The Funding Challenge

Acknowledgment

The author is grateful to the staff from the CVCs, WCVA and Institute of Fundraising that helped with this research; both to circulate the survey and provide information through the interviews.

Contents

Summary

This research set out to identify the funding challenges facing third sector organisations in Wales and identify actions that could be taken to support its development. The sector is without doubt facing changes in its funding that are making fundraising more complex and one that that can no longer be reliant upon a single source or funder.

At a national level a 10% increase in income to the sector has been seen, however this hides the fact that 60% of the smaller organisations have cut expenditure. The income of the sector is changing, for the first time earned income exceeded that of trusts. Giving has also changed, and research suggests that this will continue to change in coming years. The last decade has seen single donations made in excess of £1 million to organisations, and donors have more choice and information than ever before on who to give to, and they are also expecting more in return. Fundraising has also become harder work, the amount of money spent compared to the income received has reduced in all areas over the last five years, the one exception being local fundraising.

The sector has an important role in the delivery of services in Wales, if this potential is to be realised the sector needs to diversify its funding to give it greater security and sustainability.

The survey conducted as part of the research showed that within Wales, funding from Welsh Assembly Government and local Authorities forms a significant part of the sector's income and for 5-10% of organisations over half their total funding. This places high dependency upon the funder to continue funding the service and makes the organisation vulnerable to cuts in that funding. For both parties this is not a comfortable arrangement.

Donations form a significant part of organisations' income, especially for the smallest organisations where they can account for 100% of income, however for others organisations, donations account for under 10% of their income. Self generated income accounts for 18% of the sector's income, matching that of Welsh Assembly Government funding. It is also an income source that is widely used by organisations of all sizes with it accounting for 100% of income in some cases. 26% of organisations had just one or two sources of funding, and 26% had over five sources. So although some organisations have a diverse range of income others are heavily reliant upon a few funders. This illustrates the difference that exists within the sector in their funding strategies and capacity. The lack of capacity to fundraise can also be seen by the staff responsible for fundraising within an organisation. Under a quarter of organisations had a dedicated fundraiser (either full or part-time) for most organisations fundraising formed part of several people's jobs (or additional duties for a single person, typically this was the chief officer). The organisations with an income of between £50,000 and £250,000 were the ones that were most likely to have fundraising as past of staff duties. The smaller organisations relied more upon volunteers, and the larger ones were more likely to have a paid fundraiser.

There was interest from most organisations in developing some new funding strands in the coming year, the barriers that are likely to prevent activities being developed were primarily time, followed by a lack of knowledge. A lack of time was a particular barrier for organisations with an income of between £50,000 and £250,000. The barriers to fundraising were identified as the high levels of competition, cuts in local authority funding and a lack of money to invest in developing new fundraising activities. Information and knowledge were relatively minor barriers. A further two

barriers that were identified through discussions with the WCVA were a desire to change and the ability to change. The ability can be relatively easily overcome through training, however until trustees / staff or organisations understand that the past ways of fundraising are gone there will be a reluctance by organisations to start developing new funding opportunities.

The majority of organisations did not have a fundraising strategy; however for those that did they were more confident about their future fundraising. In identifying the support for future fundraising, 'money to develop new initiatives' was the most common followed by 'money for a fundraiser'. Training and information were less popular choices.

Discussion with CVC staff identified the positive impact that past investment funds had had in enhancing an organisation's capacity. This was typically from small grants under £10,000 that had enabled a feasibility study or to employ a member of staff to develop a new initiative. These schemes gave the confidence to go on to develop a larger project or community building or the "seed corn" funding from which larger operations could develop.

To help the sector meet the pressures in funding it needs to have leadership to encourage and promote sustainable funding and all this entails. There is a need for new investment to help organisations who want to develop new initiatives. The sector needs to promote and demonstrate more actively its effectiveness and impact to encourage giving.

Introduction

Third sector organisations have entered a new funding environment. The money available to them has become more competitive, this is as a result of numerous factors, including; an increase in the number of organisations being set up and competing for the same money, higher wages being paid within the sector as quality of service improves, a decline in some public sources of funding, a reduction in European sources of funding and new competition from private and out-of-Wales organisations competing for contracts to deliver services. This new environment requires voluntary organisations to plan their future funding and seek to broaden their funding sources.

There have been positive steps taken in recent years, such as the promotion of 'sustainable' funding to encourage organisations to plan for the future and identify how they will meet future funding needs. Such work has been through the WCVA sustainable Fundraising Cymru and CVCs; who between them deliver training and support. One of the key elements to this has been to encourage organisations to diversify their income streams so that they are not reliant upon just one or two funders. However, there is no one funding model that will fit all organisations, and developing any funding sources needs time or money to be invested in an organisation. Very few organisations have a sole 'fundraiser', the work falls on a number of staff or to volunteers and trustees. As a result funding is often left to the last minute and reactive, planning long-term funding remains an aspiration for most organisations.

Organisations are therefore in a difficult position; they are not investing in their fundraising activities at a time when the funding environment is changing and becoming more competitive, as a result they risk seeing a drop in funding and therefore a reduction in the services offered to their community / members.

This research seeks to highlight the funding options available to voluntary sector organisations and the support that they need to take advantage of them. The research will identify:

- Trends in funding of the voluntary sector
- Key funding challenges facing the sector
- Barriers to taking up new funding options
- Opportunities for the Welsh Assembly Government to support organisations in taking up new funding options

Section 1 Methodology

The research was undertaken in four stages:

- Literature review
- Funding survey
- Interviews
- Case studies

Literature review

The literature review provides an overview of recent research into third sector funding, looking at both a UK and a Welsh perspective. This identifies trends in the funding and what the future trends may be.

Funding survey

A survey was circulated to the 22 County Voluntary Councils (CVC), WCVA and Institute of Fundraising for them to circulate to their membership. The membership of the CVC's varies between 300 and 600 organisations, membership of the Institute of Fundraising is 650 and the WCVA sent the survey to their fundraising newsletter membership which is 1500. Membership is not mutually exclusive with organisations being able to be members of CVC, WCVA and Institute, so potentially receiving the survey three times.

There was the potential for over 10,000 organisations to receive the survey; however this potential would only be reached if all the CVCs circulated the survey to all their members. Not all CVCs sent the survey to all their members for various reasons including; the survey not coinciding with a newsletter and so not circulated, the survey was only distributed electronically so those without email would not have received it, other CVCs sent to a random sample of members who they then followed up to get a response. The WCVA were also running a survey at the same time about the effect of the recession on organisations, so participants may have suffered survey overload.

The survey was made available online, in paper format or could be completed electronically and returned by email. (A copy of the survey is in the Appendix). A total of 116 surveys were returned which was lower than anticipated and despite a request to organisations to send a reminder out to their members.

Interviews

To supplement the survey, semi-structured interviews were held with staff in organisations who are involved with funding support; this included the WCVA's Sustainable Funding Team and County Voluntary Council staff. The interviews provided additional insight into the support that organisations are receiving and the challenges they face. The following questions were used:

1. Have you identified any significant trends in the funding needs of the sector in the last year?
2. What capacity issues do you see that prevents groups diversifying their funding?
3. Do you (CVCs) have sufficient resources / information or knowledge to give the funding support needed – are there areas where CVC need more training to help?
4. Are there any particular areas of funding that you think should / need to be encouraged – any suggestions on how?
5. What could WAG do to help support the sector in diversifying funding?

Case studies

Throughout the report a number of case studies have been produced to highlight specific funding activities that organisations have undertaken. These demonstrate what organisations can achieve and how an input of resources can make a significant impact upon an organisation's fundraising ability.

Section 2 Literature review

Research at a national level is conducted by the National Council for Voluntary Organisation (NCVO) who produce the annual ***UK Voluntary Sector Almanac.*** *Thi*s includes information on trends and sources of income. Statistical information includes that for 2004/05 (the latest figures available) when the sector's income consisted of:

- 38.5% from the public sector
- 35.5% from individuals
- 3.9% came from the private sector
- 10.6% from other third sector organisations (e.g. grantmaking trusts)
- 11.5% was internally generated (either from subsidiaries or investments).

The Almanac also highlighted that in 2001/02 grants represented 53% of government funding to charities, by 2004/05 this had fallen to 38%. In contrast contracts had increased from 48% in 2001/02 to 62% in 2004/05.

Associated with the Almanac is the ***Voluntary Sector Strategic Analysis***, providing analysis of the data. For 06/07 this includes information identifying some underlying trends such as rising user expectations and assertiveness in respect of services, an increasing emphasis on evidence of value for money and efficiency and slow improvements in procurement practice.

Encouragingly, there were stable levels of giving and volunteering despite external pressures and also the rise of the mass affluent, and venture philanthropists (gifts in excess of £1 million are now being given by some individuals). Funding sources were also seen to be changing with growing interest in, and use of, loan finance.

The Almanac has also been used to produce ***Funding Trends***, one of the headline statistics in this report is that the income of voluntary organisations is rising, the national level of total income in 2004/5 increased 2.8% to £27.7 billion. This headline statistic hides the true picture and funding trends that are occurring. If charities with an income of above £10 million are removed (these larger Charities income can skew the sector average as they are so large) from the equation the total amount generated by organisations actually fell by £678 million. The 'earned income' exceeded voluntary income (trusts) for the first time in 2003/04 to the value of £13.3 billion

The report concludes that there are no magic solutions and in order to be sustainable, funding needs to be:

• Stable – comprising a diverse mix of income sources
• Suitable – ensuring a good match between your objectives and the various funding and financing options available
• Sufficient – aware of full costs to allow informed decision-making

The **UK Civil Society Almanac 2008** (NCVO) report shows an overall rising income despite individual giving remaining fairly static, and that grant income was flat, and for the first time earned income accounted for more than half of the sector's income. (Goods and services, membership fees and contracts were the main sources of earned income).

The increase in earned income is given as the main reason for a 10% growth in overall charity income. But beneath this headline figure emerges a picture of a struggle for survival by many charities. 60% of the smallest charities, and nearly 20% of the largest cut their expenditure between 2004/05 and 2005/06, suggesting sharp falls in the amount of money available from Trusts and Foundations.

The NCVO also produce the ***UK Giving Survey***, providing analysis of giving statistics and uses data from the Individual Giving Survey (IGS), a module in the Office for National Statistics (ONS) Omnibus Survey. This gives a plethora of statistics ranging from the profile of givers to the organisation receiving the most income and the overall amount given. For example:

- More than half (56%) of the public in 2007/08 gave to charity (in the four weeks before the survey)
- The mean average given by each donor was £33, up £4 on previous year.
- The three groups most likely to donate to charity are;
    - women,
    - people aged 45-64 years, and
    - managers / professionals
- The cause which is supported by the greatest number of people is medical research, followed by children/young people and then hospital/hospices charities; however the most money was donated to medical research (17% of all donations) and religious organisations (16%)
- Giving by cash remains the most common method of giving, while direct debit and cards/cheques are the methods which raise the most money
- There is evidence that charities would benefit more from appealing to other charities' donors than to the population as a whole
- The larger the donation, the more likely that Gift Aid will be applied

The UK Giving Survey (2006) shows that the average amount given by people in Wales is £14 per month per head of population (£20 per donor), compared to the UK average of £15 per month per head (£27 per donor). However the percentage of donors in Wales was 67% (the highest for any region) compared to a UK average of 58%. This breakdown is not given in the 2008 edition.

The Giving Survey (2008) identifies the ways in which people choose to give. Cash donations are the most common (47%) followed by direct debit (30%) and buying (25%). However, most money is donated via direct debit. Raffles are used by 23% of people as a means of giving, but account for just 4% of giving income. In contrast giving by cheque/ card accounts for 28% of all income but is used by just 15% of givers. It is important therefore to offer a variety of ways to give to suit individual donors preference.

Further research on giving has been undertaken by ***NFP Synergy***, which is a think-tank and research consultancy targeted at the not-for-profit sector and has undertaken much research on giving in the UK and the future state of donors. Two particularly notable reports are ***The 21st Century Donor*** and ***Virtual Promise***

The 21st Century Donor reports on who future donors are likely to be, and what a charity in the 21st century will have to do in order to attract donations. Its findings include that in order to attract funding from donors, charities in the 21st century will need to become more sophisticated in their efforts to be as distinct, competitive and appealing as the best commercial brands. Donors have more choice as to who they give their money to, want to know what difference their money will make and what they get from the giving experience, as such charities need to communicate and demonstrate their value for money.

Because consumer choice is much greater charities need to offer a wider range of giving products to match donors' motivation. Activities which mix social activities and fundraising, so called 'social fundraising', are a particularly successful way to engage supporters.

Donors need to feel part of the organisation and kept informed of how their money is spent. In seeking donors, a defined audience is much more valuable than general appeals. Finally, a large effort needs to be put into appealing to big individual and corporate givers; this should be through the recognition and opportunity to change both their own lives and the lives of beneficiaries.

Virtual Promise reports into the growing use of the internet as a tool for fundraising and how its potential is being met. Work began in 2000 and now an annual survey reports on how charities use the internet to promote run and fundraise for an organisation. The report shows the growing trend for the use of the internet, particularly amongst larger organisations.

The ***Institute of Fundraising*** does not believe it is possible to be specific about expected income from every pound of investment in fundraising because there are so many factors that will vary year on year and organisation to organisation. However, to monitor expenditure on fundraising and its effectiveness the Institute produce Fundratios; an analysis of the expenditure on fundraising and the income received; this aims to provide a comparison of performance levels and methods, giving an overview of fundraising performance. The table below shows the average income for £1 of investments in Fundraising by activity.

Median Income per £1 invested in Fundraising	***2006***	***2005***	***2004***	***2003***	***2002***	***2001***	***2000***
Corporate	3.99	3.74	3.76	4.33	4.22	4.19	4.67
Trusts	8.57	8.22	8.22	7.33	9.24	9.57	9.93
Legacies	32.17	41.1	41.14	31.67	40.19	36.18	43.37
Direct Marketing	1.54	1.52	1.52	1.77	1.76	2.06	2.01
Committed Giving	3.31	2.85	2.85	3.25	4.07	3.43	3.7
Central Fundraising	4.71	4.44	4.82	5.2	6.04	5.48	6.14
Local Fundraising	2.62	3.54	2.45	2.45	2.6	2.68	2.29
Total Fundraising	4.63	4.86	5.29	5.29	5.51	5.09	5.31

This clearly shows that legacies are the most cost effective means of fundraising, followed by trusts. There is a trend over the years for a decrease in the amount returned for each £1 spent, suggesting that in the future organisations will have to work harder for their money.

Further research from the ***Institute of Fundraising*** is ***Managing in a Downturn*** (written with the Charity Finance Directors' Group and PricewaterhouseCoopers LLP). The report, which surveyed 362 charities, showed that although there was a wide range of experiences, the average charity's income is currently stable. However, many charities (71%) are already taking proactive action in order to protect themselves from future instability such as putting large capital projects on hold, and restricting IT projects. In addition 47% of charities are expected to take pre-emptive actions ahead of potential increases in costs or reductions in income.

As perhaps expected, the income from legacies, trusts and corporate have seen a downturn. However, despite the difficulties identified, half of the charities also identified positive advantages of the downturn with 62% of charities expecting to increase their fundraising activities in the coming months, in order to fundraise out of the downturn.

Overall, it is clear that charities are not expecting a growth in income, but they are wary of predicting what the next few years may hold for them. The report notes that "…even in the best of conditions, charity fundraising remains a challenge – and so it is vital for individuals to keep on giving to their favourite good causes."

Earned income has grown to the extent that since 2003/04 earned income has come to surpass voluntary income. It now contributes £13.3 billion; almost half of the sector's total income. Also in 2003/04, 38% of third sector income came from statutory sources, (and this figure is rising) and for the first time the sector obtained more money from contract fees than it did from grants, again this trend is continuing. Tendering and delivery of public service has therefore become a more significant element of the sector's work, as such a number of reports examining the role of voluntary organisations in the delivery of services have been produced, these include:
The voluntary sector delivering public services: transfer or transformation? Will Paxton and Nick Pearce, Julia Unwin and Peter Molyneux (2005). The first paper – '*The voluntary sector and the state'* highlights the sector's role in providing public services and its contribution to civil renewal, examining how these agendas interact and what the future might hold for the sector. It also contains an overview of recent policy and trends impacting on the sector in this area. The second paper – '*Beyond transfer to transformation'* examines how best to manage the transfer from state to the voluntary sector to deliver effective and sustainable change. They use several case studies to show how different organisations have transformed a particular service.

How voluntary and community organisations can help transform public services, NCVO (2006). This policy briefing gives a summary of the sector's policy perspective on its recent increased role in public service delivery. It discusses some of the risks and opportunities associated with this role and how they can think strategically to ensure that any future public service delivery is appropriate to their organisation. It identifies three different but equally important roles the sector performs in the reforming of public services:

- Identifying service need, as a result of gaps in service provision, or poorly designed or delivered services;
- Helping to design solutions to meet a need; and
- Delivering services

In a Welsh context, Matthews (2006) ***Capacity of Voluntary Organisations to deliver services for the Local Authority in Powys*** examined the capacity of organisations in Powys, finding that although there is a willingness to undertake this role, there were gaps in organisations' confidence, capacity and knowledge of how to engage in the process. The report suggests the change from grant to service delivery contracts will be likely to have a negative effect on small local organisations who are often those involving most volunteers in their activities (and delivering more of the added value listed above). A result of this change is that organisations are being forced into putting more of their own resources into winning contracts, and less into obtaining grants and donations. This means that contracts are becoming the source of an ever-greater proportion of voluntary organisations' income, and one that is open to strong competition from the private sector.

Mike Short (UNISON) [1]challenges the present model for the development of the sector, concerned that the push by government for low cost services is creating a voluntary sector in the private sector's image. This fails to recognise the distinct value of the voluntary sector and building upon its strengths and capacities. Contracting out also favours large charities over small, locally-based organisations. Other research carried out on behalf of UNISON (***Third sector provision of local government and health services**,* by Steve Davies, UNISON, 2007) reported that two thirds of all income of general charities goes to just 2% of the sector. In 22% of areas local organisations have lost funding to tenders from national charities. Another useful report from UNISON is ***False economy? The costs of contracting and workforce insecurity in the voluntary sector***, by Ian Cunningham and Philip James, (2007) which explores the effects of the contract culture. They found that as a result of short-term contracts and insufficient funding, staffing levels were being cut, management time was spent increasingly on bureaucracy and bidding for funds, and the quality and continuity of care received by some of society's most vulnerable people was damaged.

Although contracts are becoming more popular as a means of engaging voluntary organisations in service delivery, a report by NACVS: ***Why Grants are Important*** (2006) examines the relationship between local government and the voluntary sector. The study is based upon four case studies and identified the following reasons to fund the sector due to its added value:

- Nurtures complementary and preventative services
- Increases the signposting of potentially vulnerable individuals to appropriate services
- Builds social capital and connections within the community
- Builds capacity for community self help
- Breeds a culture of co-operation, communication and networking
- Encourages diversity and responsiveness
- Enables leverage of resources into the locality from elsewhere
- Provides insight into local communities
- Enhances potential for engagement with communities
- Contributes to local democracy
- Nurtures an independent sector capable of responding to current and future service

The pressure upon Charitable Trusts from grant seekers is identified by The Association of Charitable Foundations (ACF) who produced "***Grantmaking by UK Trusts and Charities***" (2007). This paper provides statistics about non-governmental grant makers in the UK and the nature and extent of their grant making. The data is drawn from statistics produced by CAF (primarily from Charity Trends 2006) and ACF's 2006 member's survey. The amount of money available from Trusts continued to

[1] www.gmcvo.org.uk/files/Issues%208%20-%20Funding%20Trends_0.pdf

rise; in 1994/5 income was £915 million (making grants of £746 million) and in 2005 was £4526 million (making grant of £2728 million)[2]. The report also highlights the vast number of ineligible applications made to Trusts, this ranged from 44% to 64% depending upon the size of grant available. It also showed that between 63% and 85% of eligible applications were funded.

The Report "***Managing in an Economic Downturn***" identified that 71% of respondents to their survey did not feel income from Trusts would decline as a result of the slowdown in the economy. The full impact on investments was still unknown, as such they were unable to gauge the impact this would have on future grants. However the respondents did envisage that the full impact of the downturn would hit the sector in 2010 and 2011. The effects of which are likely to be increased pressure and competition for income streams.

Looking to the future a report by ***NCVO, Third Sector Foresight***, ***Future Focus*** (2007) identifies six key trends in funding in the next five years, these are:

1. Increased expectation of trading and charging for services - with the shift from governments that deliver services to ones that buy services from private and third sector organisations has caused a significant increase in state funding of the sector. This trend is set to continue as the main political parties voice their commitment to outsourcing more public services. The report also notes the potential of a two tier sector, those that embrace and take a pragmatic approach to service delivery as a means of getting income and those that feel trading is at odds with the ethos of the voluntary sector.
2. Increasing complexity – (contracts and loans) the sector will have an increased role in the design of future services.
3. Strategic and engaged grant making - funders will seek to view their contribution as more of an investment in social change rather than a gift. As such they may wish to become more hands-on in how they work with funders.
4. Stronger expectations of evidence - there will be a greater need to demonstrate both the need for funding and the difference it makes.
5. The importance of cost and value - pressures upon public finances will place greater emphasis upon efficiency and value for money as government seeks to procure services for less. This may however conflict with the growing recognition of the added value voluntary organisation offer and also the need for organisations to recover the full cost of providing their services.
6. Competition for funds – new charities are registering all the time, at the rate of over 5000 a year (in 2007), this is putting more charities in competition for the money that is available and forcing organisations to look at a wider range of funding options.

Their analysis also suggests that individual giving is expected to continue to rise gradually (the report was undertaken prior to the economic slowdown). A potential growth area is that of large donations by wealthy individuals. Corporate giving on the other hand is likely to remain very low due in part to a long-term shift away from giving towards the broader notion of corporate social responsibility. Grant-making trusts and foundations will inevitably continue to be an important part of the funding mix.

[2] Grantmaking by UK Trusts and Charities ACF, 2007

In looking to the future and the actions organisations will need to take in order to survive **NCVO – Sustainable Funding Project**: identifies the following key areas:

- Have a diverse range of income streams; by exploring all the available income options; set up a more secure range of funding.
- Strengthen key relationships; ensure that work and activity is responding to the needs of the people served and using services and products. Be clear with funders about what they want and what can be provided.
- Focus on mission; concentrate on core business and ensure organisations are doing what they are best at.
- Tighten up financial systems; ensure an accurate picture of income, cash flow and costs to quickly address any issues.
- Plan for the future; rapid economic change can provide opportunities as well as threats. Ensure organisations think about what is coming and plans accordingly.

A Welsh Perspective

Within Wales the research conducted by the ***WCVA Voluntary Sector Almanac*** is the main source of information on voluntary sector income and fundraising. Individual County Voluntary Councils also collect data but it is not collated at a national level or on an annual / regular basis. Headline statistics from the 2007/08 Almanac show:

- Total income estimated at £1.2 billion for 2005-06. This is keeping pace with inflation, but not increasing in real terms since 2002-03
- Housing Associations account for £282 million of this in grants received and rent.
- Public giving accounted for £254 million (25 per cent)
- Government grants and contracts accounted for £441 million (44 per cent). This represents a large change from 2001-02 when it was 34 percent.
- The National Lottery accounted for £39 million (4 per cent)
- The proportion of income which is earned has increased from 26 percent in 2001-02 to 36 percent in 2005-06.

The Almanac provides data on the following areas of income:

- Annual trends in income
- Most used sources of income
- Source of funding according to turnover
- Source of income by type of organisation

The annual trends in income for difference sources of income are shown below (Chart 1)

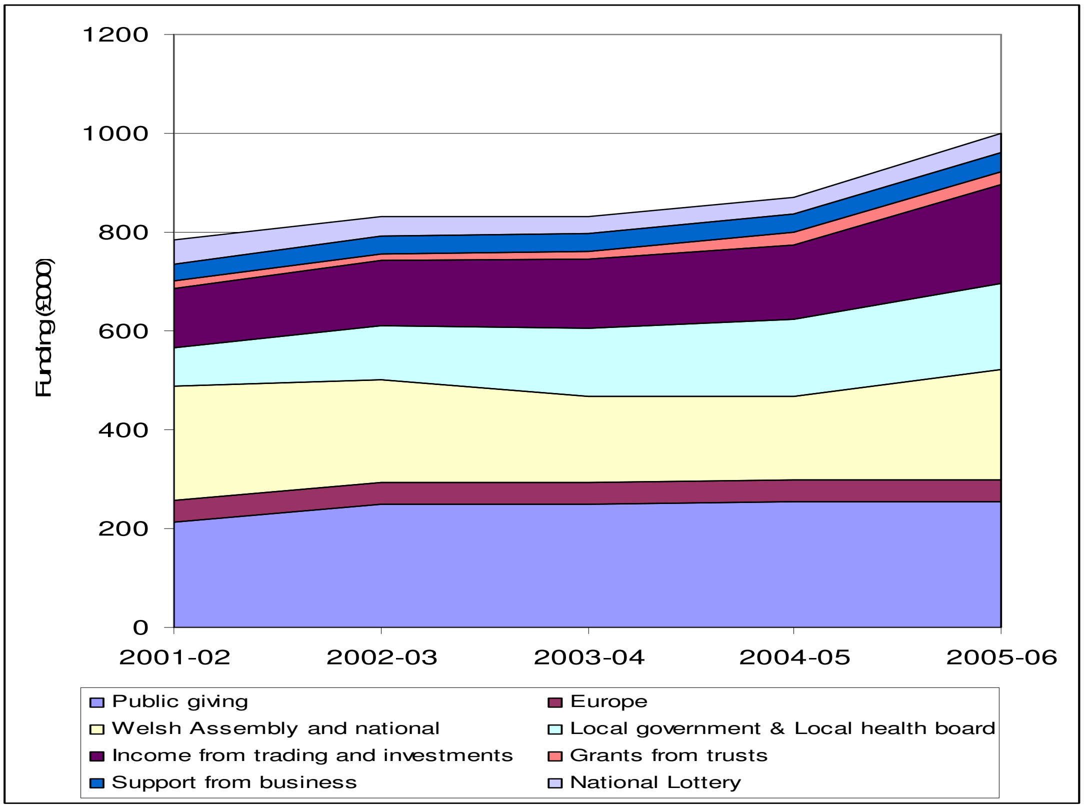


Chart 1: Annual trends of income

The chart shows the overall tends in the sources for income of the sector. The two areas that have seen the most growth are local government and local health board and Welsh Assembly and National Government, others are remaining static.

The most used sources of income are shown in Chart 2, which identifies the percentage of organisations using different sources of funding. The four most used sources being membership fees, donations and legacies, grants and trade.

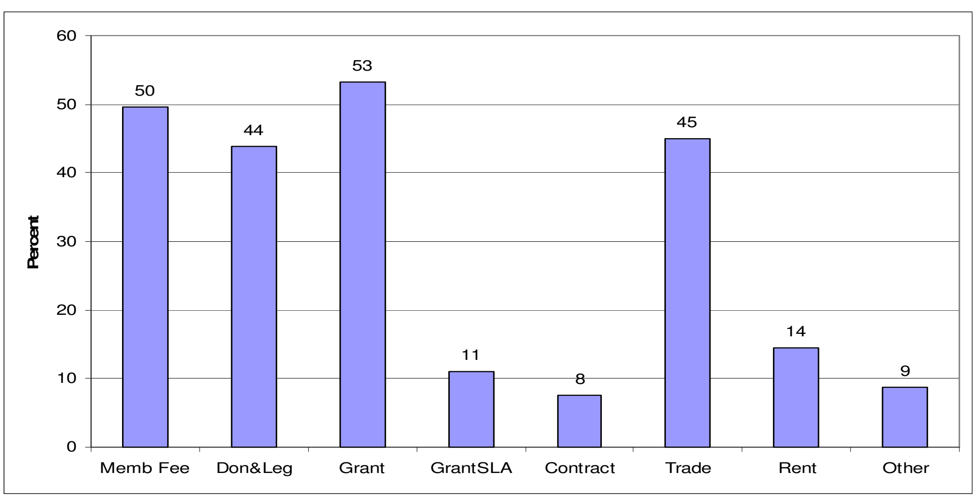


Chart 2: The percentage of organisations using different sources of funding

Organisations turnover and sources of income are shown in Chart 3. Using data taken from the Almanac an analysis of the source of income of an organisation compared to its turnover can be shown. Donations make up about the same proportion of income for each organisation; pound for pound they are therefore worth a lot more to the larger organisations. Membership is particularly important to the smaller organisations.

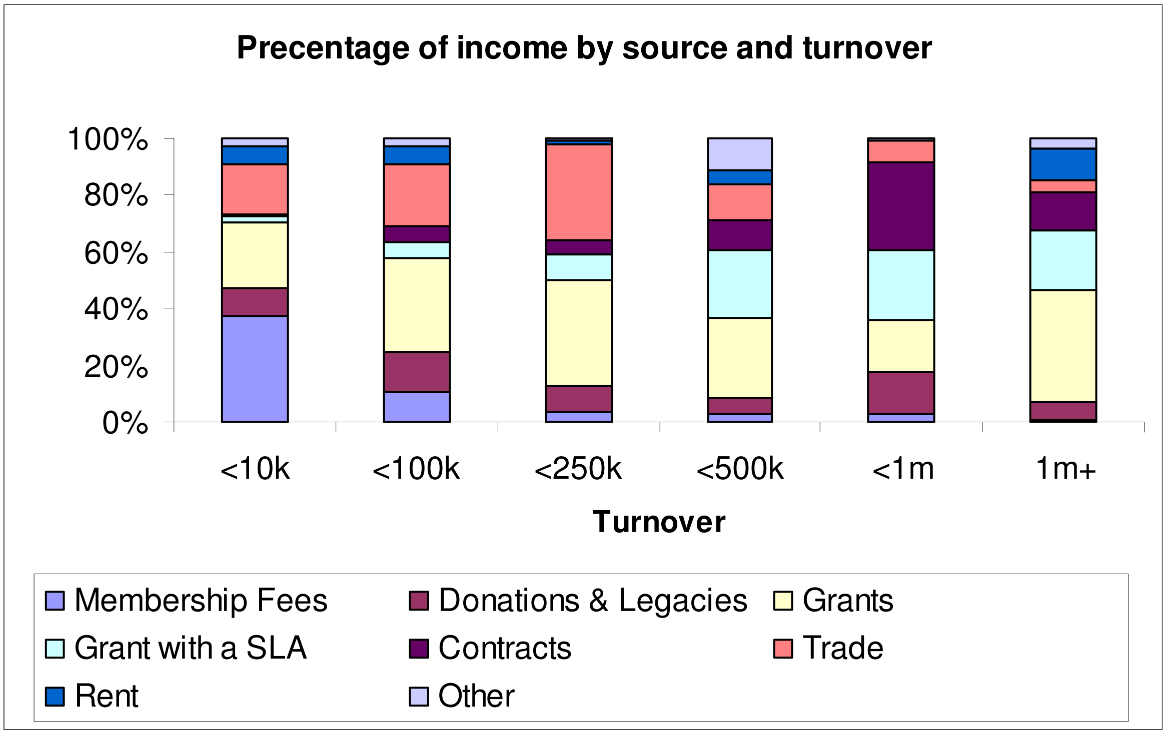


Chart: 3: The percentage of income by source and turnover

The final source of data is that of type of organisation and source of income used, which shows the reliance on which different organisations place upon the different income sources.

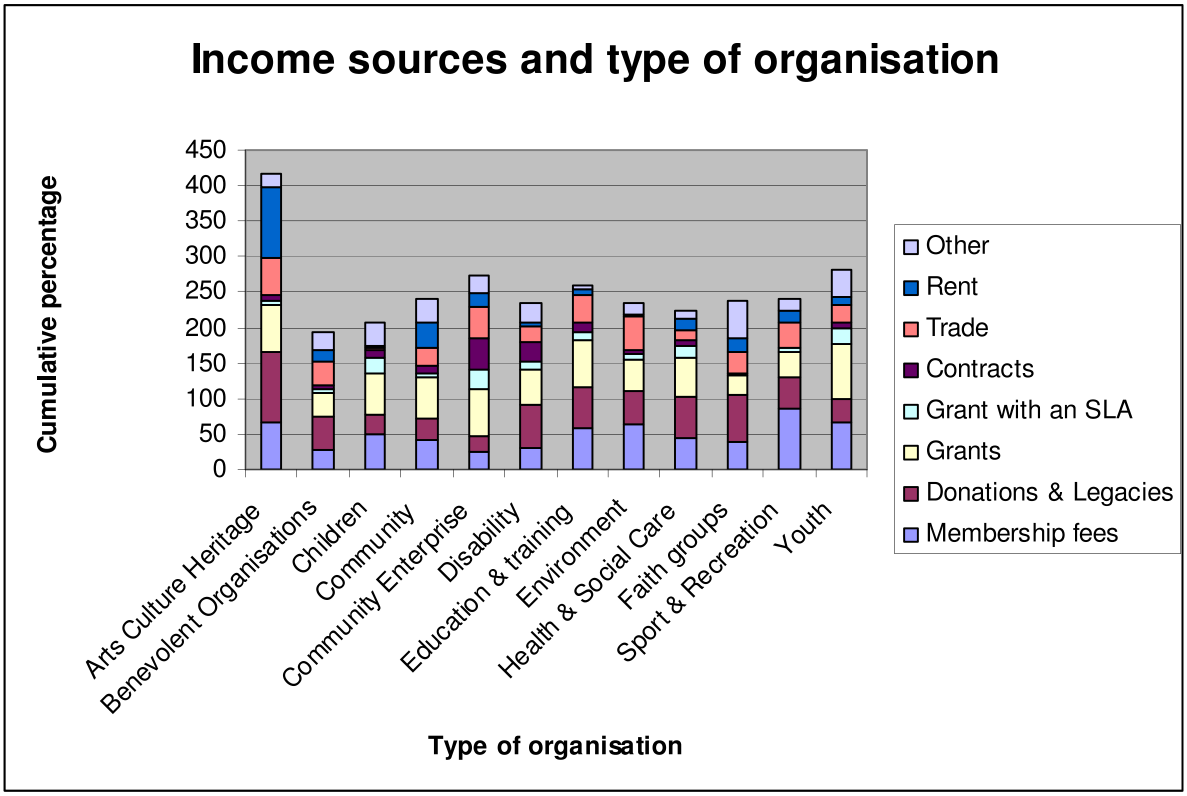


Chart 4: Income sources and type of organisation

This report also provides a breakdown of the sector's income to show that just 3% of income comes from Trusts, 4% from the National Lottery and 37% from statutory bodies. However, 26% of income comes from giving and a further 20% from trading and investments.

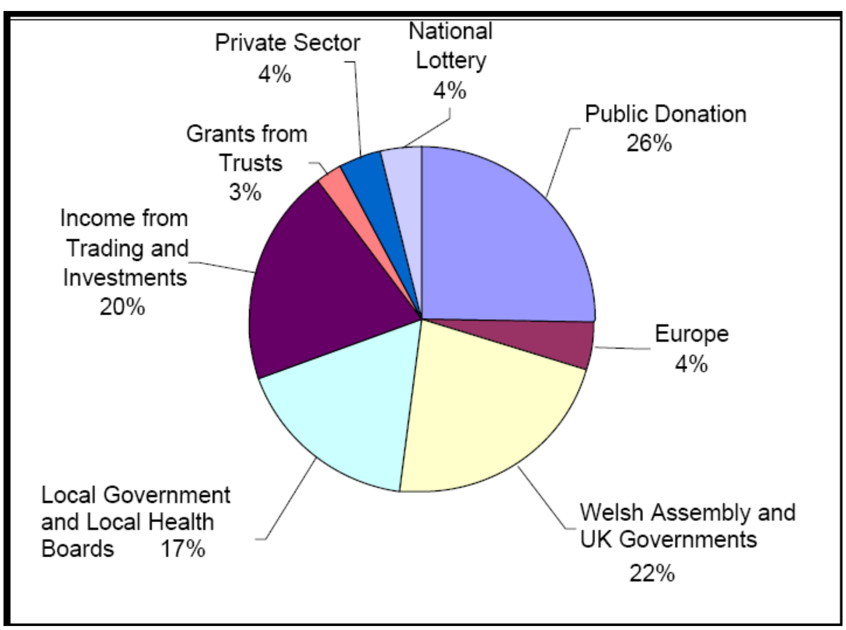


Chart 5: Income of voluntary sector in Wales by source
(Source: Sustainable Funding Cymru Baseline survey 2007)

The importance for organisations to demonstrate their value and benefits has been referred to earlier and there is research into how organisations (particularly social enterprises) can demonstrate their social worth to support the tendering process. For instance the Charities Evaluation Service has developed their PQASSO (Practical Quality Assurance System for Small Organisations) system to be useable as a peer assessment tool to help social enterprise demonstrate their value.

Sustainable Funding Cymru (WCVA) produced a **baseline survey** in 2008 of the funding issues facing organisations in Wales. Some of the findings included:
- Almost a quarter of organisations have only one funding source
- Only nine per cent of organisations have funding security of more than one year
- About 40 per cent of those surveyed wanted to earn income
- Nearly 45% of organisations did not have plans or written statements on fundraising

The survey identified four trends that the work of the project could address:
- A perceived skill gap of organisations wishing to grow
- Exploit the positive attitude to earning
- Promote the benefits of planning
- Persuade funding bodies to review the allocation of funds to the third sector

The Social Enterprise Support Centre has developed a course to identify the monetary value of the extra benefits of community service delivery. The course aims to help demonstrate, for example, that a community café that provides jobs for the unemployed taking people off benefits and training them in catering will soon be proving that every £1 spent on a sandwich is giving back, say, £3 in value because of the extra social benefits they were set up to provide.

Allied to this is work by the “impACT" coalition, (improving Accountability, Clarity and Transparency), this recognises that people giving to charities do so because they have trust and confidence in them. Research from the Charity Commission (from two seminars held in October 2008 on trust and Public confidence) identified that few people actually understood the running or management of charities, indicating that the trust and confidence is based upon perception as much as knowledge. The coalition seeks to help charities communicate more effectively with the public and from this improve their fundraising abilities.

New funding opportunities are emerging, the internet has already been mentioned, its potential has yet to be realised by the voluntary sector as either a fundraising tool or as a communication tool. Loans are starting to be promoted more to the sector, particularly to social enterprises who need the initial capital to initiate a project.

Government policy

Welsh Assembly document **The Third Dimension** identifies the importance and urgency for the third sector to diversify funding sources to achieve greater security and sustainability, and notes some specific challenges that it faces;
- low tax efficient giving by the public
- few major private companies have their headquarters in Wales
- there are only a small number of grant-making trusts

- there are few sources of loan finance
- entrepreneurial and business management skills are in short supply
- fundraising expertise is low and very public sector orientated

The report also notes the increased complexity and sophistication of many funding sources, which are becoming ever more prescriptive in their aims and monitoring requirements, which makes them more difficult to access and beyond the grasp of small start up projects.

The tendency for funders criteria to emphasise newness over effectiveness, is recognized and that this distorts a project to "fit in" with the criteria, often reinventing a successful project purely to meet a specific criteria. The report also acknowledges that the Assembly needs to be clear when it is procuring services or goods from the sector, or making a longer term investment to build part of the sector's capacity.

For the sector the report suggest that it needs to plan its fundraising more strategically and remain focused on their goals whilst diversifying funding sources, building in all the costs involved and staying true to their values.

The report says that WAG would like to see funding bodies adopting less prescriptive practices so that communities can exercise greater control over the way funded activities develop in response to real community needs. To achieve this the suggestion is to bring together key funders to explore the development of a new 'outcomes funding paradigm'.

Graham Benfield (WCVA) wrote "**The political economy of funding the third sector in Wales**" which outlines the political economy of funding the third sector and considers future developments in funding the sector. The paper identifies the characteristics of funding over the last decade, which includes the increase in central and local government funding, a growth in trading and a growth in short term funding. The report also identifies the importance of giving and recognises that initiatives by government have hade a very limited impact, indeed the statistics show no significant increase in giving during this period.

The report suggests that funders need to recognise the role that the sector can have in improving society / delivering services, and in doing so need to rethink how funding is used to be able to move away from the 'boom / bust' methodology and short term funding to a system of investment. The report goes on to identify criticisms of both the sector and funders. The sector for lacking innovation, chasing short term funding and providing patchy support services and funders for 'prescribing' innovation, outcome obsession, insufficient attention to sustainability and a failure to implement full cost recovery.

The report suggests that if funders each play to their strengths then there is a real opportunity to secure a stronger, more sustainable sector. In looking to the future there is a need for programmes to encourage innovation and support the replication of successful projects. A programme to support development of community assets to create a sustainable income. Finally a programme to improve and strengthen the sector. The report also suggests development of local community funds run by CVC and development of unclaimed assets funding.

Both these reports recognise the importance of the third sector and its potential to deliver more services; they also note that in order to do this there is a need for investment.

The National Assembly for Wales Communities and Culture Committee Inquiry into "**The Assembly Government's Funding of Voluntary Sector Organisations in Wales**" (2008) acknowledged the vital role the sector plays in civic society, in delivering services as well as providing opportunity for people to benefit community life. It also acknowledges the work of the Assembly Government in funding the third sector; both directly and indirectly. The report makes recommendations to review aspects of funding and funding procedures, the response from Welsh Assembly Government was positive and much of this work is now underway delivered in conjunction with the WCVA.

Summary

There is a view that the funding environment for the third sector has become more problematic. The reality is perhaps that a more complex approach to financing the sector is developing. Within the new funding approach there is a greater emphasis on independent income sources; particularly "giving". It is the security and diversity of income streams that will be of the greatest importance to organisations if they are to survive in the future.

Grantmaking trusts and foundations will continue to be an important part of the funding mix; however the competition for this money will remain high and subject to meet the wishes of the individual trust or foundation. Although the total amount of money may increase it is unlikely to grow as a percentage of total income.

The growth in trading (including contracts) has been perpetuated by the shift from governments that instead of delivering services is tendering them out to private and voluntary sector organisations. What once may have come to the sector as grants has become a contract. While some government income streams to some sectors (such as health and education) are likely to increase, non-priority areas are likely to see tighter funding arrangements.

The implications for this are that organisations will need to invest more time in writing and preparing tender documents. As noted earlier this favours larger organisations that have the capacity to undertake this work. Tendering also places voluntary organisations in direct competition with not only each other but the private sector. This risks detracting from the added value that the sector brings to service delivery in place of value for money. The importance of the sector to be able to demonstrate its value, particularly non-monetary added value, in delivering services needs to be developed and recognised by the commissioners of services. Policy document such as "Opening Doors: The Charter for SME Friendly Procurement" (Value Wales), 2008 and "Procurement and the Third Sector" (Wales Assembly Government), 2008 are a positive step towards this but more on-the -ground practical help will be needed.

Giving, although expected to remain static or reduce, will remain an important part of the sector's income. It is however an area of fundraising that does require an investment. Giving makes up 10-15% of organisations' income, which for those with a turnover in excess of £1 million is a significant amount of money. Proportionally more people in Wales already give more than elsewhere in the UK, however the amount given is lower than average.

It is unknown whether people are giving to local organisations or larger national ones, is there a need to promote "giving" at a national level to raise awareness of the value of small local charities as well as the larger national ones. Membership and subscriptions are included in "giving" and for smaller organisations are a very important part of income; organisations need to ensure that income from this source is maximised through claiming Gift Aid. It is also worth noting that organisations are going to need to become more sophisticated regarding attracting people to "give". Donors are expecting more for their money and have more choice in who to give to and how to give; organisations therefore must be able to cater for this more demanding consumer.

Section 3 Survey Results

The survey was distributed to third sector organisation in Wales via the 22 County Voluntary Councils (CVCs), the WCVA Funding News membership and the Institute of Fundraising. People were able to complete the form online, electronically and return via email or on paper to a Freepost address. Those organisations helping to circulate the survey were asked to do a follow up email request to their members to increase response rates. A total of 116 surveys were returned. The results were found to be skewed towards larger organisations and this needs to be taken into consideration in the results.

The charts show two percentage types; percentage and adjusted percentage. Where percentage is shown this is a percentage of the whole sample. An adjusted percentage is only for those responding to that specific question.

Organisations responding to the survey

The chart below (Chart 1) shows the distribution of the returns of the survey from across Wales. Many national organisations are based in Cardiff which accounts for its high return rate. Powys and Cardiff also have more voluntary organisations than the other counties.

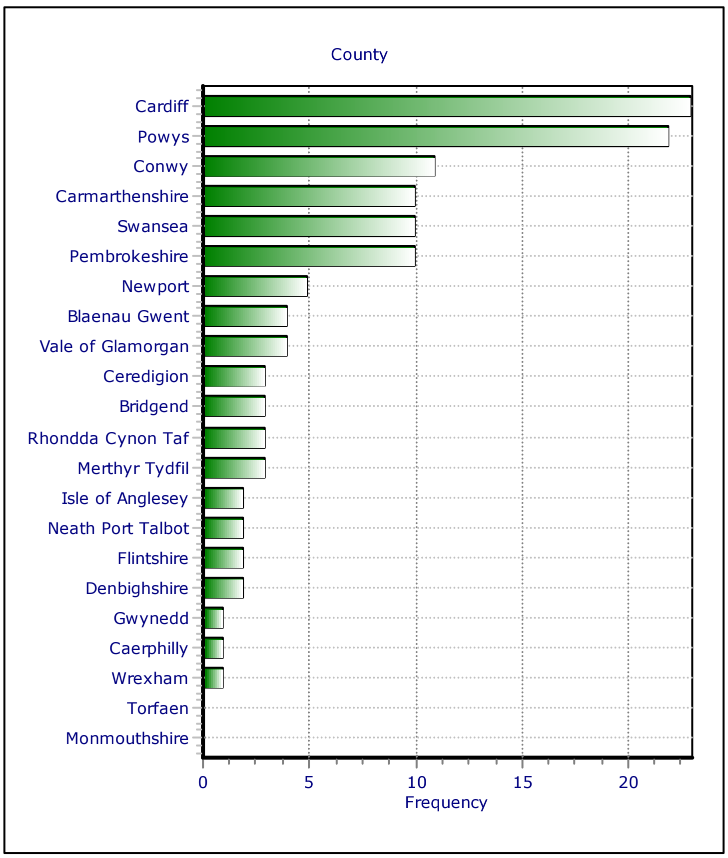


Chart 1 – Location of Organisation

There was an even distribution between local, regional and national areas of operation (Chart 2). A higher proportion of local organisations were expected, but this may be explained by the high proportion of larger organisations that responded to the survey who may have had a greater capacity to complete the survey or saw more relevance to its findings. In addition the survey was distributed electronically and possibly the smaller organisations were not able to access the information.

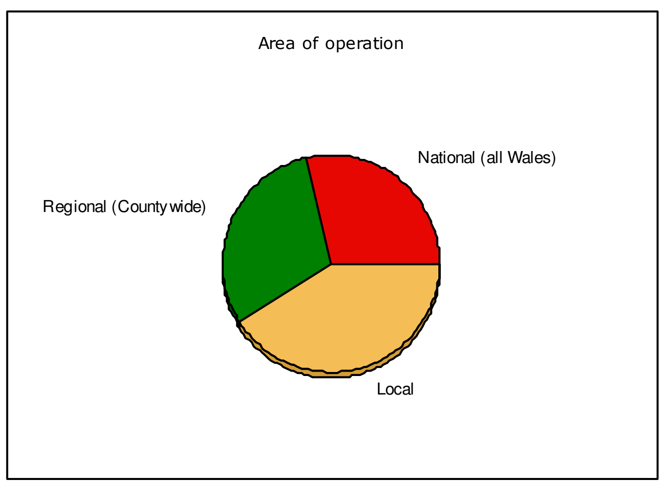
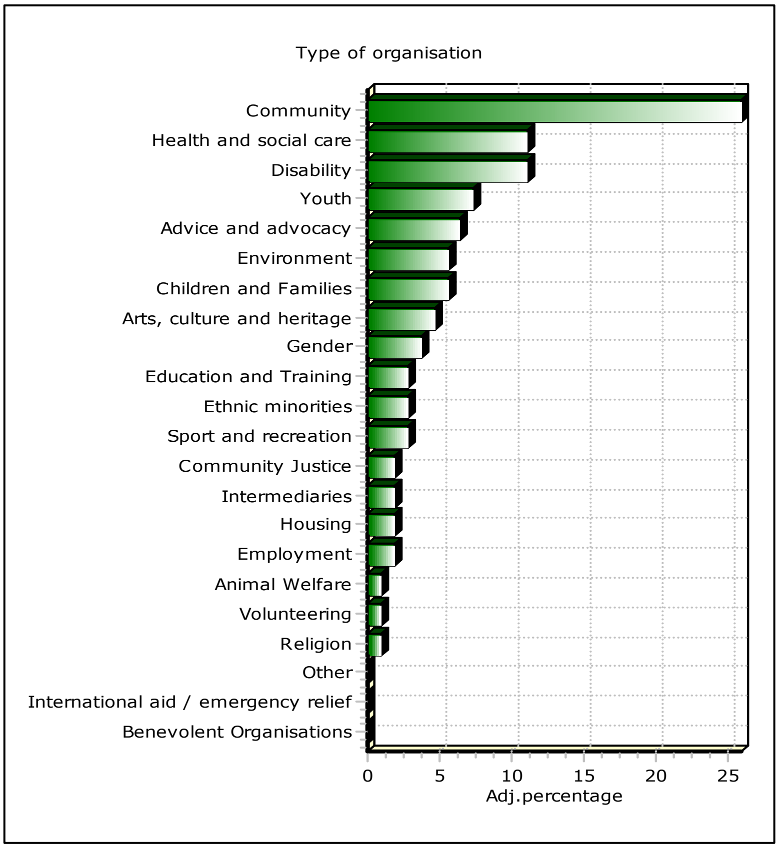


Chart 2 – Area of operation

The type of work carried out by organisations responding to the survey

"Community" was the main type of work carried out by organisations responding to the survey, followed by Health and Social care and then Disability. By comparing the type of organisation from this survey with data from the WCVA 2008 Almanac[3], this survey under-represents the following types of organisations:

- Sports and recreational groups
- Religion
- Children and Families
- Benevolent organisations



The survey over-represents the Community groups. The variation in returns compared to the WCVA survey is most likely due to the membership of CVC and Institute of Fundraising, whose members are more "community" based. Members of sports groups for instance getting information from their governing body rather than infrastructure organisations. The other categories are similar to the WCVA Almanac survey. Appendix A shows a comparison of the WCVA data and this survey.

Income

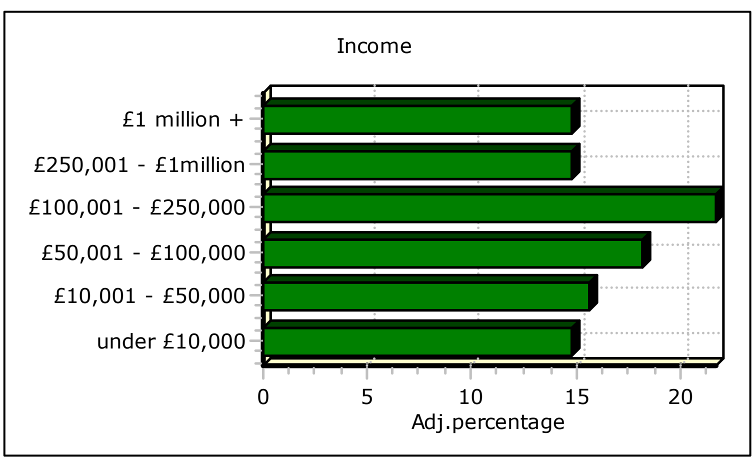


Chart 4 - Income

The WCVA almanac found that over 60% of organisations have an income under £10,000; this survey returned a figure of 15%. This reinforces the view that it is the larger organisations that responded to the survey.

[3] The WCVA almanac data comes from a survey of WCVA members (many of which are also members of the CVCs). The sample from the Almanac and this survey are therefore using a similar sample of the sector which makes comparison of the results possible.

The chart below (Chart 5) shows the percentage of income gained from the different sources of income e.g. 5% of organisations received 1-10% of their income from Wales Assembly Government. Self-generated, Local Authorities, Donations, Welsh Assembly Government and Charitable Trusts are the most widely used sources of income. Both the Welsh Assembly Government and Local Authorities contribute a large proportion (26% and over) of income to over 20% of organisations, which is a greater dependency than any other source of funding.

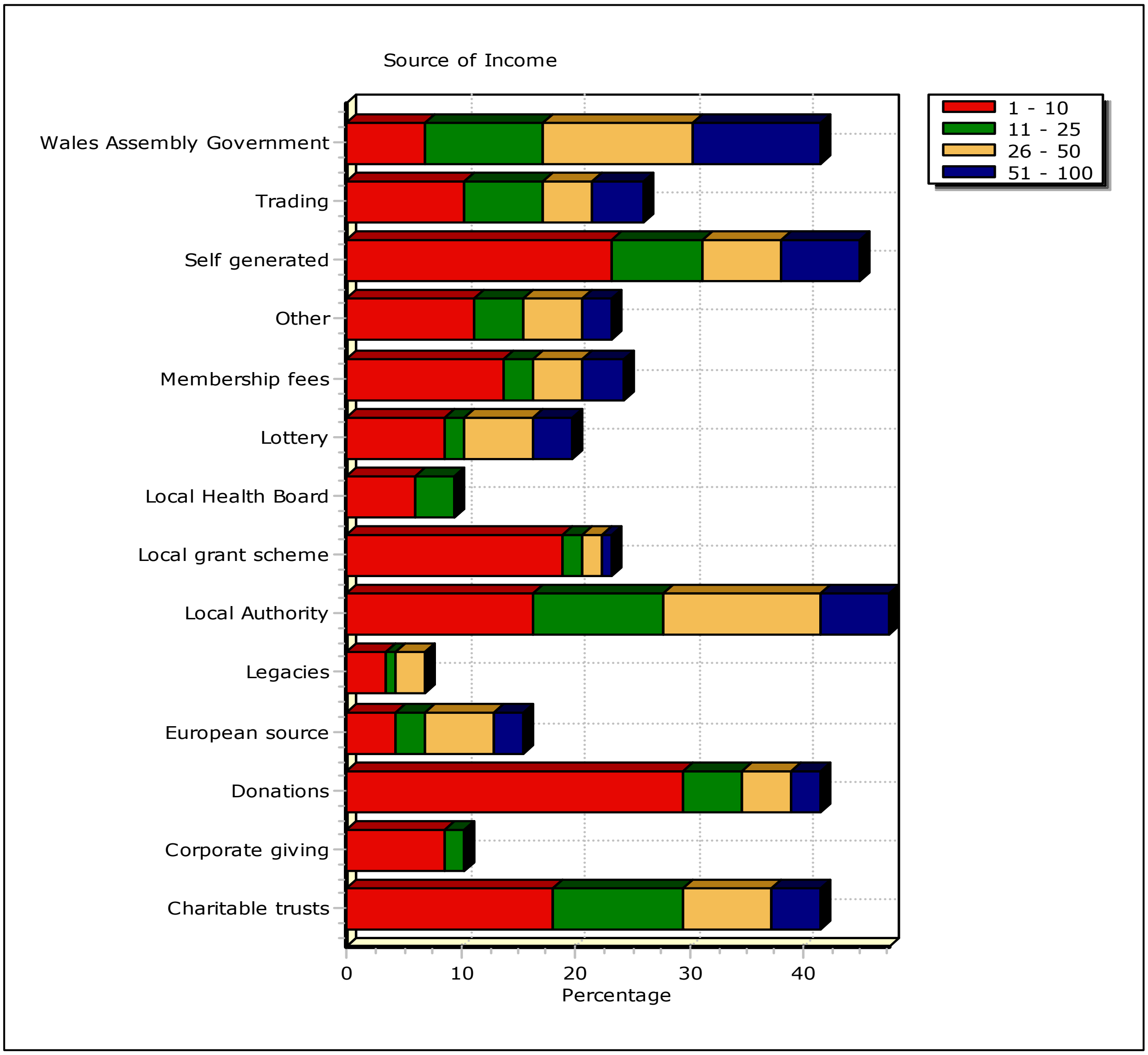


Chart 5 – Source of income

Whilst donations are a commonly used source of income they typically only contribute less than 10% towards the total income. Self generated income is also widely used but again generally contributes relatively low amounts (although higher than donations) one organisation receiving 100% of income from self-generated activities.

The level of income from legacies and corporate giving is low. There are perhaps opportunities for expansion and development of these two areas.

From this data it was also possible to extract information on the diversity of income sources that organisations have:

- 7% had just one source of funding
- 19% had two sources
- 17% had three sources
- 33% had four or five sources
- 24% had more than five sources

Many organisations therefore have a broad funding base, however a significant number are very limited in their funding streams making them vulnerable to changes from those funding sources. It is also likely that even those with several sources of income are reliant upon a single one, and the survey reflects this; 53% of organisations having 50% or more income from a single source and 26% of organisations having 75% or more of their income from a single source.

The proportion of total income from different sources is shown in the chart below (Chart 6). Again it shows a high level of dependency upon statutory body funding (Local Authority / Health Board and Welsh Assembly Government) and self-generated income.

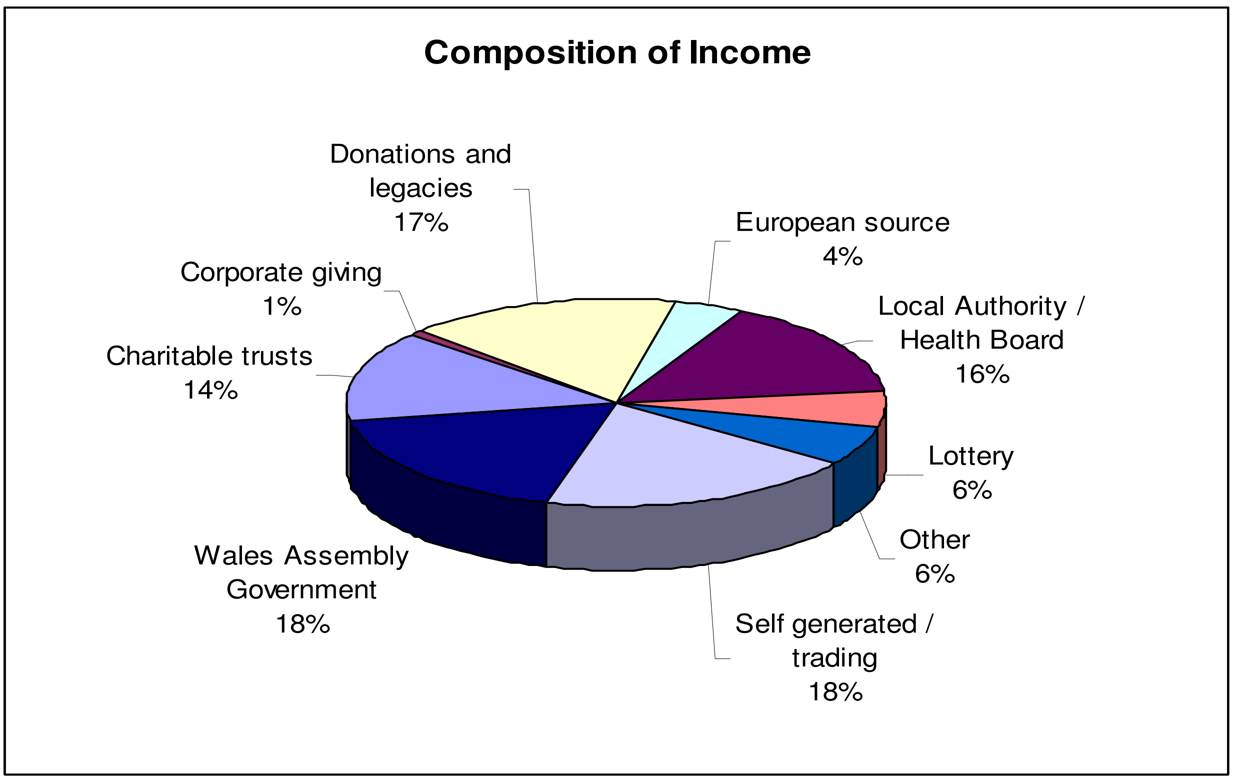


Chart 6 - Composition of income

Although most of this data is in-keeping with that of the WCVA Almanac, the proportion of income from charitable trusts is significantly higher (3% from WCVA) and income from donations / legacies is lower (26% from WCVA). This suggests that the larger organisations (to whom this survey is biased) have a high proportion of their income consisting of grants, and conversely smaller organisations' income comprise more heavily of donations.

A comparison of "Organisation type" and "Income" shows that the smaller organisations have a "Community" focus, the larger ones are based around Health and Social Care, Disability and Advocacy.

Successful fundraising activities

Of the past successful fundraising activities that were undertaken by organisations the most popular were the local fundraising events / challenge events, this included activities such as:

- Charity dinner
- Flower festival
- Sky dive
- Murder mystery evening
- Dog show
- Fashion show
- Musical night
- Abseils
- Runs
- Film nights
- Golf days

Social fundraising events have the added benefit of bringing people from the community together, this was seen by groups as being almost as important as the income that they raised. Successful activities also included money from donations; this included one as a result of a direct mail campaign and another from targeting past clients of the organisation. Other successful activities included: Ebay has been successfully used by an organisation generating over £1,000 (See Box 1 and 2).

- Charity Shop
- Legacies
- Business lunches
- 100 Clubs
- Gift Aid collection
- SLA / Trading and delivery of contracts

Box 1: Social Fundraising

Many organisations have identified themselves as having undertaken successful social fundraising activities. These are activities that generate income as part of a social occasion or event. Below are examples of two such events are given:

Casino Night: Held by a Carers organisation, this event hired a company to run a fun casino. Participants bought tokens with which they could then play at various tables. People running out of tokens could buy additional ones and the person at the end of the evening with the most tokens was the winner. Although the evening did not make a profit on sales of tickets alone, the sales of extra tokens helped to generate a profit of £700. The event was well publicised in the press, through the County Voluntary Council, Facebook and local networks. The aim was to appeal to the more affluent members of the community and the opportunity for a "jacket and tie" event, and use the organisation's trustee and supporter network to help promote it.

The organisation did not have its own membership to draw upon to support the event. This made it hard work to get publicity and sufficient numbers of people to pre book tickets as there was no readily available mailing list to invite people to the event. However the names and address of attendees were collected (with permission) to build a list of supporters, these people can now be contacted for any future fundraisers.

The importance of an accessible group of people to make personal invitations to and the ability to raise additional income on the night were key factors in the night's success.

Fun run: A Volunteer Bureau decided to hold a fun run as a fundraising activity. People entering would pay £10 and then run to raise money for organisations of their choice or just to compete. Three lengths of route were set up one for the more serious runner, a second shorter route aimed at those seeking sponsorship and a third short run aimed at children. The finish was at a local visitor centre who agreed to provide a free drink to all participants and a barbeque was also held to enhance the social aspect of the event.

The event was very reliant upon volunteers to marshall the event. These came from a local running club and Lions group, plus volunteers who regularly supported the organisation. It was felt that too many route options were offered, in the future the race routes would follow the same route to minimise the number of marshalls needed. Health and safety were also a particular concern and as such a full risk assessment of the event was carried out and the organisations insurer informed to ensure they would be covered in case of an incident.

The event ran smoothly, attracting around 70 entrants. This was lower then hoped but gave a solid base on which to build and the lower numbers made it easier to manage for the organisers, and in hindsight too many more participants would have stretched the administration on the day. All participants enjoyed the event and what was learnt in the planning process will help to make the next year's event bigger and better.

Funding trends

The majority of organisations reported that it has become harder to secure funding, with more organisations applying for less money. In addition the criteria for grants have tightened making getting money for core and continuation funding even harder. Other trends identified were grants from Local Authorities changing to Service Level Agreements (contracts) and more organisations have developed their own self-generated income.

Fundraisers

Less than a quarter of organisations had any kind of dedicated fundraiser, for most it is part of several peoples jobs (which includes responses where fundraising was the sole responsibility of one member of staff (typically the director) in addition to their other responsibilities /duties). Two groups did not undertake fundraising activities.

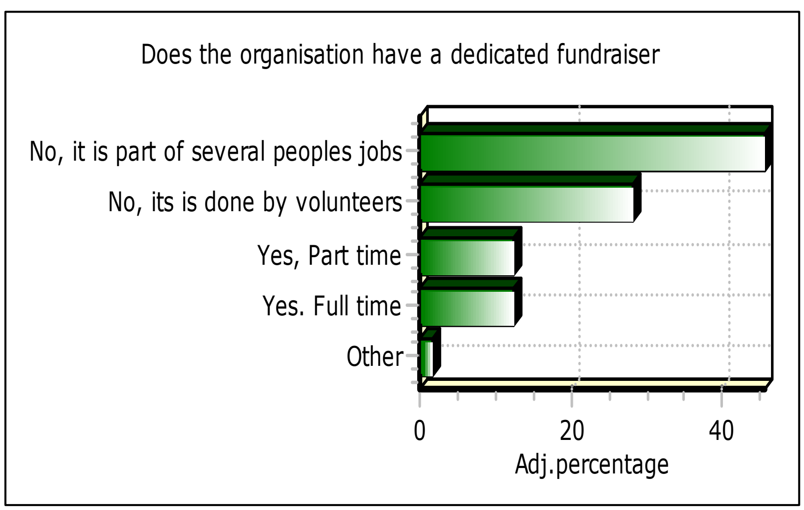


Chart 7 - Dedicated fundraiser

The table below (Table 1) compares income and whether an organisation has a fundraiser. As expected the larger organisations are most likely to have a full or part time fundraiser. For organisations with an income range of £50,000 to £1 million, fundraising is part of several people's jobs. Some relatively large organisations are dependant upon volunteers to raise their income.

	under £10,000	**£10,001 - £50,000**	**£50,001 - £100,000**	**£100,001 - £250,000**	**£250,001 - £1million**	**£1 million +**
Yes. Full time	0%	7%	0%	7%	21%	64%
Yes, Part time	14%	14%	21%	21%	7%	21%
No, it is part of several people's jobs	4%	10%	24%	31%	22%	10%
No, its is done by volunteers	38%	31%	19%	13%	0%	0%
Other	0%	0%	0%	50%	50%	0%

Table 1 – Fundraiser and income

Box 2: Ystradgynlais Volunteer Centre – Ebay

YVC provides a range of services to the community, centred on volunteering. As with many organisations they find 'core' funding hard to attract. They have one full-time staff member working for the Volunteer Centre, and 3 part-time staff working on various projects that included a wood store and tools for a self reliance project.

YVC found that they were receiving many tool donations for the tools for self reliance work; however some of the tools donated were collectable items. It was decided to have a go and try to sell them on Ebay as this gave a much larger market than would be available from the community.

The items all sold and as a result more items were found. These came from the dontated items to the tools project, and have included a GWR train whistle and an oil lamp that was sold to a buyer in Thailand. The Ebay work is undertaken by a single volunteer who is keen on IT, in the 18 months they have been selling items over £1000 has been banked.

Other items that have been sold included collectable DVDs, tea sets and items for TV film /drama sets where authentic items are wanted for a TV production. Recent developments have been requests to sell items on behalf of people in the community who do not use Ebay themselves and in return they donate a proportion of the item to YVC. There has also been some interest by local shops for the centre to sell some of their goods.

There have not been any significant difficulties, although the postage has been something to watch, with some heavy items being cheaper to post in several batches. Registering with Missionfish; EBay's not for profit arm has allowed YVC not to have to pay sellers fees on items, which has increased their profits.

There are no plans to develop the selling significantly as it would become too labour intensive for the volunteer, the sales were always meant to just be a handy extra income rather than a significant income stream.

Preferred future funding sources

Organisation's future funding sources are shown below (Chart 8), clearly organisations are using a wide range of sources to raise income. The most commonly used being Local Authorities, self-generated income, donations and charitable trusts.

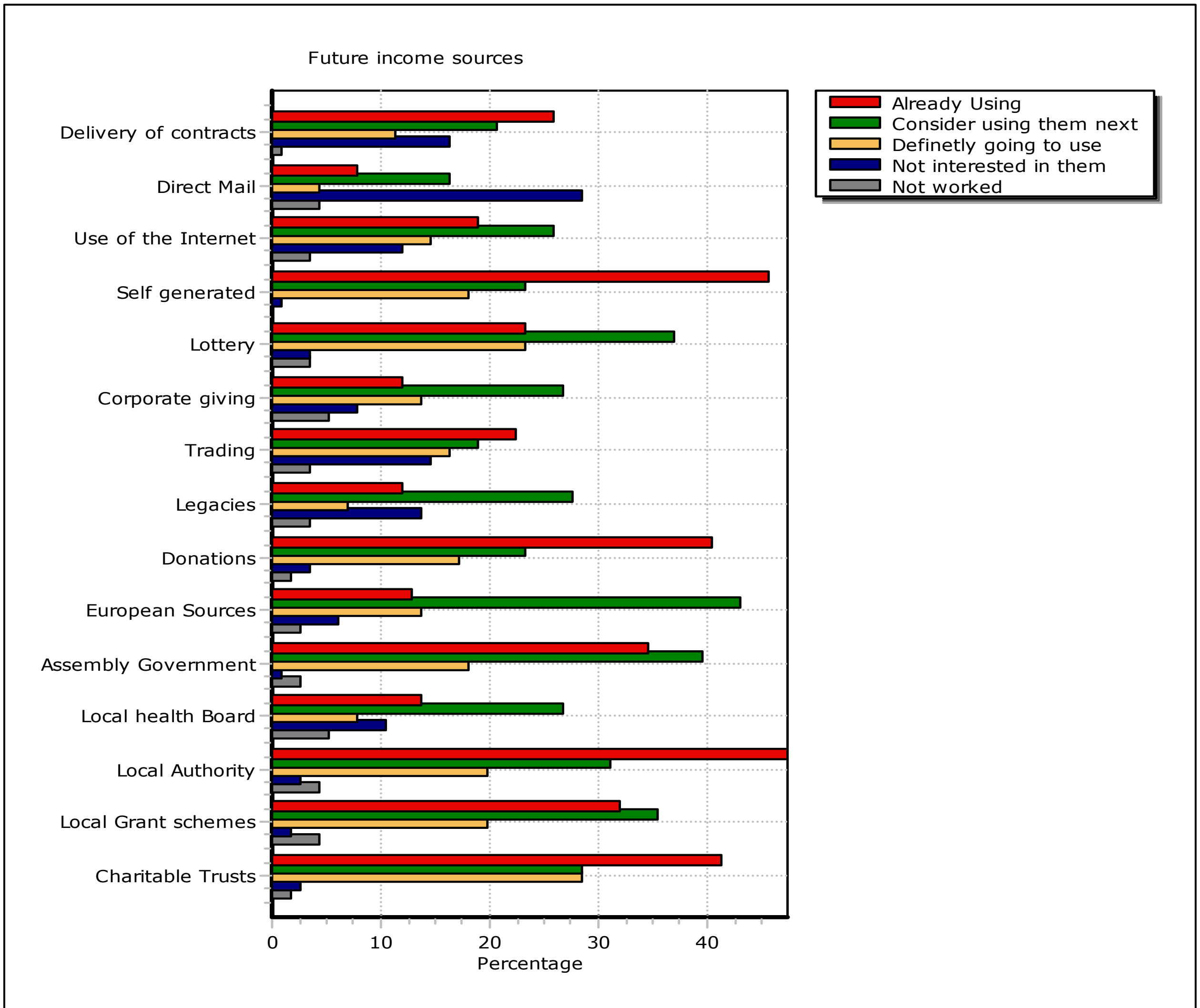


Chart 8 Future sources of income

The sources that had least interest for the future were direct mail, followed by delivery of contracts, trading and legacies. For sources of income that had been tried in the past and not worked corporate giving was the least successful. Self-generated income appears to be the most successful with no organisations reporting that it had not worked for them. The reasons that were given for not developing new areas of fundraising are given below. The 'Other' reasons included:

- Hard to find suitable funder
- Need more support

- Exhausted all avenues
- Developing procurement
- Being self-financing

A comparison of organisations with staff dedicated for fundraising and the reasons for not undertaking new fundraising activities showed that for those organisations where fundraising is part of several people's responsibilities, it is a lack of time, followed by cost, that prevents new initiatives being undertaken. A lack of time is the most common problem for organisations with an income between £50k and £250,000. This is also the income bracket that had a high level of the fundraising responsibility as an additional responsibility of staff, suggesting organisations operating at full capacity.

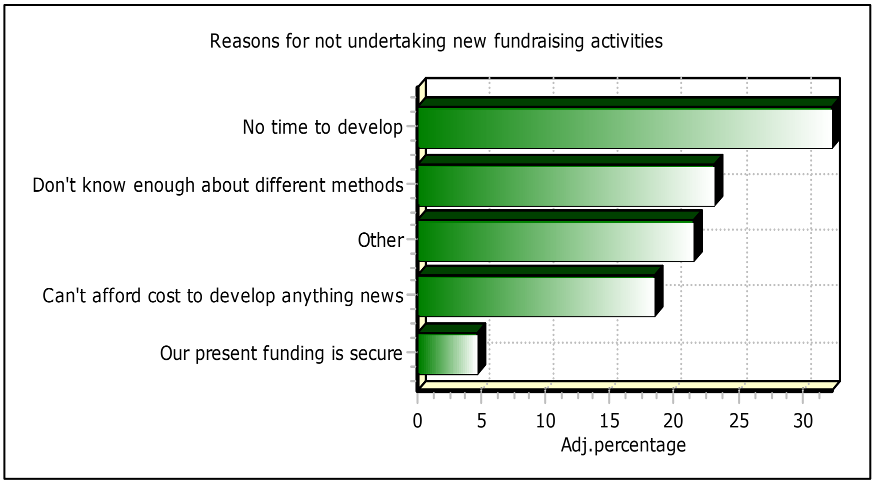


Chart 9 – Reasons for not undertaking new fundraising activities

Barriers to fundraising
The chart below (Chart 10) shows the barriers that organisations identified to their fundraising activities. The level of competition for grants being the main reason; this increase in competition may be as a result of the second barrier; cuts in Local Authority funding. Although there is a lack of information; a bigger barrier is the lack of money to invest in future fundraising activities. The need for information and investment are barriers that organisations can seek to address.

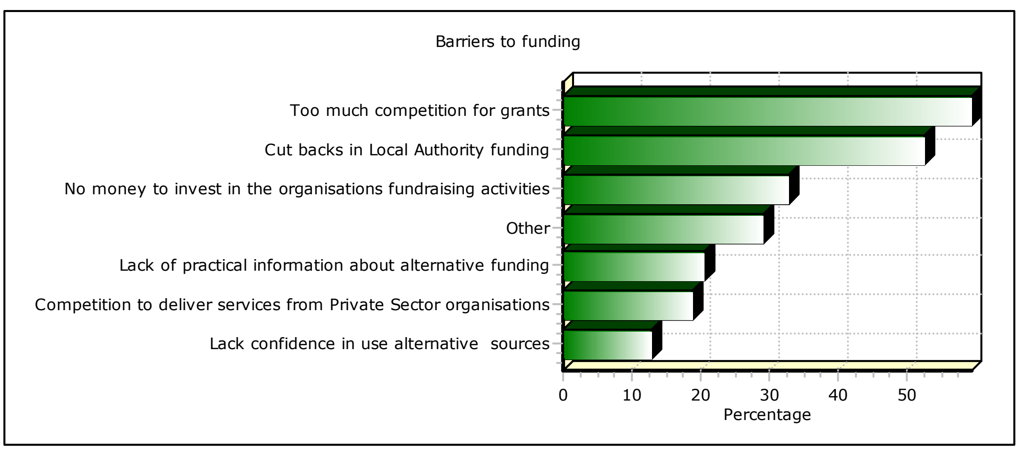


Chart 10 – Barriers to funding

The "other" barriers that were identified included
- Restrictive WEFO funding
- Time – and expertise needed - other pressures of post
- Present financial climate

- Lack long-term funding
- Grant makers not funding running costs
- Lack of volunteers
- More competition from CVCs

Some of the general comments from the survey showed that there is a feeling that funders do not understand the needs of organisations; specifically it was felt funders do not recognise that:
- Organisations need time and resources to grow;
- Organisations cannot continually develop new innovative projects;
- Short-term funding can have negative effects on organisations; and
- The role of the third sector needs to be taken more seriously by Welsh Assembly Government.

There was also a desire to have a more transparent funding process, with feedback, particularly from the Lottery and Wales Assembly Government.

There was also a view that too much money is going to larger or infrastructure organisations. One infrastructure group noted that they try to avoid funds that their members also apply to, but with cuts in other funding they are forced to compete with their members. Changes in funding and the drive toward service delivery via contracts are felt to be making it harder for smaller organisations (often with specialist knowledge and understanding of a particular community group) to continue to provide services as they are unable to compete for the contracts. Related to this view was a concern that there is potential for new European money to displace local organisations where larger 'strategic' partnerships are awarded money to deliver services.

Activities that were found hardest to fund were overwhelmingly "core" activities; particularly management and administration post. Money for continuation of existing projects was also difficult to acquire and money received from donors was low. Other difficulties included obtaining money for feasibility studies, European funding and rural initiatives (funding was felt to be urban biased).

Sources of funding information

The local County Voluntary Councils were given as organisations' main source of funding information. This was particularly strong for organisations with an income under £50,000. For larger organisations the internet and funding databases were used, they also made more use of WCVA funding support than the smaller organisations did.

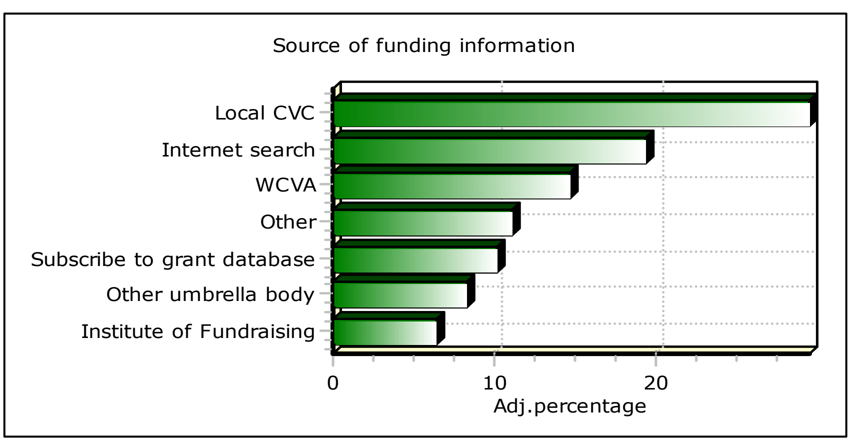


Chart 11 – Source of funding information

Fundraising plans

Most organisations did not have a funding plan, although almost a quarter intend to write one in the coming year. A comparison of income and organisations having a funding plan show that the smaller organisations are least likely to have produced a plan, indeed with many smaller organisations seeing no need to produce one in the future. A surprising number had a funding plan but were not using it; particularly from larger organisations.

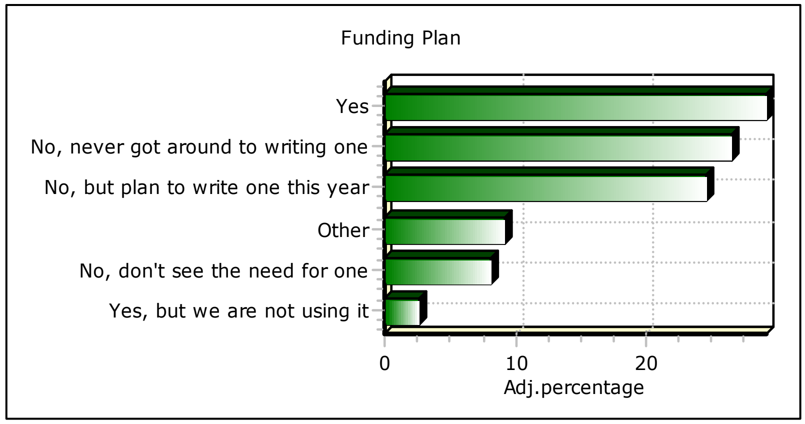


Chart 12 – Funding plan

The main reasons given for not writing a plan were given as; a lack of time, where time is available it was better spent fundraising that planning. Some plans were as part of business plans, and for others the plans were 'in people's heads" rather than written down.

Future support of organisations

80% of organisations wanted more support with their fundraising. This rises to 95% for organisations with an income under £10,000 and falls to 70% for those with an income over £1 million.

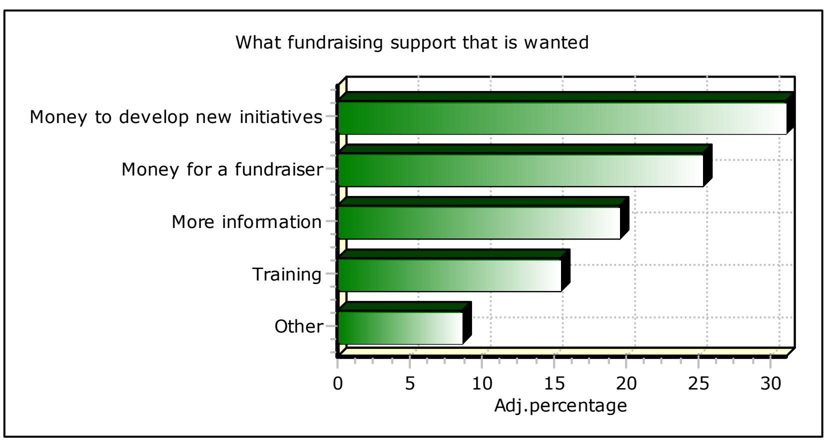


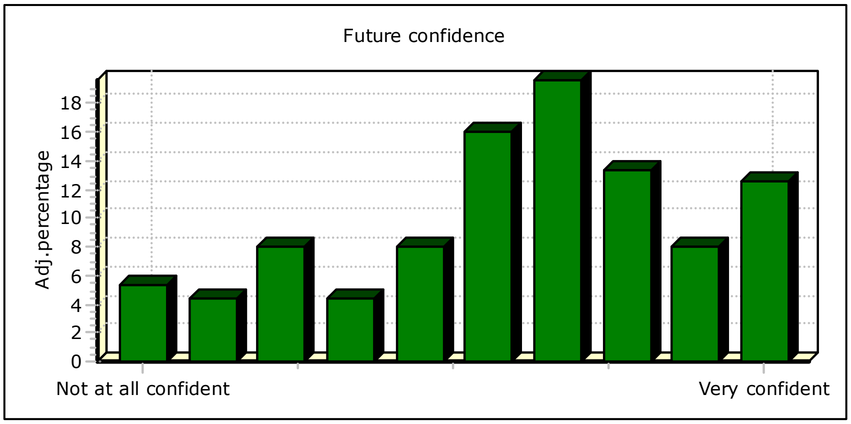
Chart 13 – What fundraising support is wanted?

The support that was wanted was predominantly for money to develop initiatives or to employ a fundraiser, reinforcing the view that it is not a lack of information preventing organisations developing but a time/capacity issue.

The "other" support that was wanted included; money to pump prime new initiatives, up-to-date information on local grant schemes (including upcoming deadlines and examples of what funds money had previously supported), support to develop social enterprise, more transparent grant criteria and someone to develop Public Relations.

Confidence in the future

In looking at organisations' future confidence for fundraising, the overall view was positive, the majority were feeling more rather than less confident. In identifying what factors give confidence in the future of fundraising, the results show that: Those with a high level of confidence are more likely to have a full time fundraiser, or all the fundraising done by volunteers, an income over £1 million or under £10,000. Those with the least confidence either don't see the need for or have not got round to writing a fundraising plan. They have a part-time fundraiser or fundraising is part of several people's responsibilities. This again relates to the capacity of the organisation to fundraise.



There is no clear relationship between "type" of organisation and future confidence, although health and social care together with gender groups had the greatest confidence. The disability groups had the largest spread throughout the confidence range.

Summary

The survey highlighted the importance of Welsh Assembly Government and Local Authority funding; it not only makes a contribution to over 50% of organisations but for a significant number it makes a substantial contribution of over 25% and up to 100%.

Self-generated income and donations are used by a high proportion of organisations; however the contribution they make to the total funding is smaller, typically under 10%. There is potential therefore for organisations using these income streams to develop them for the future. Income from legacies is low both in the contribution it makes to income and the number of organisations receiving income from them; again there is potential here for development.

The majority of organisations are using a range of income sources, however a significant proportion (26%) have just one or two, making them vulnerable to reductions in funding from these sources.

In identifying successful fundraising activities; social fundraising activities were found to be good and a wide variety of activities undertaken, for example sponsored runs, charity dinners, dog shows, fashion shows. Although not always raising large amounts of money they were good at raising the organisation's profile.

Trends identified in fundraising reinforced those from the literature review; more competition for grants as more organisations compete for less money, a shift towards service level agreements and contracts and grants becoming more targeted, making funds for core activities even harder.

Fundraising within organisations is generally part of several people's role; or part of a specific member of staff's (typically chief officer/director) role, except in the larger organisations who were most likely to have either a full or part time fundraiser. Volunteers are important in fundraising for the smaller organisations, although some large organisations (with an income up to £250,000) also rely upon volunteers, the importance and recognition of this work needs to be highlighted.

A lack of time was seen as the main barrier to fundraising. This was particularly the case for organisations that did not have a dedicated fundraiser and these were typically organisations with an income from £50,000 to £250,000. There was also a lack of money to invest in fundraising activities. A further barrier was felt to be funders not being aware of the needs of third sector organisations.

To help develop future fundraising activity money or resources to invest in fundraising was given as the main need rather than more information, which was in the main gained by the local County Voluntary Councils.

Most organisations do not have a funding plan; those that do are generally the larger organisations, the smaller ones seeing no need to produce one, however there is an intention by many groups to write a plan this year. There is confidence about future fundraising activities; it is the largest and smallest organisations that are most confident. The least confident are the organisations where there is greatest pressure upon staff time where fundraising falls as part of one or several people's responsibilities.

Section 4.0 Interviews

County Voluntary Council staff identified that support for grants still dominates requests for help from the sector and that the competition for grants is increasing, resulting in smaller and more obscure trusts being applied to. It was also noted that the criteria for funding has become more targeted, which makes seeking money for "core" activities more difficult.

The previous large injections of European money has left gaps in organisations who are now struggling to find replacement monies to continue projects that they have set up. The majority of CVCs also identified an increase in grants being changed to Service Level Agreements for funding from local authorities (these SLAs are also being capped or reduced). There was also an increased interest from the sector in tendering, especially in relation to opportunities through Sell 2 Wales. However this interest was not uniform, either geographically or by interest group. One CVC reported that health and social care organisations were much more prepared and able to produce competitive tenders than other types of organisations. The amount of information needed was given as the main reason for not tendering.

Excellent projects are established by organisations with time limited funding with money from the Lottery or European funds. Organisations then struggle to secure funding to carry on with the project as potential funders are seeking for new or innovative projects. The Waterloo Foundation's 'Best of Wales' fund is one of the few funding sources available that is set up to support successful projects that have run into funding difficulties.

With regard to diversification of funding, the sector does not appear to be changing quickly. CVCs did not report any increase in support for funding other than grants. The WCVA through their Sustainable Funding Cymru project have anecdotal evidence to suggest a greater awareness of sustainable funding. Loan Finance, with promotion from Finance Wales has seen some positive results (Box 3)

Box 3: Loan finance

Loan finance is a relatively new income source open to the sector that has enabled projects to develop. Pafiliwn Cyf was established in2004 to redevelop Pafiliwn Bont a large venue for concerts and other events. Since the construction of the venue in 1967 the venue had hosted several high profile pop concerts and other community focused events. However time took its toll and by 2000 it was declined a licence for performances due to poor electrical wiring and closed, shortly after it was badly damaged by fire and left for derelict. However by 2006 £2.5 million had been raised by a community group to redevelop the venue.

They decided to apply for a loan to invest in technical equipment to make the venue more attractive to businesses and attract a higher fee paying market. They could then market their venue more strongly, confident that they would have the equipment and facilities businesses wanted. The investment will pay for itself within 10 years, so although a long term project it will help the future sustainability of the venue and made the venue more marketable and profitable.

The loan taken was with the Communities Investment Fund, which was available to organisations in objective one area, or 60% of the people they serve must be based in such an area. Before taking the loan the business plan was reviewed and strengthened to ensure the project would be financially viable.

In identifying the barriers to diversification, the WCVA (through a review of their service) found that there are two factors that need to be overcome before an organisation will diversify its funding; *desire to change* and *ability to change*. The ability can relatively easily be overcome through training and support, all of which CVCs, WCVA offer and where support / training has been given the results and feedback is positive. The desire to change is much harder to achieve. There is still a grants culture held by many organisations (particularly the smaller ones) who are applying for small grants and have been successful in the past and therefore continue with this ethos. Getting people to engage is hard, those who participate in the training are 'active learners' they have made the decision to begin to look at the organisations' future funding options and as such willing to consider alternatives. For those that have not made this decision it is much harder to engage with them.

This reluctance to change can be attributed to a number of factors:

- A staff member may be keen to develop the organisation, but face reluctance from a board of trustees
- Groups stick to what they know / what they have always done and has worked in the past
- There is a fear of failure in taking on new ventures and losing money invested in the initiative
- The organisation (and a frequent criticism of the sector is that it is risk-adverse) is not willing to spend on uncertainties – this is often more so in times of financial hardship.
- Groups do not recognise their own need
- Groups are too busy 'fire fighting' or delivering existing project to develop new activities

There is very little funding available for organisational development from charitable trusts or other sources. Traditional models of funding for organisations, and particularly that used in calculating Full Cost Recovery apportion core or developmental work across project costs. Whilst this is feasible for a larger organisation with many projects, for a smaller organisation with few projects these costs are difficult to apportion without making projects prohibitively expensive (therefore unattractive to a funder or exceeding a grant threshold). As a result, small organisations do not always include these costs in their projects, and therefore are unable to invest money into their organisational development.

This therefore places more emphasis on the need to develop alternative income streams or reduce costs, however such action has only a limited effect, as if cost are cut too much the organisation will become over stretched and ineffective.

There is a need to continue to increase awareness of the need to diversify funding and the changing funding environment. There have been several actions taken to raise awareness and encourage groups to diversify. It is noticeable that it is the CVC/WCVA that has taken the lead to move the sector on, not the sector driving the change. Actions undertaken have included sharing best practice with visits to successful organisations / projects. Through the WCVA Sustainable Funding Project an initiative was set up to support organisations to share information, participating organisations gained confidence and ideas to enable their own initiative to progress.

The ability of CVCs to support the sector in diversifying is limited, although not in knowledge or information where it was felt there was sufficient capacity. One exception is tendering and procurement, here some CVCs felt that they lacked detailed knowledge to give the necessary contractual support.

The lack of capacity of the sector lies more with a lack of staff to give the necessary support. One CVC identified the need to give up to 6-7 hours of support to groups to help them develop, with such support being given over a number of weeks and coming back to the CVC each time they needed additional support or information.

Without doubt, there is a wealth of experience and expertise in the CVCs /WCVA to support the sector however this expertise is spread across Wales and not held in one place. There needs to be a more effective means of sharing information and resources. There is not a consistency of support throughout Wales and the strength of an organisation can rest with an individual. Accredited training was provided to CVC staff by "Fit for Funding" (NVQ level 2 or 3) however, a professional accreditation from the Institute of Fundraising would raise standards further. Whatever form training takes it needs to be continual to ensure the sector is up-to-date with the latest best practice.

Tendering, social enterprise and giving were identified as areas of funding that need more encouragement. These were not universal across Wales. Social enterprise in particular are just beginning to be encouraged in some areas while others regions have been running projects for over six years. The presence of other organisations such as the Cooperative Centre has affected CVCs need to promote social enterprise.

Giving was felt to be low / under developed across Wales, groups reluctant to ask for money from the public. This is consistent to research identified in the literature review which shows that the general public does not understand the work of charities and there is misunderstanding of how they spend money. Although the larger organisations are not capitalising upon giving, many of the smallest groups fund themselves entirely through small social events like cake stalls, raffles, etc.

Tendering is very prominent in the sector at present, with interest ranging from uninterested to actively seeking and winning tenders. There is a need to continue to promote tendering and how to engage in the process

The need to continue to promote sustainable funding was felt across CVCs. Although awareness has increased there are many organisations that are not embracing the changes needed. It is evident that the sector is becoming divided in terms of its approach to funding. There are several types of organisations emerging, and it is the third group that poses the greatest challenge.

1. Organisations that have recognised the need to change and are taking steps to do so
2. Organisations that have recognised the need to change but lack capacity to change
3. Organisations that have not recognised the need to change and may face future funding crisis
4. Organisations that have already developed a sustainable funding platform. These tend to be small organisations whose income comes from community fundraising activities or developed social enterprises.

In identifying the support that the Welsh Assembly Government could provide to support the sectors' development a number of actions were suggested.

Development funding
Organisations frequently only need small amounts of money to develop a new initiative which can bring in considerable benefits to the organisations (see Box 4). Such funding reduces the financial risk to the organisation in investing in a project that may not work. It can also identify more information that will give confidence to trustees to develop an initiative, such as a feasibility study or business plan. The development of a "seed corn" fund that can be used to invest in the organisation to develop new initiatives would therefore be a real asset. This funding should go hand in hand with support from CVCs via development workers to ensure that the organisations use the money effectively.

BOX 4: Radnorshire Wildlife Trust

In 2006 RWT applied to Powys Association of Voluntary Organisations for a SPIRIT grant; a local grant scheme funded by the European Social Fund. The purpose of the grant was to provide social and economic regeneration to communities within Powys. The Trust had a trading arm, Radnorshire Wildlife Services; however this had no dedicated staff but provided a vehicle to undertake consultancy and contract work. The manager was aware of the opportunities to develop consultancy work for the Trust; particularly bat surveys and ecological surveys. Other wildlife trusts had also developed successful consultancies – although these were based in England and had larger catchments of opportunities.

The Trust as it stood was operating with staff at full capacity, so was unable to take on any additional work that developing and running a consultancy would require. Therefore they applied for £10,000 to start up a consultancy arm of the Trust.

The application was successful and this paid for a consultancy manager working three days a week for nine months. The consultancy manager quickly set out publicising the consultancy; letting local authorities and planning agents know of its existence and producing a promotional leaflet. The first contract was won within three months, which was for designing a wildlife lake for a local camping / caravan site. More work followed; bat surveys, Phase One habitat surveys and a lake restoration plan. Contracts varied from a few hundred pounds to £4000. By the end of the first six months the consultancy had brought in sufficient income to cover its costs. The trustees recognised the potential and agreed to a further 12 month extension.

The Trust continued to win contracts which included a large contract producing farm management plans for Ribena in England, worth £40,000. By the end of the third year the consultancy was generating a surplus for the organisation. The consultancy had started small and had the benefit of utilising the skills of existing staff, associates (although this was kept to a minimum) and volunteers who had ecological specialisms to deliver contracts. The Trust was fortunate in the appointment they made for the manager who had both the experience and enthusiasm to make a go of the consultancy.

Although the consultancy was winning more work, the profit made from each contract was being limited by the use of associate consultants in delivering the work. This was due to a large proportion of work being for bat surveys which required a licensed bat handler, and as no staff were licensed associates had to used. To develop the Trust it was agreed to recruit an ecologist; an initial advert for a part time ecologist failed to attract a suitable candidate. Trustees therefore took the decision to appoint a full time ecologist. Although this was a larger expenditure it was felt that the investment in the organisation would be worthwhile, allowing more work to be undertaken with less income going to external consultants.

The consultancy is now in its fourth year and is continuing to win contracts including a "Forgotten Landscape" project in south Wales worth £65,000. The income for the coming year is set to make a substantial profit, covering both the manager's and ecologist's staffing costs plus a surplus for the Trust. Key factors in success:

- The initial grant which gave the confidence to set up
- Setting a sufficient wage to attract a good Manager
- Well targeted publicity
- Volunteers and associates than enable consultancy to undertake large contracts

Information sharing

Welsh Assembly Government should include CVCs in their funding information sent to Local Authorities / Local Health Boards, this will help to ensure opportunities for the sector are not missed and the sector knows about them in good time. Even if the sector is unable to apply directly they may be able to add value to activities carried out by other agencies. This would also allow the CVC to circulate to its members any opportunities that they may be able to capitalise upon.

Tendering events / training

Welsh Assembly Government should run events for each county on tendering / procurement. This should be delivered jointly for the sector and local authority staff. This would help to ensure that there is common understanding of the procedures. Such training is being delivered to the sector by the WCVA through their Sustainable Funding Cymru team, which is well received; however training to share understanding between the local authority and third sector, the Assembly Government may be better placed to deliver.

Section 5 Discussion

It is clear that the funding climate that organisations are now operating in has changed from that less than five years ago. Some of the key changes being the increased competition for grants (due mainly to a substantial growth in the number of organisations), grants themselves are becoming more prescriptive in what they will fund, cuts in statutory funding have reduced 'core' funding for many organisations who are now turning to trusts and therefore increasing competition further, and there is an increase in the use of tendering for service by statutory bodies which third sector organisations compete with private organisations.

However, there are many funding options available to organisations, and while grants remain popular the growth in social enterprise is evident. Some of the newer funding options include loan finance, tendering and to a lesser extent the use of the internet. Tendering is being driven by changes in service delivery, whereas the internet offers small niche opportunities. There are many organisations offering loans to the sector such as Finance Wales, Charities Aid Foundation, Charity Bank Triodos Bank, Unity Group and Communities Investment Fund, this has allowed organisations to develop initiatives where trustees have had the confidence that the project will generate sufficient income to pay back the loan.

Although there are new funding opportunities the sector has limited capacity to develop them, only a few organisations (typically the largest) have a dedicated fundraiser, most fundraising being an additional part of people's roles. There are also not the funding sources to support organisational development (the criteria of many trusts specifically state that they will not fund fundraising). Organisations are being encouraged to be innovative and look at ways of sustaining their activities but there is not the financial support available to help them achieve this.

It is the medium-sized organisations; those with an income with a range of £50,000 to £250,000 that have the least capacity. These organisations are unlikely to have a dedicated fundraiser and also be the least confident about their future funding.

The sector responds well to guidance from both CVCs / WCVA. It appears that where it is led it will follow – for instance where social enterprise have been actively promoted uptake / awareness is greater, the recent promotion of tendering has resulted in greater awareness and activity. Therefore these umbrella organisations need to have the capacity and skills to effectively lead the sector to develop new initiatives.

In considering specific income sources, it is felt that grant funding will remain an important component of third sector funding. There seems every likelihood that grants will remain specific and targeted, with those from statutory sector being use to tackle specific issues. Competition for the grants will also continue to increase as new organisations become established.

Procurement and tendering is an area where the sector is developing but also one that has been identified as a need for greater support, from both an individual organisation perspective and for CVCs to help organisations build partnerships to deliver larger more complex services. The impact of this upon smaller organisations has been identified as an area for concern as they are most likely to lack the capacity / skills to be able to tender for service delivery and risk losing out to larger (out of county / country) providers. A lack of recognition of the third sector's contribution to service delivery (including the design of service) is also identified as a problem that needs addressing.

Social enterprise is a growing area within the sector and one that has proved successful for those active within it. The challenge is to encourage more organisations to participate and look at ways to generate income themselves. For organisations wanting to develop enterprise there is support available, such as from the Co-operative Centre, WCVA and some CVCs. However there are many organisations that could develop enterprise but have yet to embrace the opportunities, it is changing the attitude of these organisations where work is needed to be undertaken.

Giving is an area where the sector is underdeveloped; although a higher proportion of people in Wales "give", the levels of money are below the UK average, typically donations make up under 10% of an organisations income. The largest and smallest organisations are the ones that are getting the greatest benefits. The smaller organisations need only small amounts to maintain their activities and the larger ones are able to run large marketing campaigns. Legacies are another area where there is low interest, although some organisations have made good use of them.

WCVA have set up "Giving Wales" to increase the value of gifts to the voluntary sector in Wales through the promotion of giving, in particular tax effective giving. This is however delivered by a single person and therefore resource poor. It is also focussing upon tax efficient giving which while important does not address other factors that can encourage donations. The public understanding of charities, building relationships with donors, ensuring the accountability, transparency, and clarity in the work of charities are also important factors to encourage donations. The project also does I not address issues of the changing donor as identified in reports from NFP Synergy. This is no failing of the project as its remit is clearly defined and it is working effectively to this. However additional support is needed to encourage giving and promotion of the work of charities in Wales. As such additional resources are needed, a pilot project in a geographic region (similar to Corporate Challenge Wales) may be an effective way to take this forward.

So called "social fundraising" is unpopular with larger organisations, even though where such activities are run they tend to generate a useful sum of money; however there is a perception that the time spent organising such events could be more productively spent writing applications. This is probably true for a successful application, but account must also be taken for the many unsuccessful applications that are made and also the positive publicity such activities can generate.

Corporate giving was both little used and generated relatively low proportions of income. It was also not an area that organisations were considering to develop in the future.

Section 6 Conclusion

The research has reinforced the view that the sector is facing challenging times in its funding. Whilst there are many funding options available they all require an investment in time to develop, especially to develop new sources. As a result many organisations stick to what they have always done but in doing so they risk long term financial hardship as more traditional sources of funding diminish.

In order to help the sector to develop and become more sustainable in its funding, action needs to be taken in several areas:

Awareness and Information
There is a need to continue to raise awareness of the importance of sustainable funding and the importance of developing more diverse funding. There is also a need for information on developing these new sources of income, including areas such as social enterprise and giving. There is a wealth of information in England that does not readily come to Wales, courses run by the Directory of Social Change for instance could increase skills and encourage development in Wales. Whilst there is excellent and affordable training offered in Wales through the CVCs and WCVA, there are 'experts' within the sector whose knowledge and expertise is largely confined to English training courses.

Information about all potential sources of funding from Welsh Assembly Government need to be circulated to CVCs to ensure that they, along with the statutory sectors, are informed of upcoming opportunities to give them time to prepare effective applications.

Value of the sector
The sector is finding itself having to compete for funding for both public and private money. Individuals have better information and more choice as to who they give their money to and organisations looking for services to be delivered want the best returns for their money. The sector therefore needs to be able to demonstrate and promote its value and the impact it makes to people's lives. It also needs to ensure it is transparent and accountable about how it is spending its money to maintain public confidence.

Leadership
Where the sector has been led to develop specific areas of funding it has responded effectively. Where a CVC, WCVA or other support agency has been able to push a specific area there have been good uptake from within the sector. Such leadership needs to be maintained and more consistent across Wales, and the best practice learnt in one area shared more effectively.

Investment
Third sector organisations need to invest in their development to help them develop new funding opportunities. Such funding is lacking from trusts and foundations which are more interested in specific support to individuals rather than organisational development. Where funding for such investment has been made possible such as through WCVA or CVCs it has proved very successful with modest amounts of money leading to long term financial and community benefits.

Section 7 Recommendations

Awareness and Information

- CVC / WCVA to continue to provide affordable training on the benefits of sustainable funding to third sector organisations and the need for organisations to embrace this way of working and all it entails.

- Welsh Assembly Government to ask for a funding plan / strategy as part of its funding application process. This would help to ensure money given by WAG is invested in an organisation that has considered its future funding and seeks ways to meet its income requirements.

- Welsh Assembly Government to share with CVCs information about funding initiatives in the same way they do with Local Authorities. This will ensure the CVCs are aware of all funding initiatives, even if they are not ones they can directly input into, they may be in a position to support other applicants.

- Encourage training courses on funding to be run in Wales by organisations such as Directory of Social Change who will bring in new expertise to the country.

Value of the sector

- Establish a pilot project to complement the work of "Giving Wales" to encourage giving through enhancing public understanding of charities and the work of the third sector.

- Welsh Assembly Government to initiate a Wales Fundraising award, possibly as part of the WCVA Volunteer of the Year award. This would identify and recognise fundraising success and give recognition to those involved, both staff and volunteers.

Leadership

- CVC's and WCVA have a key role in providing leadership to the sector this needs to be coordinated and consistent to make effective use of the skills and resources of each organisation.

- CVC / WCVA staff to be able to give leadership in diversifying funding. Therefore their staff need to receive appropriate training.

- WCVA through their Sustainable Funding Cymru has made a significant impact upon those it has supported in developing their sustainable fundraising activities, such leadership is key to future development of the sector and the continuation of the work.

- WAG to give leadership on procurement and helping to standardise procedures of statutory bodies throughout Wales. Joint training provided to potential service providers from all sectors by WAG would clarify procedures and help develop shared understanding of expectations.

Investment

- Welsh Assembly Government to establish a development fund that would enable organisations to invest in their development and income generation ability. This would be targeted at organisations with an income between £50,000 and £250,000 and should be given via the County Voluntary Councils to ensure that organisations will be able to benefit from their knowledge and skills.

Bibliography

Association of Charitable Foundations (2007) *Grantmaking by UK Trusts and Charities*

Cunningham I. and James, P. (2007) *False economy? The costs of contracting and workforce insecurity in the voluntary sector*, UNISON

Collis, B. (2008) Voluntary Sector Almanac, A statistical resource, WCVA

Davies, S. *(2007) Third sector provision of local government and health services,* UNISON

Institute of Fundraising (2004) *Fundratios*

Institute of Fundraising (2008) *Managing in a Downturn*

Matthews (2006) *Capacity of Voluntary Organisations to Deliver Service for the Local Authority in Powys*

NACVS *(2006) Why Grants are Important*

National Council for Voluntary Organisation (NCVO) (2006) *UK Voluntary Sector Almanac*

NCVO (2006) How *voluntary and community organisations can help transform public services*

NCVO *(2007) Funding Trends*

NCVO (2007) *Third Sector Foresight, Future Focus*

NCVO (2007) *Voluntary Sector Strategic Analysis*

NCVO (2008) *UK Giving Survey*

Paxton, W., Pearce, N., Unwin, J. and Peter, M. (2005) *The voluntary sector delivering public services: transfer or transformation? UNISON*

Saxton, J. (2006) *Virtual Promise*, NFP Synergy

Saxton, J. (2006) *The 21st Century Donor*, NFP Synergy

APPENDIX

Type of organisation	This survey results	WCVA 2008 Almanac figures
Sports and Recreation	3	24
Community	26	16.6
Disability	11	6.6
Health and social care	11	12.5
Youth	7	9.9
Advice and advocacy	6	2.4
Children and Families	6	11.8
Environment	6	6.6
Arts, culture and heritage	5	9.4
Gender	4	7.2
Education and Training	3	4.2
Ethnic minorities	3	1.4
Sport and recreation	3	24
Community Justice	2	1
Employment	2	0.9
Housing	2	2.9
Intermediaries	2	0.4
Animal Welfare	1	1.9
Religion	1	8.9
Volunteering	1	0.6
Benevolent Organisations	0	14
International aid / emergency relief	0	3.2