

# Follow up paper for Finance Committee

**October 2011**



Further to WCVA's evidence session with the Finance Committee on 12 October 2011 this paper provides some supplementary information as requested by the Committee. We have also enclosed in full our most recent 'State of the Sector' survey which provides a range of information about the impact of the recession on the sector in Wales including demand for services.

## **Grants and contracts – a third sector perspective**

Over the past few years, there has been a significant shift from grants to contract income for third sector organisations in Wales: grants now make up less than a fifth of all income, while a third of all income comes from contracts and trading.

Data gathered by WCVA's Research Team during 2006 and 2009<sup>1</sup> identified the following trends in the income of the Welsh third sector:

- Grant income has fallen from £428m in 2006 to £291m in 2009
- Income from contracts has increased considerably, from £167m in 2006 to £378m in 2009

Of the £4.3bn spent each year by the Welsh public sector on external goods, works and services, around 50% is spent on suppliers based in Wales.<sup>2</sup> There is a drive to increase this, as it is estimated that every 1% increase in this expenditure in Wales means the creation of an additional 2,000 jobs.

Around 45% of the third sector's income in Wales comes from Local Government, Local Health Boards and Welsh Government. Whilst this is vital for the recipient organisations, it represents a tiny element of the total budgets of the public sector bodies:

- Welsh Government spends 2.8% of its budget on the third sector
- Local Government contributes 3%
- funding from health bodies to the third sector represents only 0.3% of total health spending<sup>3</sup>

As procurement is used more and more in Wales, some third sector organisations have seen grant funding being replaced by contract income from competitive tendering. Others have seen the loss of funding and opportunities to larger private companies with tendering capacity and experience.

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<sup>1</sup> WCVA Funding surveys

<sup>2</sup> *Buying Smarter in Tougher Times*, Welsh Government, Feb 2011

<sup>3</sup> *Third sector statistical resource 2011*, WCVA

While procurement may be appropriate or legally necessary for certain categories of goods and services, its lengthy, bureaucratic and prescriptive nature may mean that it cannot achieve the best outcomes in all cases.

Because of the rules regarding competitive tendering, there is a danger that the unnecessary over-use of procurement could exclude third sector organisations from engaging in public service design and delivery, and damage local service provision and community activity. Moreover, a relationship between public bodies and third sector organisations which is entirely contractual - one purchasing services from the other - could reduce social capital and threaten the distinctive, complementary relationship between the two sectors that exists in Wales.

A more mixed funding economy - which includes grant aid - will support the sustainability of local third sector organisations, and help to nurture vibrant and vital community resources.

### Third sector involvement in the Work Programme

There is evidence that the anticipated contract opportunities flowing from the Work Programme are not materialising to the scale anticipated. In their respective bids to the DWP, Working Links proposed to sub-contract only 5.3% of their total contract value to the voluntary sector, and Rehab Jobfit proposed 13%.

Michelle Matheron,  
Senior Policy Officer  
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