

Funding the Third Sector in the South West

What do we know?

What do we want to know?

**A Knowledge Review
for the
South West Funders' Forum**

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The Evaluation Trust

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1. Executive Summary

1.1 Background

This knowledge review was commissioned by the South West Funders' Forum as a preliminary to commissioning new research on funding the Third Sector. Its aim was to establish what research exists already, what it tells us, and what regional research gaps most need to be filled.

Because of the need to complete the review within a short timescale, a web-based literature search was supplemented by a telephone and email survey. Regional and national funders and other key informants were asked to identify studies, reports, policies and other sorts of material relevant to the funding of, or investment in, the sector. Their views were also sought on the impact of such work, and on the gaps in regional research that most need to be filled. The survey received 48 replies (a 70% response rate), of which 29 included comments about gaps in the evidence base.

1.2 Cautionary note

The review identified and analysed a large body of evidence, both national and regional. It is, however, inevitable that some important documents have been overlooked. The review should therefore be viewed very much as 'work in progress', providing the foundation for the Forum's ongoing collection and dissemination of research to influence funding policy in the South West.

1.3 What do we know?

The material analysed for the review proved to be highly disparate, and did not provide a neat, coherent picture of the state of Third Sector funding in the South West. There does however appear to be a robust regional evidence base in the areas of:

- Regional policy and strategy related to the Compact, and investment in regional infrastructure development through ChangeUp and Capacitybuilders;
- The challenges confronting a diversification of the sector's funding base (through credit and loan finance for social enterprise);
- The difficulties faced by BME Third Sector organisations in accessing or evidencing need for funding, and the unhelpful funding practices which they continue to encounter;
- The positive impact of small grants on organisations, individuals and communities across the South West region, and the need to sustain small grants programmes;
- What constitutes good and less helpful practice by funders, as perceived by smaller voluntary organisations across the region (particularly as a result of the *funders' footprints* work published in 2006 by South West Foundation, which might usefully be converted to a succinct good practice guide);
- The value of investment in funding advice, when linked to organisational development and capacity building, and the funding this can lever into the local sector from external sources.

1.4 What do we know but not yet share?

The review showed that many regionally-based charitable trusts/foundations/funds have little published work to share. There is however a large body of unpublished work in the form of committee reports and strategic reviews, which analyse local need and recommend the future targeting of grant programmes, but which tend to be confidential to the organisation. Many funders are concerned that they are duplicating effort in mapping needs and trends across the region and in identifying funding priorities, and would be willing to share this information with other members of the Funders' Forum, if appropriate safeguards can be put in place regarding confidentiality.

1.5 What do we want to know?

The overwhelming need voiced by funders and other key regional informants through the survey is for continuous monitoring and dissemination through the Funders' Forum of relevant and up to date national and regional research, and the pooling of other relevant information to support funding of the third sector.

More concrete research needs, confirmed both by the survey and review of the available literature, are for:

- Comprehensive needs mapping and identification of funding gaps to inform grant-making and other funding strategies;
- The development of an evidence base to support the funding of equalities third sector organisations where, with the possible exception of the BME VCS, little work has been undertaken to identify barriers to growth and sustainability;
- Research into the impact 'on the ground' of the shift towards local government procurement of public services from third sector providers;
- Research exploring any changes in patterns of commissioning as a result of full cost recovery;
- Research into the impact of investment in capacity building through infrastructure organisations, and into funding for organisational development;
- Piloting and evaluation of real examples of strategic partnership work, e.g. different types of funder working collaboratively to support third sector activity in a particular community and evaluating the combined impact there; or helping voluntary organisations to work together and contract on a regional / sub-regional basis;
- A quantitative study of the amount of funding coming into the region's third sector and its impact. The caveat here (both from the survey and literature review) is that such work would be costly and potentially of limited value because of the problems inherent in collecting consistent local authority and other data across the region;
- Research into how far Boards of Trustees and the wider third sector look at aspects of finance in the round, i.e. including patient capital, loans, equity etc;

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- Case study work to differentiate what areas of third sector activity may be best served by contracts / grants / loans etc;
- Research into how the needs of funders, organisations and enterprises, and the enterprise support community interconnect, and what more could be done to bring them into alignment for the benefit of the Third Sector;
- Work to explore any linkages between the government's per capita funding of local authorities and the authorities' general approach to third sector funding;
- Work on how to attract external resources into rural counties where areas of deprivation are masked by the relative affluence of their surrounding populations, as measured by the indices of deprivation.

1.6 What else do we need to know?

Although not identified through the survey, the review of the available literature highlights a number of other gaps in the regional evidence base in relation to:

- Health commissioning practice and the Third Sector;
- The impact on the sector of the reduction in the allocation of European Structural Funds for 2007-2013;
- The impact of investing in the sector as a partner in regeneration;
- Better evidence of the leverage achieved through investment in the sector across the region;
- The provision of help-in-kind (e.g. through ProHelp or the Cranfield Trust);
- Heritage funding of the sector;
- Cultural funding of the sector.

1.7 Conclusion and recommendations

The survey and knowledge review highlight a number of research gaps that the South West Funders' Forum may wish to consider as the focus for their future research commissioning.

Currently, however, the most pressing need appears to be for the Funders' Forum to develop or support an ongoing research monitoring function, so that the body of work identified through this review can be continuously updated as new material becomes available both nationally and within the region. This would enable Forum members and others to keep abreast of latest research and develop strategies to influence funding policy in the region.

Taking this approach would probably require the creation of a research monitoring / dissemination post within a suitable host agency, or the outsourcing of this function to another appropriate organisation. This post might also most usefully take on a wider enabling role, encouraging members of the Forum to share unpublished information, stimulating partnership research initiatives, and managing and disseminating any research commissioned through the Funders' Forum.

2. Background

The South West Funders' Forum brings together funders, investors and policy makers with a common interest in resourcing the Voluntary and Community Sector and Social Enterprise (collectively known as the 'Third Sector') across the South West region. The work of both the Funders' Forum and 'George', the regional forum of funding advisors, is administered by Funding South West (part of creating:excellence).

One of the main aims of the Funders' Forum is to influence regional funding policy through research and evidence. The Forum therefore called for this knowledge review as a preliminary to commissioning new research on funding the third sector in the region. Its objective was to establish what research exists already, what it tells us, and what gaps in research most need to be filled.

The review was envisaged as a desk-based exercise, to identify and analyse sources of evidence related to the funding of, or investment in, the Third Sector by statutory and voluntary funders, other investors, and through social enterprise. The word 'investors' was used to ensure that forms of support such as loans, local lotteries and non-monetary support such as help-in-kind would be included, if any relevant work had been done in these areas. It was agreed, however, that the review would largely exclude Third Sector capacity building under the heading of help-in-kind (a huge area of research in its own right), keeping the focus of the review on the funding of such work.

Although the exercise was mainly aimed at work conducted in, or about, the South West region, the Forum also wished to include an overview of national studies and research with strong relevance to the work of Third Sector funders in the South West.

Following a call for tenders, the review was commissioned from the Evaluation Trust in early February 2007, with work to be completed by the end of April 2007. This report presents the findings of the review and of a linked survey that was undertaken both to identify research material and to capture funders' own experiences of commissioning or undertaking research and their perceptions of gaps in the regional evidence base.

Within the brief time available, the review identified and analysed a large and diverse body of evidence, both national and regional (see section 7, *References*). It is, however, inevitable that some important documents have been overlooked. The review should therefore be viewed very much as 'work in progress', providing the foundation for the Forum's ongoing collection and dissemination of research to influence funding policy in the South West.

Interestingly, this exercise has been undertaken at the same time as the Finance Hub has commissioned a national study by Meta Zimmick & Ian Macroft, looking at how the Finance Hub can provide better access to research on grant aid, loan & equity finance, procurement and trading. The results of that work are due to be reported in mid-2007.

3. Methodology

Because of the need to complete the review within a three month timescale, it was decided that, in addition to searching the internet for relevant material, the Evaluation Trust would approach key regional and national funders and other informants, asking them to supply or point to studies, reports, policies and other sorts of material relevant to the funding of, or investment in, the Third Sector in the South West region.

In addition to uncovering evidence for the review, this survey approach provided the opportunity to obtain some additional information from funders regarding their commissioning and use of research, its impacts or outcomes, and their own perceptions of the gaps in research that most need to be filled, to support the funding of the Third Sector in the South West. (See the survey questionnaire at Appendix 1.)

Emails with the survey questionnaire attached were sent to **69** funding bodies and other key informants (54 regionally-based; 15 nationally-based). Responses were obtained from **48** individuals: 40 regionally-based; 8 nationally-based – a **70% response rate**. (See Appendix 2 for the list of organisations that responded to the survey.)

Of these 48 responses:

- **27** were achieved through telephone interview (supplemented in 7 cases by fully or partially completed email questionnaires);
- **14** were fully or partially completed email questionnaires;
- **7** were from individuals who did not complete the questionnaire and said they had no suggestions to make about relevant research.

Although **41** individuals were able to identify and discuss material relevant to the scoping exercise (either their own or others'), a smaller number (**29**) responded to question 9 of the survey questionnaire, in which they were asked what they thought were the gaps in regional research that most need to be filled. Responses to the survey were collated to identify key themes. These findings are presented in section 4, *Findings of the Survey*.

All the research evidence identified through internet searches and the survey, pertaining to the funding of, or investment in, the Third Sector, was read and analysed. It included key national policy documents, relevant national studies, and work undertaken within the South West region. This material was summarised under thematic headings, enabling particular gaps in the evidence base to be identified. These findings are presented in section 5, *Findings of the Knowledge Review*.

As will be seen, there is considerable overlap in the research gaps identified through the survey and through the knowledge review. The *Executive Summary* and *Conclusions* to this report therefore merge these together into one set of recommendations for the Funders' Forum to consider.

4. Findings of the Survey

4.1 Published work

The survey questionnaire was mainly concerned with identifying material relevant to the knowledge review – research, evaluations of funding programmes, strategic reviews or other work looking at the funding of, or investment in, the third sector in the South West. A considerable body of published work was identified, both nationally and regionally, together with information about current and planned research (incorporated in section 5, *Findings of the Knowledge Review*).

A number of funders within the region took this opportunity to highlight the recent *Funders' Footprints* research undertaken by the South West Foundation, identifying VCOs' perceptions of good and less helpful funding practice in the South West (Crawley *et al.* 2006 (99)). There was a view that this work might helpfully be re-configured as a good practice guide for funders.

4.2 Unpublished work

The survey feedback also showed, however, that:

- Many regionally-based charitable trusts/foundations/funds have little published work to share. They are able to refer to internal documents such as committee reports and strategic reviews, which analyse local need and recommend the future targeting of grant programmes, but these tend to be confidential to the organisation.
- There is concern that many funders are duplicating effort in mapping needs and trends across the region and in identifying funding priorities.
- There is a willingness to share this information with other members of the Funders' Forum, if appropriate safeguards can be put in place regarding confidentiality.

4.3 Motivations to undertake or commission research

Funders typically commission or undertake evaluations of funding programmes to underpin their funding work: “to do it intelligently”. Motivations include:

- Checking the accessibility and effective targeting of funds;
- Assessing and demonstrating impact;
- Ensuring value for money;
- Raising profile;
- Checking the alignment of funding policies with corporate priorities;
- Being accountable to stakeholders.

Some funders also have a specific interest in piloting and evaluating innovative approaches to funding, e.g. collaborative funding, or funding third sector organisations to deliver their values.

4.4 Impacts / outcomes of research

Respondents identified many positive (and no negative) impacts/outcomes of such work. Tangible outcomes include continuations of funding programmes, renewals of service level agreements, improved partnership working, more openness about funding policies and priorities, and the development of new ways of working (e.g. long term flexible core funding; funding organisations to deliver their values; thematic approaches to funding). Several respondents talked about the impact of evaluations in demonstrating the value of small grants programmes that might otherwise have been discontinued.

4.5 Repeating the exercise

There is a general consensus that research and evaluation should not be seen by funders as a 'stand-alone' exercise, but should be followed up at regular intervals as part of a continuous monitoring and review process, particularly in such a rapidly changing policy and funding environment.

4.6 Barriers to research and evaluation

Many funders talked about the difficulty of commissioning or undertaking the sort of in-depth work that would be most helpful to them, mainly because of lack of time, finance & capacity. They again commented on the need to pool information regionally and to hold intelligence about potential partners that might have an interest in working together to research particular themes.

A number of respondents also commented on the seemingly insuperable difficulty of quantifying the third sector's regional income from local authorities, because local government financial systems are not yet geared up to tracking third sector contracts or funding streams in any consistent format. This problem is typically addressed by conducting an audit of the income of VCS organisations within a single local authority area. (Such audits are currently underway in Dorset, Gloucestershire and Somerset). However, these are thought to be quite costly exercises that in the past have achieved variable response rates and levels of accuracy.

4.7 Future work and gaps in research

As well as identifying their own plans to undertake future research or evaluation, 29 respondents highlighted gaps in regional research to support the funding of the third sector in the South West. The needs most frequently identified were for:

- Continuous monitoring and dissemination through the Funders' Forum of relevant and up to date national and regional research, and the pooling of other relevant information to support funding of the third sector;
- Comprehensive needs mapping and identification of funding gaps to inform grant-making and other funding strategies;
- The development of an evidence base to support the funding of equalities third sector organisations where, with the possible exception of the BME VCS, little work has been undertaken to identify barriers to growth and sustainability;
- Research into the impact 'on the ground' of the shift towards local government procurement of public services from third sector providers;
- Research exploring any changes in patterns of commissioning as a result of full cost recovery;
- Research into the impact of investment in capacity building through infrastructure organisations;
- Piloting and evaluation of real examples of strategic partnership work, e.g. different types of funder working collaboratively to support third sector activity in a particular

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community and evaluating the combined impact there; or helping voluntary organisations to work together and contract on a regional / sub-regional basis;

- Research into the linkages between the needs of funders (both buyers and investors), organisations and enterprises themselves, and the advisor/mentor enterprise support community;
- A quantitative study of the amount of funding coming into the region's third sector and its impact. (However, a contrary view was also expressed by some respondents who felt that such work would be costly and potentially of limited value because of the problems inherent in collecting consistent local authority and other data across the region);
- A quantitative study of the contribution that the third sector makes to the region's economy (but with some respondents expressing similar reservations to those outlined above);
- Research into how far Boards of Trustees and the wider third sector look at aspects of finance in the round, i.e. including patient capital, loans, equity etc:
- Case study work to differentiate what areas of third sector activity may be best served by contracts / grants / loans etc;
- Work to explore any linkages between the government's per capita funding of local authorities and the authorities' general approach to third sector funding;
- Work on how to attract external resources into rural counties where areas of deprivation are masked by the relative affluence of their surrounding populations, as measured by the indices of deprivation.

5. Findings of the Knowledge Review

This section of the report summarises what is known from research about the funding of the Third Sector both nationally (where relevant) and in the South West region. The information is presented under a number of thematic headings. Key policy documents are also briefly summarised, wherever the national policy context seems especially important to an understanding of the research.

All references are numbered (**in brackets**) and relate to the list of *References* in section 7 of the report. Most references contain a web-link so that on-line readers may readily access the cited document.

The knowledge review points to a number of gaps in the evidence base. For ease of reading, these are boxed and highlighted in the text in ***bold italics***.

5.1 Public funding of the Third Sector

5.1.1 The national policy context

Funding relationships between Government and the Voluntary and Community Sector (VCS) have undergone a transformation since *The Compact (1)* was first published by the Home Office in 1998. This set out a new agreement aimed at improving relations for the benefit of Government, the VCS and the communities they both serve, and encouraged every local authority to work in partnership with the sector to develop a Local Compact.

In 2002, the Treasury's *Cross-Cutting Review (2)*, identified ways in which the VCS could add value to public services and highlighted the barriers faced by the sector in securing contracts for public service delivery. The good practice guidance that emerged from the review was focused primarily on helping the VCS to achieve a greater role in public service contracts, based on a more stable funding relationship with public funders. It set out clear steps that funders should take at each stage of the procurement process to make it more accessible to the VCS, but emphasised that all procurement should continue to be based on achieving value for money.

Since that time a plethora of Government policy directives have built on and strengthened the principles set out in the *Compact* and *Cross-Cutting Review*. These have included further guidance in 2004 from *Compact (3)* and the Home Office *(4)* on good practice in funding and procurement, and a 2005 National Audit Office report, *Working with the Third Sector (5)* which highlighted and sought to address continuing barriers to implementing the Compact and enabling the Third Sector to enlarge its role in public services. The latest (2006) guidance from the Treasury, *Improving financial relationships with the third sector (6)* underlined the need to do more to stabilise funding relationships, emphasising that full cost recovery must be reflected in contract awards, and that bureaucracy must be reduced.

Running alongside these shifts in public funding of the Third Sector has been an acknowledgement of the need to strengthen the sector's capacity, if it is to engage fully with the new public service agenda. Two key policy documents published by the Home Office in 2004, *Firm Foundations (7)* and *ChangeUp: Capacity Building and*

Infrastructure Framework for the Voluntary and Community Sector (8) set out a plan and associated funding to develop sustainable consortia of infrastructure organisations covering each region, capable of developing the capacity of frontline voluntary and community organisations and groups. A number of national 'Hubs' were established to underpin this work, including the 'Finance Hub'. That work, started under ChangeUp, is now being carried out through Capacitybuilders.

The 2006 Local Government White Paper *Strong and prosperous communities (9)*, reporting progress on these various initiatives, stated that 98% of local authorities had a Local Compact, and that many authorities had successfully involved the VCS in setting local priorities and delivering services such as the Supporting People programme. However it headlined a continuing failure by local authorities to shift funding arrangements in such a way as to enable full VCS engagement in service delivery. It promised that the 2007 Comprehensive Spending Review would address these issues by, for example, reviewing how best to coordinate Capacitybuilders and ChangeUp funding with VCS capacity building efforts at local level, strengthening Third Sector representation in Local Strategic Partnerships, and making all funding longer term (at least 3 years in all cases).

These pledges were reiterated in the Cabinet Office 2006 *action plan for third sector involvement (10)*, in the *Pre Budget Report 2006 (11)* and, following extensive consultation with the Third Sector, in the recent *Treasury Interim Report*, which sets out the future role of the third sector in social and economic regeneration **(12)**.

5.1.2 National research

A steady flow of work has been undertaken nationally since 1998, evaluating the impact of these policies on the Third Sector and seeking to influence policy implementation.

In relation to shifts in patterns of public funding of the Third Sector:

- ACEVO's 2004 report, *Surer Funding (13)* highlighted the problems created for the Third Sector by unstable, short-term funding. It proposed a set of principles to guide commissioning, but mainly emphasised the need for existing government guidance actually to be put into practice.
- In JRF's 2005 report *The Voluntary Sector Delivering Public Services (14)* the authors recognised the value of the VCS delivering public services but suggested that this had been at the expense of the sector's role in civil renewal. They made important recommendations on how this second strand might be given more emphasis. They further suggested that the sector should do more than simply run public services more efficiently, by making key links with users and communities and giving them a more prominent role in the development of locally responsive services.
- Two NCVO reports in 2005 **(15 & 16)** summarised research undertaken in 2004 into the VCS's experience of government funding practices and their impact on the delivery of services. They characterised the funding environment as being still unstable, typified by late payments, short term funding, late contract renewals, and the preferential funding of innovation. The VCS faced a range of different funding and procurement practices from different funders. Funding relationships were also undermined by tensions between local autonomy and centrally determined priorities. The authors called for local flexibility in funding decisions so that funding priorities could remain appropriate to local areas.

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- A report published in 2006 by Community Links, *Living Values (17)*, summarised also as a pocket book for Trustees **(18)**, focused on the threat to the Third Sector's key values of a funding environment in which organisations find it increasingly hard to attract funds for what they really want to do. The authors suggested that the biggest threat to a voluntary and community organisation (VCO) may now be from within, in chasing funding that does not fit with its core values.
- The 2006 Treasury paper *Local Area Pathfinders (19)* described the progress made in five pathfinder areas (including Dorset) that had committed to the full implementation of the Compact principles. It identified a number of factors critical to successful engagement of the third sector in improving public services.
- A 2006 report *Mind the Gap (20)*, commissioned by the Big Lottery as part of a three year education programme of education in full cost recovery, looked at the steps taken by 4 case study funders, including a local authority, to show their support for full cost recovery where they were providing restricted funding. It also set out a manual for all funders on implementing full cost recovery.
- Most recently, a 2007 Department of Health study, *Third Sector Market Mapping (21)*, based on a large scale national survey of Third Sector organisations and local authorities, estimated that 35,000 VCOs were currently providing health and/or social care in England, and a further 1,600 planned to do so in the next three to five years. It highlighted the huge diversity of the sector and the need for both Government policy and commissioner actions to take account of this variability. The research showed quite low levels of tendering activity among VCOs, although the success rate of those that had submitted tenders was high (60%), suggesting that the sector underestimated its ability to compete for contracts. In general, the local authorities surveyed were positive about the added value of services provided by VCOs, with over 80% expressing high levels of satisfaction in terms of the quality and responsiveness of services compared with those of other providers. Some, however, had concerns about a lack of experience among some VCOs. Overall, the study considered the potential for expansion and the scale of ambition among existing Third Sector providers to be significant, but cautioned that such growth might threaten the sector's current freedom from the processes inherent in larger organisations.
- A new study by the Audit for Commission, evaluating the commissioning practice of 15 local authorities (including Gloucestershire) in relation to the Third Sector, is due for publication in May 2007.

In relation to infrastructure funding (including ChangeUp and Capacitybuilders):

- A knowledge review undertaken by Pearson in 2004 **(22)**, exploring what was then known about the impact of grant funding, or lack of it, on local VCS infrastructure organisations, concluded that secure funding is necessary for the sustainability of local capacity but that, in areas where infrastructure is weak, short term funding can also act as a useful catalyst for development. Where funding encourages collaboration, e.g. via local consortia of infrastructure organisations, it can result in a stronger and more able sector.
- A briefing paper undertaken for the Wales Funders Forum in 2005, focussing on funding for capacity building, highlighted the lack of a national body of evidence to draw on regarding the value of capacity building **(23)**.
- Statistical analyses undertaken for the Wales Funders Forum, exploring local authority investment and VCS capacity within each local authority in Wales found, as a general trend, that a higher level of local authority funding tended to correlate both

with stronger local VCS capacity and a higher level of funding levered into the local sector from other sources **(24 & 25)**.

- A Rapid Evidence Assessment undertaken in 2006 by the Centre for Regional Economic and Social Research (CRESR) for the Infrastructure National Partnership **(26)** found that although a tremendous amount of mapping activity had been undertaken at national, regional and local levels to identify the extent of VCS infrastructure provision, there was still only a small evidence base regarding the impacts or benefits of that provision. The evidence tended to be highly disparate and to derive from single project and programme evaluations of VCS interventions. These emphasised the ability of VCS infrastructure not only to effect change within individual VCOs, but also to bring about change in relationships between and beyond individual VCOs. The authors urged the sector, policy makers and researchers to commit to a more comprehensive enquiry into the role, position and benefits of VCS infrastructure.

5.1.3 South West regional policy and research

At south west regional level, the evidence regarding the impact of these shifts in public funding of the third sector is much more disparate.

In relation to the impact in the South West of new patterns of public funding / procurement, most of the available evidence comes from policy or strategy documents. Although these have frequently been rooted in consultation with the VCS, often mediated through South West Forum, the extent and quality of the consultative process is not always clear:

- In 2005, the South West Regional Compact published a *framework for strong and effective relationships between the voluntary and community and public sector in the South West* **(27)**, which included a set of agreed principles to guide funding relationships and practices across the region.
- Local Compacts have now been drawn up in every local authority area in the region. For example, Bristol City Council published its Compact in 2004, together with its own *Funding & Procurement Implementation Guidance* **(28)**.
- The Winter 2007 edition of *Compact Quarterly* **(29)** reported a number of commendations made at the national annual meeting, including a Gold Award to Gloucestershire and commendations to Cornwall, Dorset, and the South West Regional Compact Partnership.
- Several local authorities have undertaken reviews of their investment in the VCS, to reflect national policy shifts. For example, in 2005, Bristol City Council's Regeneration Division published its revised plans for *Voluntary Sector Investment 2006-2010* **(30)**, informed by an independent review **(31)**. The new plan aimed to encourage the sector's greater independence through a 3-tier system of funding involving commissioning, an annual grants programme, and a system of small one-off project development grants. Commissioning was expected to take up the majority of the Council's regeneration funding, with a three-year funding cycle.
- Similar reviews were undertaken in 2006 by both Gloucestershire County Council **(32)** and Gloucester City Council **(33)**. In Gloucestershire, a new distinction was drawn between "shopping", with £1.4 million available to commission services to meet departmental priorities; "investing", with £250,000 to be spent on infrastructure services to support the VCS; and "giving", with £270,000 per year to be distributed in grants of up to £5,000. In Gloucester City, similarly, the Council's annual investment in the VCS of £824,000 was reconfigured to target, through procurement, the themes

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set out in the City's *Sustainable Community Strategy*, and the grants budget moved to one-off time-limited activity funding.

In terms of actual research evidence, very little is known about the impact in the South West of the shift towards procurement as the chief mechanism for the delivery of public funding to the VCS:

- Work in Dorset to encourage and enable the voluntary sector to play a greater role in public service delivery was briefly described in the 2006 Treasury paper *Local Area Pathfinders (19)*. A Dorset 3D Procurement Partnership was awarded 'Invest to Save' funding in 2006 to continue this work over a three year period, with an evaluation due for completion in 2009.
- A new study by the Audit for Commission, evaluating the commissioning practice of 15 local authorities in relation to the Third Sector, will include fieldwork undertaken in Gloucestershire and is due for publication in May 2007.

In relation to infrastructure funding, a similar picture is evident, and extensive policy work has been undertaken and reported:

- The sub-regional infrastructure consortia have produced and published their own infrastructure investment strategies, e.g. Wiltshire and Swindon's 2005 plan **(34)**.
- The 2006 final report of the *South West ChangeUp Partnership Review (35)*, commissioned by Government Office South West (GOSW), reviewed the work of the local ChangeUp consortia and the regional thematic partnerships and made specific recommendations to strengthen the consortia in terms of partnership development, engagement with frontline VCOs and links with the statutory sector. It highlighted concerns about the uncertainty of future infrastructure funding and the perceived inequalities of funding allocations to the consortia under the 2005/6 ChangeUp funding arrangements.
- The South West Infrastructure Development Partnership (ISSW) published two key reports in 2006. The first **(36)** highlighted the achievements of ChangeUp in the South West in 2005/6, which included investment in 11 sub-regional consortia of infrastructure organisations (seen as the main mechanism for collaboration between infrastructure organisations in the region), and in 14 thematic projects operating across consortia areas. The second **(37)** set out the region's strategic framework for the development of VCS infrastructure, to guide decisions on investment from national, regional and local sources, building on a consultation plan published early in 2006 by South West Forum **(38)**
- In January 2007, the South West Forum published an updated *Investment Framework for Regional Infrastructure Development (39)*, which sought to present a coherent proposal for regional infrastructure development that would meet the priorities of both ISSW and Capacitybuilders. It reflected a common wish to support investment for 2007/8 in both local/sub-regional consortia and in complementary specialist, regional bodies
- The South West Forum's 2007 Draft *Investing for Inclusion: An Agenda for Action (40)*, currently out for consultation, presents what it describes as a realistic wish list for the Third Sector in relation to funding and investment. It aims to complement and contribute to the development of the South West Regional Compact and advocates a number of actions to ensure a vibrant, effective and independent sector, including full cost funding, investment in VCS infrastructure to support front-line delivery, co-operative frameworks for monitoring and evaluation, a full range of financial and

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business support services appropriate to the needs of the sector, and support from funders for workforce development.

Actual research exploring the nature and impact of infrastructure funding in the South West has been more limited:

- A 2004 evaluation of the ChangeUp Early Spend Programme in the South West, *Up for Change (41)*, focussed on the 21 organisations funded through Early Spend in local areas with very little or no VCS infrastructure. It highlighted the support needs of particular marginalised communities, especially the Lesbian, Gay, Bisexual and Transgender (LGBT) communities, black and other minority ethnic (BME) communities, and low income communities.
- In 2004 Gloucestershire County Council undertook an evaluation **(42)** of the work of FOLDA (*Gloucestershire Federation of Local Development Agencies*), which it had funded to provide infrastructure support to the VCS across the county. It concluded that the contract with FOLDA provided good value for money. All the targets set in relation to the provision of funding advice, information, training, participation and the development and support of networks had been met and many VCOs had benefited. The report concluded that, as a partnership, FOLDA had been able to deliver outcomes that exceeded original expectations.
- A 2005 *Review of Devon County Council's Investment in the Core Costs of Councils for Voluntary Service and Volunteer Bureaux (43)* looked at the Council's annual investment of £267,000 in 8 district-based CVSs and CVS-based Volunteer Bureaux. The researcher found overwhelming evidence that the Council was getting very good value for money from its investment in the County's infrastructure. Council investment of £220,000 was found to have enabled leverage for the VCS of a further £184,000 from District Councils, £158,000 from PCTs and £322,000 from other sources (an additional £3 achieved for every £1 invested).
- Research commissioned by South West Forum in 2004, *Provision and Potential – Mapping the Infrastructure of the Voluntary and Community Sector in the South West (44)*, which focussed on mapping infrastructure needs across the region, identified Dorset (especially Purbeck) and Somerset (especially Mendip and Sedgemoor) as priority areas for local investment in generalist and infrastructure VCOs.

This review therefore identifies significant gaps in the regional research base in relation to:

- ❖ ***The impact on the Third Sector of local authority shifts to procurement;***
- ❖ ***The impact on local authority commissioning patterns of full cost recovery;***
- ❖ ***The impact of investment in infrastructure organisations at regional, sub-regional and local levels.***

5.2 Diversification of Third Sector funding

5.2.1 The national policy context

Running alongside the shifts in policy regarding public funding of the Third Sector, there has been considerable Government encouragement for diversification of the sector's funding base. The Social Investment Taskforce was established in 2000 with a remit to set out how entrepreneurial practices could be applied to obtain higher social and financial returns from social investment, and unleash new forms of private and institutional investment. It was also asked to explore innovative roles that the VCS, business and government could play as partners in this area. The Task Force recommendations to the Chancellor of the Exchequer **(45)** urged him to introduce tax reliefs for community investment, set up community development venture funds, encourage trusts and foundations to invest in community development finance, and provide support for community development finance institutions (CDFIs).

In 2002, Government launched the Adventure Capital Fund, to pilot a range of approaches to investing directly in VCOs working in areas of disadvantage. This was followed in 2003 by the Treasury's launch of *futurebuilders* **(46)**, a Home Office backed £125 million investment fund that aimed to improve public service delivery through long term investment in the VCS via loans, performance-related investment, grants, and capacity building support. A 2004 seminar hosted by the Civil Renewal Unit looked at these and other forms of 'Patient Capital' **(47)** and gave further encouragement to their development, while emphasising that it would take time for measurable outcomes to be observable.

5.2.2 National research

Work has been undertaken nationally to explore the opportunities and barriers associated with a diversification of the sector's funding base and to encourage take-up by the Third Sector:

- JRF's 2003 response to the *futurebuilders* proposals **(48)** welcomed the opportunity they represented, but highlighted the need to protect the diversity and values of the VCS and the capacity of users to remain involved in the management of more complex financial arrangements when the VCS was also taking on an increasing role in public service delivery.
- Since 2004, a number of guides to finance for social enterprise (SE) have been published by the Social Enterprise Coalition and the Community Development Finance Association (cdfa), reviewing different forms of finance, signposting providers and providing case studies of different financial mixes successfully taken up by social enterprises **(49,50,51)**.
- The 2005 learning report on *futurebuilders* **(52)** found it had reached a new audience of borrowers, and had achieved a good geographic spread and diversity of investees (with 26% of applicants and 24% of investees being BME-managed VCOs).
- A conference run in 2005 by cdfa, to update on the work of the Social Investment Task Force **(53)**, asserted that the CDF sector was by then worth £400 million, had financed over 9,000 businesses, created 10,000 new jobs and sustained 85,000 more. The finance delivered by CDFIs had levered in £160 million from other sources to the UK's most disadvantaged communities. However, although the Third Sector had been active in delivering new financial instruments such as the Adventure Capital Fund and *futurebuilders*, it was still considered a challenge to communicate

messages about the new financial instruments and their advantages. These findings were reiterated in cdfa's own 2005 report *Inside Out* (54).

- Charitable trusts have also turned their attention to social investment. A 2005 publication by the Esmee Fairbairn Foundation, *Foundations and Social Investment* (55), reported that over 20 of the 300 members of the Association of Charitable Foundations had offered loan finance. The report cited examples of such investment by the City Parochial Foundation, Tudor Trust, and Ashden Trust, and suggested strongly that social investment offered added value to grant makers, because the same funds could effectively be used more than once.
- A 2006 review (56) of the performance of Local Enterprise Agency (LEA) loan funds highlighted the need for non-bank finance. Although LEA loans were found to have a high rate of successful applicants, attributed to the initial advice that tended to 'weed out' those unlikely to be supported, they also had high transaction costs. It was felt that more effort was needed to promote the availability of 'micro-finance'.
- The provision of micro finance by charitable as well as public funders has been piloted by The Esmee Fairbairn Foundation through its Aspire Microloans, described in a 2006 review (57) as a 'pioneer of community development finance in the UK'. Although Aspire was found to be successful in reaching its target market of micro-businesses in disadvantaged areas, and found that low income entrepreneurs did repay their loans; the income derived from lending was only sufficient to cover 10% of expenses. Wider analysis of other microfinance lenders showed they were small scale (100-200 clients on average) and relied on external funding to pay for their services. Nonetheless, micro-lending was thought to result in social and economic benefits that were a more efficient use of subsidy than other forms of help.

5.2.3 South West regional policy and research

Some interesting and helpful work has been undertaken in the South West region, seeking to improve access to sources of credit and loan finance for social enterprise:

- In a study carried out for the Social Economy Development Project of Bristol City Council in 2002 (58), interviews were conducted with local and national providers of credit and loan finance and a sample of 21 social economy organisations in Bristol. Providers' concerns focussed on the poor capacity of social enterprise organisations and their lack of assets to offer as security. Barriers within social enterprises themselves included lack of information, the unhelpful responses of providers, lack of time and, again, lack of assets to offer as security. Looking at capacity issues in greater depth, the study found that skills and experience were weakest at Trustee/Board level, and that longer term business planning (beyond 1 year) was missing. Many Boards of Trustees were understandably risk-averse (given their potential personal liability). Ideas for improving access to non-grant finance included making better information more widely available, and providing training and direct help with business plans and application processes.
- Bristol City Council subsequently developed a partnership with other local authorities, banks and other financial institutions, the community and private sectors, to develop a CDFI covering Bristol and the West of England. A scoping study was commissioned from the University of Salford in 2003 (reported in 59 & 60) to map current provision and identify strategies for the delivery of a sustainable CDFI. This highlighted the patchy and uncoordinated coverage of community finance initiatives across the South West region. The partnership was subsequently successful in attracting money from the DTI Phoenix Fund to establish the West of England CDFI and set up a pilot project in Barton Hill.

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- A *Guide to Loans for Social Enterprise* was produced by Bristol City Council and BACEN, updated in 2004 (61). This identified funding sources and highlighted local examples of VCOs that had benefited from loan finance.
- In 2005, RISE (the voice for South West Enterprise) reported on the *From Asking to Earning* pilot project that had involved 7 South West VCOs and SEs looking to generate income by trading goods and services (62). The project aimed to offer practical help and support and to capture key lessons. The participants faced diverse experiences but confronted similar barriers in securing funding and receiving appropriate business support. The report concluded that funders need to think of new ways to support the sector, using a range of funding mechanisms. Independent funders, for example, should be better able to support innovation and offer help with an initial injection of flexible funding to get a trading idea off the ground. They also need to take a more 'engaged' approach, sustaining a dialogue with funded organisations to contribute to their ongoing development.
- Survey research commissioned by RISE and conducted by the new economics foundation (nef) was reported in 2005 in *Credit Where It's Due* (63). This aimed to gain a better understanding of the ways SEs access loan finance and the barriers they face, and to enable SEs and loan advisors to learn from good practice. The research found that many SEs had experienced difficulty in finding a lender. Those with links to finance providers or advice agencies found the process easier. Having identified a lender, most found the application process straightforward, often more so than with a grant application. Social banks and CDFIs tended to provide support and guidance with applications and with preparing to use and repay the loan, and the SEs valued this support highly. Their main needs were for more independent advice on available financial products, more specialist support, and better links between support agencies and finance providers.
- The most recent 2006 research commissioned by RISE, *Assessing the demand and supply of social enterprise business support in South West England* (64) identified more than 5,500 organisations engaged in social enterprise across the region, with potentially some 2,200 of these generating at least 25% of income from trading activity. Looking in detail at case studies in Gloucestershire and Devon, the study found that levels of available funding, rather than demand or need, were driving supply. SEs were typically confronted by a changing and complex array of short-term funding packages. They reported poor experiences of support provided by Business Links, which focussed heavily on start-up help rather than sustainability. Although most SEs were well-regarded by funders and contract holders, many continued to be threatened by insecure funding.

The review suggests that, although significant research has been undertaken in relation to support for social enterprise in the South West region, it would be helpful now to extend this and to explore in more detail:

- ❖ ***How far Boards of Trustees across the region are aware of and consider different sources of finance in their business planning;***
- ❖ ***Case studies of different funding models, their benefits and disadvantages;***
- ❖ ***How the needs of funders, organisations and enterprises, and the enterprise support community interconnect, and what more could be done to bring them into alignment for the benefit of the Third Sector.***

5.3 Health commissioning and the Third Sector

5.3.1 The national policy context

In 2005 Government established a Third Sector Commissioning Task Force to address practical obstacles to the sector fulfilling its potential as a mainstream provider of health and social care services. The Task Force reported its findings a year later in *No excuses. Embrace partnership now. Step towards change!* (65), setting out a range of recommendations to facilitate entry of the Third Sector to the health care market as an equal partner. This coincided with the publication of the White Paper *Our health, our care, our say* (66), in which a commitment was made to shift the balance of provision to meet community health needs more effectively. In March 2007 the Department of Health published its draft *Commissioning framework for health and well-being* (67) for consultation, highlighting the barriers preventing the Third Sector's entry to the health market, and the need for a more proactive approach to market shaping and development by both commissioners and central government. The final commissioning framework will be published in Summer 2007.

5.3.2 National research

To date there appears to have been no national research looking at health commissioning practice in relation to the Third Sector, and only limited illustrative work:

- The recently published 2007 Department of Health study, *Third Sector Market Mapping* (21), focussed its survey work on Third Sector organisations and local authorities, and consciously excluded PCTs because of the reconfiguration of primary care that was taking place during 2006, when the survey was conducted.
- The National Strategic Partnership Forum published a brief report in 2007, *Making Partnerships Work* (68), outlining examples of good practice in partnerships for health between statutory and voluntary organisations. The report highlighted the added value of Third Sector involvement. One of the examples given was of joint working in Poole, to hold a successful older people's conference.

5.3.3 South West regional policy and research

No research has been identified looking at health commissioning practice in relation to the Third Sector in the South West region.

This review has identified no research in the South West region (or nationally) looking at:

- ❖ ***Health commissioning practice in relation to the Third Sector.***

5.4 Offender Management Services commissioning and the Third Sector

5.4.1 The national policy context

The Home Office's 2007 Commissioning Framework for the National Offender Management Service (NOMS), *Working together to reduce re-offending (69)*, headlined the need to increase the proportion of National Probation Service funding spent on delivery by the VCS and public sector. It set a target to increase the service's spending with the VCS to 10% in 2007/08.

5.4.2 National research

To date there appears to have been no national research looking at NOMS commissioning practice in relation to the Third Sector.

5.4.3 South West regional policy and research

In 2005, the Tudor Trust and LankellyChase Foundation (TLC) entered into a partnership in the South West region to look at how the VCS could be better supported in light of the changes that were taking place in criminal justice work. The work of the partnership is described in the LankellyChase Foundation's annual report (115). They sent out a basic questionnaire to gauge voluntary sector awareness and readiness to engage in delivering criminal justice services. One of the key findings of the survey (unpublished) was the need for capacity building support, and as a result the first grant agreed by the TLC South West Partnership was to the voluntary organisation CLINKS, to employ a Voluntary Sector Development Manager for the Region. TLC are now looking to repeat the survey to see whether the sector has been strengthened, and propose to undertake an evaluation of the work to date.

5.5 European Funding and the Third Sector

5.5.1 The national policy context

As highlighted in a 2006 briefing (70) from the Local Government Information Unit (LGIU), the redistribution of European Structural Funds for 2007-2013 effectively provides a 50% reduction in the UK's fund allocation, against three new objectives:

- Convergence (replacing Objective 1);
- Competitiveness (replacing Objectives 2 & 3); and
- Co-operation (replacing the Inter-Regional Community Objective).

UK Government has established 3 priorities for future Structural Fund spending: enterprise and innovation; skills and employment; and environment and community sustainability. It has made a commitment to use these funds to support ethnic minorities and to align the Structural Funds programmes more closely with domestic policy.

In preparation for these changes, an independent Local Community Sector Task Force was commissioned to ensure that central and regional government put a framework in place to enable neighbourhood and community groups to manage the wind-down of the Single Regeneration Budget and access alternative sources of investment. In its 2006 report (71), the Task Force concluded that a new model was needed to develop the sector's long term sustainability, focussed on grants and community capacity building, greater participation in Local Area Agreements, and asset development and enterprise support. It made a series of practical recommendations to underpin this model.

5.5.2 National research

The review has not identified any national research looking at the impact on the Third Sector of an effective 50% reduction in Structural Funds for 2007-2013.

5.5.3 South West regional policy and research

The LGIU briefing (70) stated that under the Convergence Objective (replacing Objective 1), Cornwall is the only English authority now to qualify for full convergence funding because its per capita GDP remains below 75% of the EU average. Overall, the South West region will receive 818 million Euros from the Structural Funds over the period 2007-2013 (166 Euros per capita). The implication of these reductions is that local agencies will have to do 'smarter' local economic development, and allocate funds more strategically. However, no work has yet been identified looking at the impact on the Third Sector in the South West region of the reduction in Structural Funds for 2007-2013.

No work has been identified in this review, either nationally or regionally, looking at:

- ❖ ***The impact on the Third Sector of the reduction in the allocation of European Structural Funds for 2007-2013.***

5.6 Investment in regeneration / neighbourhood renewal

5.6.1 The national policy context

Government acknowledged the crucial role of the Third Sector in neighbourhood renewal in the Social Exclusion Unit's 2001 *National Strategy Action Plan* (72). This introduced Local Strategic Partnerships (LSPs) and launched the Neighbourhood Renewal Fund (NRF), to complement existing funding of the most deprived communities through New Deal for Communities (NDC). In terms of supporting the sector's role in wider regeneration activity, the 2006 Local Government White Paper *Strong and prosperous communities* (9) promised to make it easier for community organisations to take over local authority assets, pledges that were repeated in the 2006 *Pre-Budget Report* (11), which set aside a community assets fund of £30 million to enable communities to take on the ownership and management of assets.

5.6.2 National research

National research exploring the funding of the Third Sector to deliver regeneration / neighbourhood renewal activity appears to have been very limited:

- Although both the NRF and NDC are being fully evaluated (73,74,75,76), the focus of these evaluations tends to be on particular themes / outcomes, and they give little indication of the extent to which the Third Sector is successfully accessing funding to deliver components of neighbourhood renewal / regeneration activity.
- The *Interim Evaluation* of NDC, published in 2005 (74), acknowledged that the voluntary sector had been less involved in local renewal programmes than had local residents and that more work was needed to engage the VCS in neighbourhood renewal.
- In relation to asset transfer, a 2004 survey of the Development Trust Association's 297 members, reported in *Regeneration & Renewal* (77) estimated that development trusts then held assets worth £232 million and had generated income of £19 million from them in the previous financial year. It predicted that the transfer of such assets to community based organisations would grow further, enabling community groups to become more sustainable, and reducing their dependence on grants. However it cautioned VCOs to avoid having costly liabilities offloaded onto them, and to get as much support as possible from the transferring body.

5.6.3 South West regional policy and research

Local authorities eligible for funding through NRF and NDC have included Bristol, Plymouth and, in Cornwall, Kerrier and Penwith. Although a number of evaluations have been undertaken in these areas, they have not tended to reflect a significant VCS role in programme delivery:

- In Plymouth, separate evaluations have been undertaken of each programme funded through NRF and the Single Regeneration Budget (78,79,80).
- An interesting 2002 study of the NRF in Cornwall, undertaken by the Townsend Centre for International Poverty Research (81), highlighted that, as elsewhere, the VCS in Cornwall tended to play only a marginal role in the development and delivery of local regeneration strategies, because of the emphasis on large scale projects and capital budgets, and the difficulties for the VCS of satisfying matched funding requirements.

In terms of research looking at wider funding support for the Third Sector to play a role in regeneration activity, some useful but so far quite small-scale work has been done:

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- At a South West regional conference in 2003 **(82)**, 90% of participants said that finding funding to regenerate run-down areas was difficult and complicated.
- Research undertaken for Bristol City Council in 2004 on *Asset Transfer Research (144)* recommended that the Third Sector should be supported in developing relationships with the Council, and that the availability of assets should be reviewed when opportunities were identified within service plans for tendering or partnering with social economy organisations. It was thought this should include direct sectoral support (for example a Guide on asset transfer, management support, and a designated point of Council contact) as well as indirect support (for example in developing a way of measuring benefits, and the establishment of a set of design criteria for multi purpose community use buildings).
- In Bristol, the City Council's Regeneration Division has tended as a matter of policy to view all its engagement with and funding of the VCS as part of its wider regeneration activity, as reflected in its plans for *Voluntary Sector Investment 2006-2010 (30)*. Research published by creating:excellence in 2006 **(83)**, looking at models of funding advice across the region, included as part of a case study the work of Bristol City Council's Regeneration Team which, through fundraising support to VCS projects across Bristol, had assisted the VCS to raise a total of £2,246,309 in additional funds, and helped create or maintain 87 jobs in the city's VCS.
- The same study highlighted the work of Torbay Development Agency (TDA), which was created by Torbay Council in 2004 as a public/private sector partnership, with a remit to ensure the area's future sustainability through regeneration, marine services and tourism. The agency became convinced of the need to view the development of the VCS as a key component of Torbay's regeneration and, in late 2004, created the post of Voluntary Sector Manager, with a remit to assist the VCS to develop into a strong, sustainable sector. Through the provision of funding advice and help with organisational development, within 18 months the post had been instrumental (directly and indirectly) in bringing over £8 million of external funding into the organisations and groups helped, and hence into Torbay's wider economy.
- Dorset County Council commissioned an *Options Appraisal for a Dorset Regeneration Company* in 2006 **(84)**, which investigated a number of organisational structures with a view to providing simpler and quicker access to funding for rural businesses and communities.

This review has identified some interesting regional work that might usefully be built on in a larger scale study, looking at:

- ❖ ***The impact of investing in the Third Sector as a partner in regeneration.***

5.7 Simplification of Government funding requirements

5.7.1 The national policy context

In an effort to remove some of the bureaucratic barriers to local delivery by the VCS of so many concurrent Government-funded initiatives, the 2002 *Area-Based Initiatives Review* established a number of pilot Single Local Management Centres (SLMCs), including one for Cornwall. These sought to establish whether and how a combined single monitoring and audit process could be effective both for funders and the funded. At the same time, following the *Cross-Cutting Review (2)*, a new Lead Funder Pilot Project was launched, aiming to minimise the bureaucracy involved in the contractual or grant award relationship between public sector funding bodies and the VCS. Bristol was selected as one of the lead funder pilot areas.

5.7.2 National research

Both these initiatives were nationally evaluated:

- The national 2005 evaluation on the impact of SLMCs **(85)**, undertaken by the University of the West of England (UWE), found that the West Midlands pilot had made particular progress towards a workable scheme, and recommended more time for the pilots to test the benefits of a streamlined approach to monitoring and audit. The SLMCs were discontinued in 2006, however.
- The National Lead Funder Pilot was also evaluated in 2005. As reported to the House of Commons **(86)** the pilot had some successes, including establishing beyond all reasonable doubt the value (in terms of reduced bureaucracy) of electronically "passporting" providers' documentation. The main output, however, was thought to be a much clearer understanding of the structural issues of Government funding that needed to be addressed. The lead funder work was discontinued to give time for these implications to be considered.

5.7.3 South West regional policy and research

- The Cornwall and Bristol experiences of these initiatives were evaluated as part of the national work described above.
- Bristol City Council subsequently included in its 2005 plan for *Voluntary Sector Investment 2006-2010 (30)* an aim to move to a model for simplifying and harmonising monitoring processes with other funding streams.

5.8 Identification of needs and funding gaps

5.8.1 National data and research

There are several national sources of data on the needs of the population, but very little on funding gaps:

- A wide array of population data may be found on the Office for National Statistics' *Neighbourhood Statistics* website (87).
- The *Indices of Deprivation 2004* are available on the Communities and Local Government website (88).
- The Lottery Monitor website (89) gives free access to annual league tables of Lottery funding for each local authority, covering the eight year period from the start of the lottery up to the end of 2003. However, more recent data are only available to subscribers at an annual cost of £190 to Charities, £290 to others.

5.8.2 South West regional data and research

In relation to regional data on needs and funding gaps:

- Sources of data are usefully described in a new *2007 Local Evidence Guide* (90), produced by creating:excellence.
- The Lottery Monitor's 2003 league tables show that the five South West authorities most successful in accessing Lottery funding at that time were Restormel, Carrick, Isles of Scilly, Bristol and Gloucester. The five least successful were East Devon, South Gloucestershire, Torbay, Tewkesbury and East Dorset.

A small amount of published research has been undertaken in the region to identify needs and funding gaps:

- The South West Foundation's 2001 report *Setting the Scene* (91) highlighted the funding disadvantages specific to rural areas and the under-funding of some particular groups including people with disabilities, young people on low incomes or disadvantaged through lack of training or qualifications, people on low incomes, frail older people, people with caring duties, and people who are in a minority including minority ethnic groups and women. This report was used extensively by the South West Foundation and other funders to inform their work, but is now out of date and in need of review.

In addition to this published research on needs and funding gaps, the review has found that much of the needs mapping work undertaken by Charities/Trusts/Funds is not publicly available, and might usefully be shared by Forum members. For example:

- The Summerfield Trust kindly lent the review its internal *Strategy Review 2005* (92), which included the findings of a survey of key agencies in Gloucestershire regarding unmet needs in the county.

This review highlights a need for:

- ❖ ***New regional research on unmet needs and funding gaps to be undertaken and published.***
- ❖ ***Funders to share their unpublished mapping of needs and trends.***

5.9 Funding of the black and other minority ethnic (BME) Third Sector

5.9.1 The national policy context

Government policy has consistently identified the need to support the BME Third Sector through capacity building and access to mainstream grant funding, to enable it to fulfill its potential in supporting and developing local communities. This has been re-emphasised in the recent *Treasury Interim Report*, which sets out the future role of the third sector in social and economic regeneration (12).

5.9.2 National research

Despite these policy commitments, there is now a considerable body of national research describing the barriers to growth and sustainability that continue to confront the BME Third Sector, and making clear recommendations to funders:

- The 2003 report of the BME Sustainability Project, *Finding the Funds (93)* found that the BME Third Sector was under-developed and could suffer discrimination and disadvantage, with 83% of survey respondents perceiving a lack of fairness in funding. Funding issues tended to steal time from service delivery and much funding was short term and below full cost. Funders were therefore urged to provide information, help and advice with applications; address language and communication needs; build trust through informal and formal meetings; involve people from BME communities in their decision making; ring fence funds for the BME Sector; use specialist advisors when assessing BME applicants; facilitate training for BME fundraisers; and equip BME umbrella organisations with tools and resources to provide support with fundraising.
- A JRF study published in 2004, *Black Voluntary and Community Sector funding: Its impact on civic engagement and capacity building (94)* looked at the relationship between funding of the Black VCS (BVCS) and how it affected the ability of the sector to involve BME communities in London and Leicester in civic engagement, social inclusion and capacity building. The researchers considered that while legislation and policy seemingly encouraged public authorities to be supportive of BME communities, there were also contrary initiatives that sent a different message, e.g. on immigration. The ideologies governing the funding machine were thought to favour larger, more professional organisations with a capacity that many BME organisations did not have. The shift towards a 'contract culture' meant that the BVCS, although in the front line against poverty and exclusion, was at risk of being overlooked. Crucially, although funders were trying to engage more effectively with the sector, they tended not to see any link between the BVCS and civic participation, viewing BME organisations primarily as service deliverers.
- A further JRF study published in 2006, *Capacity building black and minority ethnic voluntary and community organisations (95)*, evaluated CEMVO's pilot programme to deliver capacity building to BME organisations across London. It found that organisations that committed to the project broadened their funding base and achieved some significant developments in their services and structures. Good local authority support for the BME sector and for capacity building was an important enabling factor. However, about a third of organisations withdrew from the programme early because their resources were so thinly spread that they could not sustain participation. The study found overall that the rigid requirements imposed by funding regimes ran counter to the flexible approach needed. It suggested a number of ways in which those designing, funding and implementing capacity building programmes could better support the BME sector.

5.9.3 South West regional policy and research

A significant body of evidence also exists at South West regional level, highlighting the difficulties faced by BME Third Sector organisations in accessing or evidencing need for funding, and the unhelpful funding practices which they encounter:

- Equality South West was asked by ChangeUp in 2006 to research how well equalities and diversity issues were being addressed in ChangeUp-funded work across the South West (96). The report identified a number of structural barriers in how ChangeUp funding was devised, implemented, monitored and evaluated, which inhibited a best practice approach to equalities. All programmes funded in future were invited to work with front-line equalities VCS organisations and to develop programmes for both urban and rural engagement of equalities communities.
- A 2006 report commissioned by the Black South West Network (BSWN), *Needing Numbers (97)*, headlined the continuing lack of information about minority ethnic groups in the South West. BME organisations told to evidence need in order to win funding for BME projects were effectively being set up to fail because of the difficulties they faced in gathering data.
- A further report published in 2006 by BSWN, *Mapping the Black Community and Voluntary Sector in the South West of England (98)*, which updated extensive research undertaken in 2001, found that there were fundamental problems experienced by the BVCS in relation to funding, especially core funding. The authors identified widespread perceived institutional discrimination in the way that funding schemes were set up, and a perceived failure to understand how BME organisations operate, with funders applying white assumptions and standards. The report called for more diversity on the panels that decide on the criteria for funding bodies.
- In 2006 South West Foundation undertook a survey of 350 smaller voluntary and community groups across the region. Its report, *funders' footprints: Impressions from the Voluntary and Community Sector of funding and its delivery (99)*, not only reported the responses of BME groups to the survey but, through follow-up interviews, took a closer look at the effects on this part of the Sector of funders' footprints and other barriers to funding. Barriers included: the lack of accurate statistics; lack of infrastructure support; limited Internet access; the unhelpfulness of many banks; problems in identifying referees and new committee members; and, not least, the impact of invisible prejudice on the part of other VCOs.

This review highlights that:

- ❖ ***There is now an overwhelming body of evidence setting out clearly the barriers to funding that confront the BME Third Sector and making recommendations to funders regarding their own practice.***
- ❖ ***The challenge now is for funders to respond appropriately, and bring about the desired changes.***

5.10 Funding of other equalities Third Sector organisations

5.10.1 The national policy context

In the 2006 *Treasury Interim Report (12)*, Government acknowledged the need to do more to ensure that organisations representing marginalized groups, including lesbian, gay, bisexual and transgender communities, women's groups, disability organisations and faith based groups are able to access the mainstream grant funding that is available.

5.10.2 National research

The review has not yet identified any national research regarding the funding of other equalities Third Sector organisations, or barriers to their growth and sustainability.

5.10.2 South West regional policy and research

The same gap has been found in the regional evidence base regarding the funding of other equalities Third Sector organisations. This was highlighted in the 2006 ChangeUp Review conducted by Equality South West, *Opportunities and Challenges for Equality and Diversity Work (96)*.

No work has yet been identified by this review, either nationally or regionally, looking at:

- ❖ ***The funding of other equalities Third Sector organisations.***

5.11 The role of small grants

5.11.1 The national policy context

Whether intended or not, one of the consequences of the policy shift towards the procurement of public services from the Third Sector on a full cost basis has been a widespread retreat by cash-strapped Local Authorities from their grants programmes in favour of larger contracts. The latest indications are that Government is seeking to moderate this trend. For example, the 2006 Local Government White Paper *Strong and prosperous communities* (9), acknowledged the crucial role played by grants, alongside contracts, especially for small groups. The 2006 *Treasury Interim Report*, setting out the future role of the third sector in social and economic regeneration (12) also said that the importance of small grants programmes had been heard and recognised. It identified small grants programmes as a “cost-effective and relatively simple way to engage communities in local activities. Government will now consider how grants to small groups might be protected”.

5.11.2 National research

Much of the evidence on the value of small grants appears to have come through consultation with, and extensive lobbying by, the Third Sector. In addition:

- A 2004 study, *Local People and Small Grants* (100), highlighted the impact of the Community Resource Fund, which provided easy and very local access to small grants of up to £500, delivered through Community Foundations. The study also looked at the involvement of local people in grant making, with ‘local’ being defined as an area no bigger than 1-3 wards, and ‘local people’ being defined as people who were themselves part of the same disadvantaged / socially excluded community. The report concluded that local people are very careful and responsible grant makers. They improve the quality of grant making and add credibility and value.
- In March 2007, JRF published the learning from its Neighbourhood Programme (2002-2006) in a full report (101), plus four summaries of projects that were carried out as part of the programme, focusing on community engagement, funding, diversity and being taken seriously by power-holders. The learning from the funding strand of the Programme (102) was that empowering people through continuous yet low cost ‘light touch’ support (£7,500 a year for each neighbourhood) could make a real difference to closing the gap between the most disadvantaged communities and the rest of society. A little mentoring by a trusted facilitator and a small, flexible pot of money was found to be a highly cost-effective method of developing skills, offering support and providing inspiration.

5.11.3 South West regional policy and research

There is a large body of evidence demonstrating the importance of small grants to the Third Sector in the South West region:

- The 2001 evaluation of Somerset Community Chest (103) highlighted the value of this small, friendly small grants scheme that gave a maximum of £750. Between 1984 and 2001, 146 groups had been supported, and leverage of £240,000 had been obtained from a grant investment of £54,000.
- A 2002 report for Awards for All in the South West (104), which mainly looked at the success factors for successful projects, found that the grants had effectively supported community activity, extending access and improving people’s quality of life.

- The South West Foundation's 2003 report, *Reaching Out* **(105)** evaluated the impact of the Foundation's small grant programme and found that most recipients had experienced the grant process as straightforward. The supported groups had enabled large numbers of local people to be involved in their communities as volunteers and beneficiaries. However, more marginalised groups such as those in BME communities had only been able to access grants to a limited extent. Geographical areas from which few applications were received seemed to be those with a lack of infrastructure or active community development support.
- A 2004 evaluation of the impact of Greater Bristol (now Quartet) Foundation's Grants Programme **(106)** found that quite small amounts of funding (maximum £7,000) had a considerable impact on individuals, organisations and wider communities.
- In 2005, an analysis was undertaken of the Local Network Fund and Neighbourhood Renewal Community Chest Programmes in the West of England **(107)**. These were found not only to have made a significant difference to communities in the former Avon area, but also to have impacted on a wide range of strategic priorities at regional and sub-regional levels. The grants were valued because they were flexible, immediate, and provided a 'softer', more approachable edge to larger projects.
- In Devon, the 2005 evaluation of the Local Network Fund **(108)** looked at the impact of 421 grants made 2002-2005, totalling nearly £2 million. The grants had benefited all the target age groups of disadvantaged children and young people, and reached more BME children than population figures had led the funders to expect. The Fund was found to be supporting a huge amount of volunteering, and 89% of recipients said the funded activity would continue beyond the end of the grant. There was excellent feedback on the reporting processes and support provided by the Fund, which was thought overall to have successfully reached small grassroots groups and had a significant community impact.
- A 2006 evaluation by South West Foundation **(109)** considered the impact of the ESF's Global Grants Programme, administered in Somerset and Dorset through South West Foundation, which aimed to provide grants of up to £10,000 to small VCOs helping people in disadvantaged communities to move closer to the labour market. In 2003-2005, £370,000 was allocated to 43 organisations, with the average grant being £8,500. The evaluation found that the programme did enable ESF funding to reach each of its target small VCOs. Recipients valued the South West Foundation's role as a trusted and well known intermediary with a track record of working closely with marginalised groups. Clear benefits to end users were identified in terms of improved skills and participation, including moving into the labour market.
- Currently all the Community Foundations are collaborating in an evaluation of the regional impact of the Local Network Fund, due for publication in mid-2007.

Against this background, it is unsurprising that the need to sustain small grants programmes was identified as a 'hot topic' at a meeting of the South West Funders' Forum in January 2007 **(110)**.

5.12 Quantifying the Third Sector's income

5.12.1 National research

Nationally, there have been a number of attempts to quantify the sector's income:

- Research commissioned by the Community Fund, published in 2003 in *Mapping grants to deprived areas (111)*, was a large scale study that sought to map the funding of all the regional and local voluntary organisations and groups working to address problems of deprivation across the country. It focused on funding awards made between 1998 and 2000 by the Community Fund, Single Regeneration Budget, European Social Fund, Charitable Trusts, and Whitehall. Although the original intention had also been to identify funding by local authorities (acknowledged as the main funder of the sector), the study found that “the single largest – and still unresolved – challenge was finding a way of getting consistent data from local authorities. The absence from these analyses of comprehensive data on local authority funding is the major limitation of the research”.
- In Wales, the problem of quantifying statutory funding of the Third Sector has been addressed by modifying the Assembly Government's financial reporting forms for local authorities, to include questions on Third Sector investment (24, 25). Some work is also understood currently to be underway in the North East region of England to quantify the sector's statutory income, an exercise that is made considerably easier by the small number of local authorities in that region. Overall, however, there is thought currently to be no appetite to add to the financial reporting burden of local authorities in England, and it therefore remains a huge challenge to quantify the sector's income from local authorities and other statutory sources.
- In the *UK Voluntary Sector Almanac 2006 (112)*, based on figures derived from a sample of over 40,000 charities' annual reports, the annual income of the VCS was estimated at £26.3 billion, of which 38% came from statutory sources. Small charities were found to constitute the vast majority, with 56% having an annual income under £10,000. Comparing these figures with the results for 2005, although both total income and the number of charities had grown, the amount generated by organisations with an income of £10,000 to £100,000 had actually fallen by 10%. These VCOs had struggled to increase revenue beyond the rate of inflation. Growth was concentrated in the 3,200 largest organisations (just 2% of the sector), which had generated two thirds of the sector's total income. The Almanac noted in particular the emergence of 14 'super charities', which together had an income exceeding £100 million, equating to 10% of the sector's income. Overall, social enterprise activities were found to be growing, with 47% of income being earned through the sale of goods and services, and 45% being received in grants and donations. In particular, the Almanac noted the increasing role of the sector in public service delivery and the long term shift from grants to contracts, with 53% of statutory income now being from fees rather than grants.
- The 2007 report published by CAF (Charities Aid Foundation) & ACF (Association of Charitable Foundations), *Grantmaking by UK Trusts and Charities (113)*, was based on 2006 CAF statistics and a survey of ACF members. This found that, despite the growth in public procurement, funding from charities, trusts and other grant makers (including Big Lottery) continued to play a crucial role in the growth and development of a thriving civil society. Such funders were thought to be uniquely placed to support innovative or more risky ideas or areas of the sector that lacked public or political support. The annual grant making of the top 500 grant makers totalled £2.7 billion, which represented 75% of all charitable grant making and comprised 10% of VCS

income across the UK. ACF members reported that they had continued to receive large numbers of ineligible applications, however, diverting attention away from their grant making. Eligible applications had fallen from 78% in 2004 to 57% in 2006, but the proportion of eligible applications that were approved for funding rose from 46% to 70% over the same period.

5.12.2 South West regional policy and research

In 2002, because so little was then known about the size, nature and role of the VCS in the region, the South West Observatory commissioned *A Methodology for Assessing the Economic Contribution of the Voluntary Sector in the South West Region (114)*. This mainly sought to develop a methodology to assess the nature of the sector as an employer and its potential contribution to the social and economic health of the region. Although not focused on funding, it proposed a comprehensive survey to capture the inputs and outputs of all VCOs across the region, including sources of income. It envisaged sub-regional umbrella organisations co-ordinating local surveys and holding databases of the standardised data collected. However, when the survey was piloted by sending survey questionnaires to 77 VCOs, only 18 replied, a response rate of 23%. The authors acknowledged that, for an exercise that would have major cost implications (then estimated at £68,000 - £96,000 regionally), this represented a significant risk.

No comprehensive research has subsequently been undertaken across the South West to quantify the sector's income. Although theoretically it would be possible to collate data from the annual reports of all the registered charities in the region (available on the *Guidestar* website), this would be a huge exercise and would exclude the many small groups that are not registered charities. An analysis of charitable trusts' annual reports to extract data on grants awarded to the South West VCS would be equally challenging, given the variable reporting formats used. The LankellyChase Foundation's annual report, for example, provides a helpful regional breakdown of the awards made through its different grant programmes (115), but most Trusts do not provide this level of detail.

Attempts to collate available data on the funding of the Third Sector in the South West have been reflected in a number of national and regional documents:

- The Community Fund's 2003 report, *Mapping grants to deprived areas (111)*, now somewhat out of date, provided the following picture of funding awarded to the Third Sector in the South West from 1998 to 2000, compared with England as a whole:

Sources of funding 1998 - 2000	SW region £ per head	England £ per head
Community Fund	2.67	2.62
Charitable Trusts	1.50	1.64
Single Regeneration Budget	0.99	1.27
Whitehall funding	0.62	0.58
European Social Fund	0.44	0.68
Total funding	6.22	6.78

As described in 5.12.1, the report did not include information about funding by local authorities. It did however highlight that although some parts of the region had been very successful in attracting funding, these tended to be in areas with relatively low deprivation scores, notably Isles of Scilly, South Hams, Mid-Devon and Kennet.

Some of the least successful were among the highest in terms of deprivation, notably Torbay and Bournemouth. Overall, the South West was found to be more dependent on short term Lottery funding than other regions. It contained many small grant making Trusts but fewer large ones than other regions.

- In 2005 the South West Forum contributed a chapter, *The State of the Voluntary and Community*, for inclusion in the South West Observatory's 2007 *State of the South West* report (116). This highlighted that the South West then contained 1,800 social enterprises, the highest share of all the UK regions, and 25,000 registered charities, the third highest number in the English regions. Most of the latter were relatively small voluntary groups operating in rural areas. In 2004, charities in the South West had a total income of £1.5 billion, of which £750 million was earned from fees for goods and services, membership and public service contracts. Overall the chapter identified that the Third Sector in the South West was active and diverse but increasingly divided between larger organisations with the capacity to secure and deliver public services, and those struggling to remain sustainable through grants and other traditional income sources. It called for the collection of comprehensive data on the whole of the Third Sector across the South West, including income data, to provide a more accurate assessment of its regional economic and social contribution.

Some work to quantify Third Sector income has been successfully completed at sub-regional level:

- The Learning & Skills Council for Devon and Cornwall commissioned research from EKOS, to update the 1998 research undertaken by PROSPER, *Valuing the Voluntary Sector*. The research undertaken in Devon, published in 2003 (117), achieved a high response rate (73%) from the 4,506 VCOs in the county. The sector's gross turnover across the county was £883 million, equivalent to around 7% of GDP. Key sources of funding were grants, followed by fees/charges and fundraising. Although local authorities were the main funders of the sector, local authority funding had remained static since 1998 whereas income from other sources (charitable trusts, the private sector, the Lottery) had significantly increased.
- Other mapping exercises/audits of the VCS, including sources and levels of funding, are currently underway in Dorset, Gloucestershire and Somerset. The Somerset audit represents a second attempt to obtain reliable information about the sector's income, following earlier difficulties in obtaining an accurate picture of local authority funding, especially in relation to matched funding (described in the report (118) of the 2006 Policy Commission on the VCS).

All the evidence from this review shows that:

- ❖ ***Quantifying income from local authorities and other statutory sources – estimated at 38% of the Third Sector's income - is a huge challenge.***
- ❖ ***In England there is currently said to be no appetite to add to the financial reporting burden of local authorities.***
- ❖ ***Attempts to overcome this problem through local audits of the VCS depend for their success on achieving high return rates.***
- ❖ ***The cost of undertaking such audits on a regional scale would probably be prohibitive.***

5.13 Leverage / multiplier effects

5.13.1 National research

National evidence on leverage seems quite limited and variable:

- As already described, statistical analyses undertaken for the Wales Funders Forum in 2005, exploring local authority investment and VCS capacity within each local authority in Wales found, as a general trend, that a higher level of local authority funding tended to correlate both with stronger local VCS capacity and a higher level of funding levered into the local sector from other sources **(24 & 25)**.
- The 2006 report published by creating:excellence on *Funding Advice: What Difference Does It Make?* **(83)**, which explored national evidence on leverage, found leverage rates ranging from 2:1 in East London (with an investment of £1 in the VCS attracting in £2 from other sources); to 2.5:1 in Lewisham; to 4.5:1 in Brighton and Hove; to 7:1 in North Yorkshire and York, a mainly rural area; and a claimed 14:1 in Leeds. Both the Lewisham and Brighton studies identified a strong positive relationship between income achieved and number of paid workers. It also identified national evidence on the effective leverage work of Council External Funding Officers, who had an average 89% success rate in 2004, the median value of awards being £1.5 million for those authorities without an external funding co-ordination group, and £7.4 million for those with a group. Thirty-two percent of the bids involved the VCS, with a 74% success rate. The median cost of putting together a bid was £2,305 and bringing in external consultants improved the success rate, but of course greatly increased costs.
- Few charitable trusts appear to have tracked the multiplier effects of their giving. One exception was the 2005 Esmée Fairbairn Foundation report, *Time for Growth* **(119)**, which described the outcomes of an endowment challenge established by a £1 million grant to the Community Foundation Network. Ten locally-based Community Foundations (including Wiltshire & Swindon Community Foundation) each received £100,000 in core cost support, to enable them to achieve a combined total of £20 million in new endowment investment over a three year period. By the end of the challenge, all but three had achieved their £2 million target. The report mapped the changes and learning that the organisations had to go through in order to grow.

5.13.2 South West regional policy and research

This review has already highlighted a number of regional examples of the leverage achieved through investment in the Third Sector, but it appears overall that more work is needed to collect and collate this evidence:

- The 2001 evaluation of Somerset Community Chest **(103)** showed that leverage of £240,000 had been obtained from a grant investment of £54,000.
- In the 2005 *Review of Devon County Council's Investment in the Core Costs of Councils for Voluntary Service and Volunteer Bureaux* **(43)**, Council investment of £220,000 was found to have enabled leverage for the VCS of a further £184,000 from District Councils, £158,000 from PCTs and £322,000 from other sources (an additional £3 achieved for every £1 invested).
- A 2005 assessment of the *Economic Contribution of the Social Economy in Bridport (West Dorset), and Boscombe & Springbourne (Bournemouth)* **(120)** showed that every £1 of public investment achieved a return of 6.9:1 in Bridport, a higher level than the 1.3:1 rate achieved in Boscombe & Springbourne. This was thought to

reflect the availability of SRB and Neighbourhood Management Funding in Boscombe & Springbourne as well as the support of charitable trusts in an area of social exclusion.

- Research published by *creating:excellence* in 2006 (**83**), looking at models of funding advice across the region, included reference to the work of Bristol City Council's Regeneration Team which, through fundraising support to VCS projects across Bristol, had assisted the VCS to raise a total of £2,246,309 in additional funds.
- The same study highlighted the work of the Voluntary Sector Manager at Torbay Development Agency (TDA). Through the provision of funding advice and help with organisational development, within an 18 month period the post holder was instrumental (directly and indirectly) in bringing over £8 million of external funding into the organisations and groups helped.
- A research report *The Impact of the Investment in Village Halls* (**145**) by Village Halls Advisers in the South West of England, published in 2007, analysed the impact on village halls, and the communities using them, arising from various levels of capital improvement projects. It found that funders generally contribute 80% of costs; this leads, on average, to an increase in revenue of 100% (although costs also increase).

This review suggests that:

- ❖ ***There is a need for more work to be done to collect and collate evidence of the leverage achieved through investment in the Third Sector across the region.***

5.14 Good practice for funders

5.14.1 National research

At national level, a lot of work has been undertaken to explore what constitutes good practice for funders, but no succinct guide appears to be available:

- Unwin's 2004 report, *The Grant Making Tango (121)*, focused on the relationship between funders and the funded, analysing different grant making and funding approaches and their impacts. Unwin considered current funding arrangements to be unsatisfactory for all parties, being time consuming for funded organisations and offering only frustrating and inappropriate tools for funders to measure impact. Three prevalent funding styles were identified: giving; shopping; and investing. The implications of each funding style were explored, together with what might constitute good practice in each. Other potential models of funding were suggested, including shared programmes of funding and other forms of partnership and collaboration. The report also considered approaches to measuring impact; appraisal and assessment; and how funders could add value.
- In her follow-up 2005 publication, *fruitful funding (122)*, Unwin advocated closer engagement of funders with funded organisations. The report aimed to help funders determine the sort of engagement they want to offer – their own style of engagement.
- New Philanthropy Capital's 2005 report, *Funding success: NPC's approach to analysing charities (123)* explored the **lack** of connection between funding and results and suggested ways in which donors could move towards a market for charitable funding based on **results**. It set out NPC's Charity Analysis Tool (ChAT), the focus of which is on outcome measurement.
- A 2005 discussion paper from the Big Lottery (BIG), *risk and good grant making (124)*, explored how different types of risk might be addressed by grant makers using a range of tools and frameworks for identifying and managing organisational risk.
- Sustainability research commissioned from GHK by BIG, published in 2006 (**125**), evaluated the approaches used by BIG to promote the sustainability of grant funded activities. It concluded that BIG could do more to support sustained project outcomes by: considering sustainability from the outset; regularly reviewing progress towards sustainability; enabling projects to make their case for sustainability; ensuring project staff have appropriate skills to plan for and realise sustainable outcomes; and developing and adopting a wide definition of sustainability.
- A 2006 report *Mind the Gap (20)*, commissioned by BIG as part of a three year programme of education in full cost recovery, looked at the steps taken by 4 case study funders to show their support for full cost recovery where they were providing restricted funding. It also set out a manual for all funders on implementing full cost recovery.
- Further work commissioned by BIG and published in 2006, *Investing in our programmes – maximising the impact of grant making (126)*, explored how BIG could add value to its grant activities and maximise impact for its investment. It found that grant makers generally conceived of adding value in terms of restructuring their funding, e.g. providing loans as well as grants, or in terms of capacity building, e.g. helping recipients directly with applications. Grant makers were found to be playing a range of roles as enablers, providers, purchasers and infrastructure builders. A number of critical success factors were identified for grant makers wishing to add value to their funding.

5.14.2 South West regional policy and research

Some important work has recently been undertaken in the region, exploring helpful and less helpful practice by funders:

- The report published by South West Foundation in 2006, *funders' footprints: Impressions from the Voluntary and Community Sector of funding and its delivery (99)* reflected the views of over 350 mainly smaller VCOs across the region and their impressions of funding and its delivery across the region. A number of positive 'footprints' made by funders were highlighted, including: the value of community development input; the accessibility and good processes of some funders; the helpful role of Community Foundations in the delivery of government funding; and the value of partnership working by local authorities and CVSs. However, the research also identified a significant number of less helpful funders' footprints. These included: the problems of VCOs pursuing activities not considered sufficiently 'worthy'; short term funding; funders' focus on project funding rather than core costs; a perceived obsession with innovation; a lack of trust and flexibility; the shift to a contract culture at odds with VCS values; a focus on the big at the expense of the small; a lack of investment in funding advice; and, as previously highlighted, a range of barriers affecting the BME sector.
- A small scale exploratory study was also undertaken in 2006 of South West grant makers' experiences of "grant rage" by failed applicants, *From Grants to Grudges and Funding to Fudges (127)*.

Given the lack of any succinct good practice guide for funders in the South West region, or indeed nationally, this review suggests that:

- ❖ ***It would be helpful to convert the learning from 'Funders' Footprints' (99) into a good practice guide.***

5.15 Funding for organisational development

5.15.1 The national policy context

Government policy clearly acknowledges the need to strengthen the sector's capacity, if it is to engage fully with the new public service agenda. Under ChangeUp (7 & 8) three national 'Hubs' were established to support governance, workforce and performance development within the Third Sector.

5.15.2 National research

Two national studies were published in 2006, jointly funded by The Governance and Workforce Hubs, looking at funders' attitudes to funding governance and workforce development, and VCOs' planning around these issues:

- The first of these reports, *A Matter of Common Sense? (128)*, reflected interviews with both statutory and charitable funders regarding their attitudes to supporting workforce and workforce development costs. Most saw these as inseparable elements of 'organisational development'. Some saw them as 'core costs', which they would only fund if directly relevant to a funded project or activity. Overall, the principle of full cost recovery was not well understood and the authors considered that this needed further attention and debate.
- The second report, *Building Governance & Workforce Capacity in the VCS (129)*, reflected additional work with VCOs to see how they were planning around governance and workforce development. Both studies highlighted the value of funding these areas, to build capacity and enable the VCS both to play a full professional role in public service delivery and to maintain its independence and role as a champion of social change.

Research suggests that charitable funders are also beginning to take an interest in this area:

- A study published in 2007 by the Baring Foundation, *Foundations for Organisational Development (130)* identified only a few examples in the UK of funders supporting organisational development in the Third Sector rather than providing grants for the delivery of particular services. It found that interest in funding organisational development is growing fast in the UK, however, driven by: an increased focus on quality standards and performance; ICT; the drive for financial sustainability; the diversification of funding sources and the increasingly complex operating environment; and the recognition of the importance of promoting infrastructure organisations as a means of supporting front line work by VCOs. The authors concluded by making six practical recommendations to the UK grant making community to support this approach.

5.15.3 South West regional policy and research

No research has been identified through the review looking at investment in organisational development in the South West.

No work has yet been identified by this review looking at:

❖ ***Funding for organisational development in the South West***

5.16 Funders working in partnership

5.16.1 National research

The review has identified only limited national work looking at partnership funding models. This is reflected in Unwin's *Grant Making Tango (121)* and the Baring Foundation's report *Foundations for Organisational Development (130)*.

5.16.2 South West regional policy and research

There is a similarly limited evidence of funders working in partnership in the South West region. The only documented example identified by the review is the Tudor/LankellyChase Partnership (TLC) (115). This partnership operates only in the South West region. Each of the partner trusts has committed £750,000 over three years. Both funders are committed to working closely together to help build the capacity of voluntary and community sector agencies as the National Offender Management Service develops its commissioning role. Two trustees and one staff member from each trust make up the TLC committee which meets 4-5 times a year. All the case work preparation is shared and the decisions are made jointly by the committee. Both trusts are currently in discussion to see if this funding partnership can be continued for a further period of time, and propose to evaluate their work to date.

This review suggests that:

- ❖ ***Partnership work by funders is not yet well piloted or researched in the South West region.***

5.17 Funding a single theme: collaborative work by VCOs

5.17.1 National research

Nationally, some interesting and innovative work has been identified:

- Nationwide's 2005 evaluation of its New Generation Initiative (NGI), *The Virtual Town (131)* focused on the outcomes achieved by 5 charities funded through NGI to support parents and families in different parts of the country. It conceptualised a hypothetical town, using census and other socio-economic data, and modelled what benefits would have accrued to parents and families in that town if Nationwide had chosen a single site on which to focus its NGI funding. The report suggested that focusing funding on one thematic area in a single location could provide added benefits and multiplier effects through partnership working, both operationally and at a strategic level.
- LloydsTSB Foundation's Collaborative Grant Making Programme encouraged and funded collaboration between VCOs to enhance the quality of their collective work with disabled and disadvantaged people. An impact assessment published in 2005 (**132**) reported the findings from interviews with key individuals participating in 18 very diverse forms of collaboration. Although the collaborations had definite benefits for the participating organisations themselves, there was as yet little direct evidence of impact on service users, and it was acknowledged that the causal chain linking collaborative activity with benefits to users was complex, indirect and delayed. Overall, there was a clear consensus that the collaborative approach had value and offered the best way forward. The impact assessment found that the time invested by LloydsTSB Foundation's grant making staff added huge value to the collaborations. They played a range of key roles as 'midwife', 'friend and companion', 'mature and impartial advisor', and 'guarantor'.

5.17.2 South West regional policy and research

No regional work has yet been identified that pilots or evaluates the funding of collaborative work by VCOs around a single theme.

This review suggests that:

- ❖ ***The funding of collaborative work by VCOs around a single theme is not yet well piloted or researched in the South West region.***

5.18 The work of regional Funders' Forums

5.18.1 National and regional research

A 2006 progress report from the Finance Hub on the work of regional Funders' Forums (133) included a description of the work then being undertaken by the South West Funders' Forum. The report highlighted overall that:

- The Forums all had very different ways of working.
- Most were predominantly networking groups and had not yet developed a focus on policy making.
- There appeared to be a direct correlation between the degree to which Forums had been financially supported, and the scope of work they had been able to undertake.
- If the Forum aimed to do more than share information, for example by helping to shape regional policy, share commissioning of research etc., then it was important for funders' representatives be at a level in their respective organisations where they had some decision making powers.
- 'London Funders' was the only region with an Evaluation & Research sub-group.

5.19 Investment in funding advice

5.19.1 National research

A number of pieces of work have been undertaken nationally or within another region:

- East Midlands Funders' Forum undertook an audit of funding advice workers' training needs in 2005 **(134)**.
- In 2006 the Finance Hub published *A model to meet funding advice needs of front line organisations* **(135)**, based on an analysis of funding advice work in 4 regions, including the South West. This identified a need for a coordinated and structured approach to funding advice at both national and local levels.
- Research by Sheffield Hallam University, *Mapping of Funding Advisers Networks in England and Implications for a Funding Advice National Network* **(146)** was published by the Finance Hub in April 2007. This found 42 existing Funding Advice Networks, and established that there would be support for a Funding Advice National Network to provide mutual support, training and advocacy, although sustainability and ensuring ownership of the network by FANs would need consideration.

5.19.2 South West regional policy and research

Some significant work has been commissioned and published by Funding South West, exploring the impact of investment in funding advice:

- Red Door Associates' 2004 report, *Funding Advice Services in the South West* **(136)** reflected their mapping of the provision of funding advice across the region. This found some significant capacity gaps, and an undervaluing of funding advice services.
- A follow-up study was commissioned in 2006 from the Evaluation Trust, *Funding Advice for the Voluntary and Community Sectors: What difference does it make?* **(83)**. This summarised the learning from five case studies exploring practice in the provision of funding advice to the Voluntary and Community Sectors (VCS). The case studies were Torbay Development Agency, Charities Information Bureau (Wiltshire) and its partners, Bristol, Somerset, and Gloucestershire. Three of these highlighted current good practice, and two considered new initiatives to plug gaps in support. Although funding advice in each area had been shaped differently in response to local history and culture, and the levels of development of the VCS varied, the learning across all five was remarkably consistent. Among its key findings, the research showed that:
 - Investment in funding advice linked to organisational development and capacity building could unlock significant income for the VCS, helping the sector, including social enterprise, to grow and be recognised.
 - An approach which combined capacity building and organisational development with funding advice, available locally, appeared highly productive.
 - When these functions were integrated, support could be closely tailored to the needs of organisations and groups, and evolve over time.
 - More effort was needed to make good funding advice available to hard to reach communities in rural and urban areas.
 - The dialogue between the funded, funders and funding advisers needed to be resourced and facilitated to develop understanding and good practice.

5.20 Investment through ‘help in kind’

5.20.1 National research

No research has yet been identified through this review that evaluates the provision to the Third Sector of help in kind, such as the volunteer consultancy services provided by ProHelp or the Cranfield Trust.

5.20.2 South West regional research

No research has been identified exploring the provision of help in kind within the South West region. However, the Cranfield Trust has helpfully provided the following information regarding its activity in the region:

- Over the last five years the Cranfield Trust has worked on 28 Third Sector projects in the South West, with some very successful outcomes.
- The Trust has 30 volunteers in the South West. Although some of them have worked on more than one project, others have not yet been active.
- The Trust estimates that these 28 projects have received consultancy support worth around £150,000, based on a figure of £800 per consultancy day, and a typical volunteer time input of 6-7 days per project.
- At present 43% of projects are in London and the South East. The Trustees have agreed a growth strategy for the Trust with a focus on developing its regional activity. As a result of this, the Trust has just recruited its first part time Project Manager in the North West, and hopes to make similar appointments over the next two years in the South West and North East.

This review identifies a gap in research looking at:

- ❖ ***The provision of help-in-kind to the Third Sector, both nationally and in the South West.***

5.21 Heritage funding and the Third Sector

5.21.1 National research

Nationally, two key studies have been commissioned by the Heritage Lottery Fund as part of a rolling programme of research:

- A 2005 evaluation of the *Social Impact of Heritage Lottery Funded Projects (137)* focused mainly on social impacts in terms of community participation in funded projects. However, it identified a number of capacity issues in relation to VCS involvement in or management of projects, linked to project outcomes.
- The 2005 *Learning from Young Roots* evaluation **(138)** highlighted the positive impact of the Young Roots Grant Programme on organisations and groups in the community as well as on local young people.

5.21.2 South west regional research

No regional research has been identified looking at heritage funding of the Third Sector.

This review identifies a gap in research looking at:

- ❖ ***Heritage funding of the Third Sector in the South West.***

5.22 Cultural funding and the Third Sector

5.22.1 Definition of 'culture'

For the purposes of this review, the term 'culture' was used to encompass activities connected with: the arts; the built environment and cultural heritage; film and moving image; museums, libraries and archives; sport and recreation.

5.22.2 National research

The review has not looked in depth at national research on cultural funding and the Third Sector. Although extensive policy work and research have been undertaken and published Arts Council England, available at: www.artscouncil.org.uk and by Sport England, available at: www.sportengland.org/, little of it appears to focus on the funding of or role of the Third Sector.

5.22.3 South West regional policy and research

In the South West, little evidence of cultural funding in relation to the Third Sector has been identified:

- In 2003, a report prepared for Sport England by Cambridge Econometrics focused on the *Value of the Sports Economy in the South West (139)*. This included a section on the voluntary sector which showed that the income of £806 million received by the commercial sports sector was over twice the income received by the voluntary sector. The researchers estimated the combined income for the voluntary sector at £344 million, including bar receipts, of which around 40% came through subscriptions. Little information was available on the characteristics of voluntary providers.
- A 2004 report for Culture South West, *Resourcing Culture in the South West (140)* analysed cultural expenditure in the region between 2001 and 2004 by the Department for Culture, Media and Sport, and by relevant Lottery distributors. It found that the region received an average allocation of cultural expenditure compared with other regions.
- Arts Council England's 2006 *Agenda for the Arts in the South West (141)* highlights the need to work with local authorities to support vibrant communities, but does not mention the Third Sector's role in this work.
- Museums, Libraries, Archives (MSL) South West conducted an *MLA South West: Investment Needs Survey* in 2006 (**142**), asking member organisations to identify their investment needs (not yet reported).
- Sport England South West commissioned Sport Structures Ltd. to conduct a survey and focus groups in 2006 exploring participation and access issues for marginalised groups. Although the draft report is not yet available, the research is said (**143**) to demonstrate clearly the under-representation in sport amongst priority groups, including: disabled people; BME people; older people; people living in areas of rural deprivation; people living in areas of urban deprivation; and women and girls.

This review identifies a gap in research looking at:

- ❖ ***Cultural funding of the Third Sector in the South West.***

6. Conclusions

The material analysed for the review proved to be highly disparate, and did not provide a neat, coherent picture of the state of Third Sector funding in the South West. There does however appear to be a robust regional evidence base in the areas of:

- Regional policy and strategy related to the Compact, and investment in regional infrastructure development through ChangeUp and Capacitybuilders;
- The challenges confronting a diversification of the sector's funding base (through credit and loan finance for social enterprise);
- The difficulties faced by BME Third Sector organisations in accessing or evidencing need for funding, and the unhelpful funding practices which they continue to encounter;
- The positive impact of small grants on organisations, individuals and communities across the South West region, and the need to sustain small grants programmes;
- What constitutes good and less helpful practice by funders, as perceived by smaller voluntary organisations across the region (particularly as a result of the *funders' footprints* work published in 2006 by South West Foundation, which might usefully be converted to a succinct good practice guide);
- The value of investment in funding advice, when linked to organisational development and capacity building, and the funding this can lever into the local sector from external sources.

Both the survey and knowledge review highlight a number of research gaps that the South West Funders' Forum may wish to consider as the focus for their future research commissioning. These are brought together in the Executive Summary.

Currently, however, the most pressing need appears to be for the Funders' Forum to develop or support an ongoing research monitoring function, so that the body of work identified through this review can be continuously updated as new material becomes available both nationally and within the region. This would enable Forum members and others to keep abreast of latest research and develop strategies to influence funding policy in the region.

Taking this approach would probably require the creation of a research monitoring / dissemination post within a suitable host agency, or the outsourcing of this function to another appropriate organisation. This post might also most usefully take on a wider enabling role, encouraging members of the Forum to share unpublished information, stimulating partnership research initiatives, and managing and disseminating any research commissioned through the Funders' Forum.

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Appendix 1

The Survey Questionnaire

The Funders' Forum has commissioned the Evaluation Trust to undertake a scoping exercise to find out what research or evidence already exists on funding the Third Sector in the South West, what it tells us, and what research gaps most need to be filled. As part of this work, we would value your responses to the following questions:

Your name:
Organisation:
Contact telephone number:

1. ***Has your organisation undertaken or commissioned any work in the last five years looking at the funding of, or investment in, the voluntary and community sector? (Relevant material would include any research studies, evaluations of grant programmes, reports, assessments of needs/gaps, or policy reviews.)***
If so, please list them here and tell us whether they may be accessed on-line, or e-mail a copy. If only available in hard copy, please say whether you would be willing to send this on loan¹.
2. ***What led you to undertake this work?***
3. ***Did it have any particular impact or outcome? If so, what effect did it have?***
4. ***Would you now like to repeat any of this work? If so, why is that? If not, why is that?***
5. ***Is there any work you would have liked to undertake but didn't? If so, what was it and what were the barriers stopping you undertaking it?***
6. ***Do you have any work of this kind currently in progress, or planned? If so, please describe it.***
7. ***Is there any research or work of this kind that you would like to do in the future? If so, what is it and what would help you to undertake it?***
8. ***Are you aware of any other work that has been done in the South West that we should be aware of? If so, please tell us what it is and where we might obtain it.***
9. ***What do you think are the gaps in research that most need to be filled, to support the funding of the Third Sector in the South West?***

Thank you for your help.

PLEASE RETURN THIS BY WEDNESDAY 28 FEBRUARY 2007 to Lesley Frazer at:

frazers@clara.co.uk

¹ If you are willing to loan a hard copy, please send it to Lesley Frazer, The Evaluation Trust, c/o Bay Tree House, Bourton, Gillingham, Dorset, SP8 5BJ. It will be returned to you promptly at the end of April 2007.

Organisations Responding to the Survey

Audit Commission
Baring Foundation
Big Lottery South West
Black South West Network
Bristol City Council
Bristol City Council Economic Regeneration
CapacityBuilders South West
Charities Information Bureau – Wiltshire
Charity Bank
Cornwall Enterprise
Cornwall Rural Community Council
Cranfield Trust
creating:excellence
Development Trusts Association
Devon Community Foundation
Devon County Council (x2)
Dorset Community Action
Dorset County Council
East Cornwall CVS
Equality South West
Evaluation Trust
Finance Hub
Gloucestershire County Council
Government Office South West
Heritage Lottery Fund (x2)
Intercom Trust (supporting lesbian gay bisexual and trans people)
LankellyChase Foundation
Lin Whitfield Consultants
Lloyds TSB Foundation
Nationwide Foundation
New Deal Partnership (Bristol)
Quartet Community Foundation
RISE
SAVAGE
Somerset County Council
South Somerset District Council
South West Forum (x2)
South West Foundation
South West Regional Development Agency (x2)
Summerfield Charitable Trust
Tudor Trust
Voluntary Youth Services Devon
VOSCUR
Zurich Trust