, 2010) has charted the growth of the sector through the last decade which has only reversed in the last couple of years. Much of this growth has been driven by state funding of the sector, to some extent through grants but largely through its growing role in the delivery of public services. [5]

Any commentary on the sector must emphasise its diversity: it ranges from major NGOs such as Oxfam and Shelter through to charities operating at local and regional levels and to often uncrystalised community groups of individuals. Although the NCVO estimate that there are around 170,000 charities in the United Kingdom, wider civil society may include upwards of 900,000 groups in total. There is also no singular legal form of voluntary and community sector organisation: it includes registered charities but also not-for-profit companies, industrial societies, housing associations, mutual organisations (such as some building societies) and newly created legal forms such as companies limited by guarantee; as well of course groups of individuals coming together for a common purpose and requiring no registered legal status to do so. Although there has been considerable interest in social enterprise, largely as a means for delivering public services, it is not a distinct legal form and may take many of the forms discussed above: to this end it is as much a verb as a noun.

The role of the VCS in the delivery of public services has dramatically increased over the last 10 years - something which has also increased its vulnerability to public expenditure cuts. How these effects play out will be uneven and effects will be transmitted through myriad mechanisms. It is also notable that there is considerable variation in income sources across charities, for instance with many major charities able to raise substantial income through donations. Although there are high profile employment cuts by major charities, there is also some consensus that smaller and medium sized charities (often with incomes from £50,000 to £1 million) and with relatively small numbers of paid staff will be hardest hit. Conversely, small organisations which operate on a purely voluntary basis are far less vulnerable; there may also be some contraction back into the use of volunteers by some small charities.

[5] This section draws significantly from a previously published paper :Crowe, M., Dayson, C. and Wells, P. (2010) *Prospects for the Third Sector*, ppp-online v 4 n. 1 pp 29-32., which considered the election manifestos for the 2010 General Election of the Labour and Conservative Parties. See PPP Online, for more information: http://extra.shu.ac.uk/ppp-online/issue_1_260410/documents/prospects_third_sector.pdf

7.2 The VCS Policy Terrain after the Election

At both national and local levels the following issues and agendas have shaped policy discourse. First, the position of the VCS in the delivery of public services remains high on the agenda. How this is achieved is reflected on below, but it seems likely that services in areas such as health and social care, education and learning, and crime will place considerable emphasis on the role of the VCS. The Conservative Party emphasis on the 'Big Society' marks something of a clear break with the Labour Governments: in theory and rhetoric it shifts the locus for action away from the state to 'civil society', including but not exclusively charities and other VCS organisations.

Second, and as signified above the sector will undergo a further period of rationalisation and contraction. Effects due to the recession and public expenditure cuts are anticipated to fall most heavily on smaller and medium sized charities. It can also be anticipated that there may also be geographic variations, with the sector in northern regions of England, Scotland and Wales facing particular pressures with dramatic reductions in funding from domestic and European Union regeneration programmes. These effects may be most acute for organisations working in disadvantaged neighbourhoods.

Third, there will be continued reworking of (public) funding models for the sector. These are in terms of direct funding (primarily through grants) but also indirectly with a continuation of larger scale public service contracts with requirements for the voluntary and community sector to enter into sub-contracting agreements with public, private and large voluntary and charity sector contractors but also agendas such as personalisation (or co-production) of services. Both bring challenges to the sector, albeit top-down commissioning model likely to remain a key agenda. Funding agendas informed by the principles of social investment will also continue, and notably the use of combined loan funding.

Fourth, agendas around localism have become more dominant with central government powers ceded to local authorities but also with greater civil engagement in an array of arenas. These may present new opportunities to the VCS and especially to locally based and connected organisations. However, requirements for local authorities to cut expenditure may mean some withdrawal from what are seen as riskier and more experimental forms of co-production of services with the preference for large scale commissioning. Similarly, the raison d'être of the sector around preventative work may be marginalised as local funders have to focus on core (e.g. care and curative) provision.

Finally, there will be increasing scrutiny of value for money and in particular cost efficiency (more outputs for less) but also cost effectiveness (more outcomes for less) issues. On the one hand embedding outcome measurement within organisations is seen as a necessary part of the modern voluntary and community sector organisation, but on the other, the terrain voluntary and community sector organisations often work with (e.g. individuals with complex needs) can make outcome measurement far from straightforward.

Each of these issues or agendas will have differential effects across the sector. This will bring opportunities for many individuals and organisations but also increasing and untenable pressures for others. There will be considerable pressure on individuals and organisations in the sector to navigate these new agendas in what will is likely to be a highly charged and competitive environment for resources.

7.3 General Election as Disjuncture and Continuum: introducing the Big Society

Both major political parties have placed emphasis on civil society, although it is notable that there are differences in language here. Labour actively used the term third sector in all policy announcements, reflecting its policy commitments and the establishment of an Office of the Third Sector. However, notions of a sector have diminished in Conservative Party announcements, with the term "Big Society" used as an expression of civil society and with the third sector only referred to when discussing the Labour Government's policies. The OTS has been reformed as the Office for Civil Society and remains within the Cabinet Office. Emphasis on community and neighbourhood action has remained since the election, as well as a commitment to social investment; the latter primarily in discussions around the "Big Society Bank".

The areas of difference come from three substantive areas: the relationship between state and society, resources and scale, and equity and disadvantage. The Labour Government placed considerable emphasis on the role of the third sector in the delivery of the public services; and this is reflected in its positions in the lead up to the election. Reforms and changes to public service delivery, and delivery of programmes such as Sure Start and New Deal for Communities, have placed a strong emphasis on the voluntary and community sector. By contrast the Conservative Party, and Coalition Government, focuses much more on facilitating voluntary and community organisations to play roles in arenas which should be vacated by state intervention. These include proposals around the support of social enterprise, the stimulation of neighbourhood groups and the creation of a national (societal) commitment to social action, reflected in David Cameron's demands for mass engagement through a "broad culture [of] … responsibility, mutuality and obligation."[6]

In terms of resources and scale, as discussed, the New Labour government had been instrumental in the growth of the sector and it is anticipated that in a climate of public expenditure cuts, this growth will reverse. Nonetheless, future public expenditure commitments are now greatly diminished and the July 2010 Budget and October 2010 Spending Review will have far reaching implications. Proposals to support social enterprises and neighbourhood groups from the Coalition Government do not appear to include considerable redirection of resources, rather the role of the state would be to enable and steer such social action. Again, this is a strong theme of the "Big Society" agenda which reduces, and reforms, the role of the state.

Finally there are agendas around equity and disadvantage. Although the New Labour government shifted its emphasis towards equality of opportunity and personal responsibility (especially in terms of employment policy), this was combined with large social programmes and addressing spatial and individual inequalities. The Conservative Party critique of New Labour on these issues is that it has fostered these are state-led solutions, and that the scale of the state should be both smaller but also act to enable social action.

7.4 Local and Regional Implications

Our discussion highlights key platforms of the Coalition Government agenda, notably around localism but more generally the context of significant cuts to public expenditure. This is likely to shape policy agendas (discussed below) at a local level. The Coalition Government will also abolish the Regional Development

[6] See David Cameron's Big Society speech (www.number10.gov.uk/news/speeches-and-transcripts/2010/07/big-society-speech-53572)

Agencies, as well as in principle support to abolish regional Government Offices. Except for locally led voluntary arrangements for partnerships and the administration of some programmes, in particular European Structural Funds programmes until 2013, the regional governance tier will effectively be removed from the English regions.

The Labour Government enacted a series of legislation to strengthen the role of local authorities in local economic policy making, to develop wide ranging Sustainable Community Strategies for their local areas, and to form partnerships across authorities to deliver shared priorities (through Multi Area Agreements). This included a duty on unitary authorities and top tier local authorities to prepare a Local Economic Assessment. The focus for the Local Democracy, Economic Development and Construction Bill placed a new duty on county councils and unitary authorities to assess the economic conditions of their area. Local Economic Assessments, required to be completed by September 2010 are required to:

- identify the economic linkages, including the links between the urban and rural economies, within the area of the assessment and between it and the wider economy
- identify the comparative strengths, weaknesses, opportunities and threats facing the local economy
- review the key ways in which local authorities and their partners influence local economic development and their impact
- review the regeneration challenges of the area
- analyse causes of worklessness
- consider the impact of local economic development on the environment, and how the local economy will be affected by the transition to a low-carbon economy.

Assessments should form a significant element of the evidence base underpinning local strategies, notably the Sustainable Community Strategy. See reports and guidance by CLG (2008), CLES (2009), and Rocket Science (2009) for a further discussion around Local Economic Assessments.

In terms of engagement, the Local Government and Public Involvement in Health Act 2007 which came into force in April 2009 placed a duty to involve on local authorities. This requires local authorities to take those steps they consider appropriate to involve representatives of local persons in the exercise of their functions. Within the context of this duty, “local persons” includes local citizens, local third sector groups and businesses. Local authorities will need to take account of this duty in determining who they should consult on any economic assessment.

It is unclear how local economic assessments and sustainable community strategies will fit into the Coalition Government's framework for local policy making. It is likely that they may inform and become part of policies for Local Enterprise Partnerships. On 29 June 2010, the government departments BIS and CLG wrote to upper tier authorities and asked them to consider how they might like their Regional Development Agencies to evolve into Local Enterprise Partnerships (LEPs),[7] with outline proposals requested by 6 September 2010. LEPs will have a stronger emphasis on private sector leadership and it is unclear how this may manifest itself, indeed there is potential, under the localism agenda, for considerable variation between localities

[7] www.communities.gov.uk/documents/localgovernment/pdf/1626854.pdf

BIS and CLG anticipate that local enterprise partnerships (LEPs) will wish to provide the strategic leadership in their areas to set local economic priorities and create the right conditions for business growth. Whilst CLG and BIS would expect there to be strong private sector support for a local enterprise partnership, it is up to local authorities and local businesses to decide on the exact governance structures. CLG and BIS would expect though that the arrangements will be sufficiently robust and deliver clear accountability.

However, there are concerns for the VCS, and NAVCA in particular highlight that[8]:

> *No mention is made of involving the local voluntary and community sector (VCS) in these partnerships, although the VCS has a hugely significant economic impact on local areas ... VCS representatives on local public partnerships (such as LSPs, PCTs and Children's Trusts), and local VCS organisations who have effective relationships with public sector partners, are well-placed to promote the case for the sector's involvement. A White Paper will be published later this summer, setting out the Government's economic development plans in more detail.*

7.5 Conclusion

This section highlights some of the contextual issues for local infrastructure following the General Election 2010. On balance the combination of severe public expenditure cuts and the recasting of local and regional policy institutions (the abolition of RDAs and GOs and the establishment of LEPS) suggest a period of considerable change and policy disjuncture. The Coalition Government's political strategy of localism is also likely, contra the previous Labour Government, to bring sharper differences between localities in the way in which local economic policies are formed. Whilst there remain certain legal requirements around Local Economic Assessments, and the duty to involve, there will be a common requirement for engagement with the VCS. The LEPs agenda it is presumed will have a key role in shaping local economic strategies in the future, and these have implications for other policy areas, for instance around engagement, volunteering and the economy of the wider VCS (for instance social enterprise). However, as the title of this section signals, these are uncertain predictions.

[8] www.navca.org.uk/localvs/infobank/ilpunews/sectorinvolvementinleps.htm

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