

January 2017

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Local Authority Funding of Third Sector Services



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



Cover photograph - A walk in the park, with Age Connects Cardiff and the Vale. Age Connects volunteers provide much needed support and company to older people in the local area. One of the top 15 photographs in WCVA's Members Photography Contest 2014.

I have prepared and published this report in accordance with the  
Public Audit (Wales) Act 2004.

The Wales Audit Office study team was project managed by Nick Selwyn  
and comprised Gareth Jones, Kevin Sutch, Duncan Mackenzie  
and Martin Gibson under the direction of Jane Holownia.

**Huw Vaughan Thomas**  
**Auditor General for Wales**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

All photographs supplied by WCVA.

The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

© Auditor General for Wales 2017

You may re-use this publication (not including logos) free of charge in any format or medium. If you re-use it, your re-use must be accurate and must not be in a misleading context. The material must be acknowledged as Auditor General for Wales copyright and you must give the title of this publication. Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned before re-use.

For further information, or if you require any of our publications in an alternative format and/or language, please contact us by telephone on 029 2032 0500, or email [info@audit.wales](mailto:info@audit.wales). We welcome telephone calls in Welsh and English. You can also write to us in either Welsh or English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

**Mae'r ddogfen hon hefyd ar gael yn Gymraeg.**

# Contents

	<b>Summary report</b>	<b>6</b>
	Local authorities are not always making the best use of the third sector nor doing enough to ensure they are securing value for money	6
	About this report	7
	Recommendations	10
<b>1</b>	<b>Local authorities mostly do not have an effective strategic approach to working with the third sector</b>	<b>11</b>
	The third sector's work with local authorities is growing	12
	Local authorities generally do not have a comprehensive and planned approach to working with the third sector	15
	Better-performing local authorities understand and regularly review their work with the third sector to streamline and improve their strategic funding priorities	19
	All local authorities have compacts with the third sector but these are not always up to date or effective	22
	Partnership working between local authorities and the third sector is not consistently effective to drive improvement	23
	County voluntary councils play a key role in focusing and coordinating the third sector but their work is not always valued nor recognised and weaknesses in current arrangements undermine their effectiveness	26
<b>2</b>	<b>Inconsistencies in local authorities' arrangements for funding the third sector make it difficult to demonstrate value for money</b>	<b>30</b>
	Application processes are not always streamlined to support full engagement from third sector organisations	32
	Local authorities are not always using the most appropriate approach for funding services	37
	There has been a significant growth in contracts for services and the decline in general grant support is creating some difficulties for third sector organisations	40

	The recent growth in local authorities requiring third sector organisations to form consortia to bid for contracts presents potential risks as well as opportunities for all parties	43
	The continued use of annual funding awards does not support sustainable funding of the third sector	44
	Full cost recovery continues to be a problem for many third sector bodies	46
<b>3</b>	<b>Local authorities are unable to consistently evidence the impact of their work with the third sector</b>	<b>48</b>
	Local authority arrangements to monitor and review the performance of third sector organisations are not always consistent or effective	49
	Most local authorities have not set measures to be able to consistently judge the impact of their work with the third sector	54
	Scrutiny and risk management arrangements to evaluate and oversee third sector funding are not always suitable or effective	56
<b>4</b>	<b>Changing expectations of the third sector present both opportunities and risks which need to be carefully managed if the anticipated benefits are to be realised</b>	<b>60</b>
	<b>Appendices</b>	
	Appendix 1 – Study methodology	66
	Appendix 2 – Good practice case studies	69
	Appendix 3 – Checklist for local authorities effectively engaging and working with the third sector	71

# Summary report

## Local authorities are not always making the best use of the third sector nor doing enough to ensure they are securing value for money

- 1 Local authorities in Wales deliver a range of important public services which support the social, economic and environmental well-being of the nation. Most of these services are required by statute (ie local authorities must provide them), although some are provided under discretionary powers (in other words, they are optional). As well as taking direct responsibility for delivering services, local authorities also fund third parties to deliver services on their behalf, usually under the terms of a legal contract.
- 2 The **third sector** is the term used to describe the range of organisations which are neither state run, nor part of the private sector and includes voluntary and community organisations (registered charities and other organisations such as associations, self-help groups and community groups), social enterprises, mutuals and cooperatives. Third sector organisations are diverse in both size and scope, ranging from small, locally based community groups, to large, multi-national charities. Some have no income at all and rely on the efforts of volunteers whilst others are run by paid professional staff. Research by the Welsh Government<sup>1</sup> and the Wales Council for Voluntary Action (WCVA)<sup>2</sup> reports that the third sector in Wales consists of: over 32,500 different organisations; encompasses 230,000 trustees; 1.13 million volunteers and people helping out in their community; and 51,000 employees.
- 3 The Welsh Government provides the strategic policy framework for the third sector in Wales as well as specific grant funding to support the third sector – £240 million in 2013-14 and £208 million in 2014-15<sup>3</sup>. Through its **Third Sector Scheme**<sup>4</sup> and the work of the Third Sector Partnership Council<sup>5</sup> the Welsh Government is also placing greater emphasis and reliance on the increased involvement of third sector organisations as key partners in the delivery of public services.
- 4 In recent years, local authorities have reduced their role as direct providers of services, placing reliance instead on funding other providers, especially third sector organisations. The case for increasing the involvement of third sector organisations is based on distinct advantages. Third sector organisations can be sensitive to local circumstances and able to respond flexibly to the diverse needs of communities. Third sector bodies can often be financially competitive, as their base costs are comparatively low and as charities, they reinvest surpluses made back into the services provided. To ensure a consistent and transparent approach to funding, local authorities need to have the right processes in place, including a strategic plan for funding the third sector; efficient and effective systems to procure services; and a monitoring and evaluation framework to judge performance, impact and cost.

1 National Assembly for Wales, **Written Evidence to the Committee for the Scrutiny of the First Minister: Welsh Government's Relationship with the Third Sector and Non-Governmental Bodies**, 20 November 2013.

2 The WCVA represents and supports the third sector in Wales campaigning for organisations and providing advice and support to members. Information on third sector organisations is updated by the WCVA annually – **Analysis of All Wales database of voluntary organisations**, 4 January 2016.

3 **2015 Welsh Government Annual Report on Grants**.

4 Welsh Government, **Third Sector Scheme**, January 2014.

5 The Third Sector Partnership Council was established in 2007 and facilitates consultation with relevant third sector organisations and public sector bodies on the scheme's implementation, operation and review; and considers issues that relate to the functions and responsibilities of the Welsh Government that affect, or are of concern to, the third sector.

## About this report

- 5 In this report, on behalf of the Auditor General, we have examined the effectiveness of local authorities' arrangements for funding third sector services. Our study methods are set out in [Appendix 1](#). These include audit fieldwork at six local authorities, surveys with local authority staff, third sector organisations and county voluntary councils<sup>6</sup> on the approach of authorities to funding third sector services. We also completed a call for evidence with specialist advice agencies as a tracer on third sector funding; interviewed staff working in third sector organisations; and reviewed a range of documents from the Welsh Government, local authorities and third sector bodies. The focus of our review has four main elements as set out in [Figure 1](#).

Figure 1 – The focus of our review of local authority funding of third sector services



<sup>6</sup> The county voluntary council is the umbrella infrastructure organisation for the third sector in a local authority area. The county voluntary council role is to provide specialist advice, support and information to local third sector organisations on issues that affect them, including funding and governance.

- 6 Based on the findings of this audit, the Auditor General has concluded that **local authorities are not always making the best use of the third sector nor doing enough to ensure they are securing value for money.**
- 7 Between 2001-02 and 2013-14 the total amount awarded by local authorities to third sector organisations has risen from £68.2 million in 2001-02 to £248.8 million in 2013-14, an increase of 165.5% in real terms. Funding of social care services has consistently remained a priority and accounts for the bulk of funding provided by local authorities to third sector bodies (although as a proportion of overall spend it has fallen from 71.4% in 2001-02 to 61.9% in 2013-14).
- 8 Despite the growth in local authorities' funding of third sector services, strategic working has a number of weaknesses. Few local authorities have comprehensive corporate-wide strategies or frameworks that are based on good quality and accurate needs data to drive decisions, plans and activity. Even where strategic intent is developing, translating aspirations into action varies widely. Better-performing local authorities are beginning to undertake comprehensive reviews of their third sector funding to accurately identify the overall level of expenditure on the third sector and to bring consistency and direction to investment decisions.
- 9 Whilst most local authorities have formal compacts with the third sector in their area, these are not always up to date nor do they reflect current joint working arrangements. Partnership activity is not consistent nor effective enough to deliver better outcomes and the important work of county voluntary councils is not always valued nor recognised which reduces their effectiveness.
- 10 To make the best of the resources invested in the third sector, local authorities need to have good administration processes for awarding and managing the work they fund. Done badly, the funding processes can impose heavy burdens on the third sector and result in resources being wasted. However, despite local authorities recognising the importance of creating efficient and streamlined systems to manage their third sector funding, many weaknesses exist. There is no right or wrong approach in the use of grants and local authorities need to ensure that when deciding what service they want, they use the best funding approach, grants or contracts to deliver what is intended by or through the most appropriate delivery partner which could include the private sector and community councils as well as the Third Sector.
- 11 The quality and accessibility of local authority information on the processes for applying and the criteria used to award contracts is of a variable quality and are not always streamlined to support full engagement from third sector organisations. Local authorities are not clear on which option to use – closed or open procurement – when procuring third sector services and the decline in grant support is seen by many third sector organisations as adversely impacting them. Local authority decisions to persist with annual funding awards and the reduction in authorities operating full cost recovery for third sector projects that are funded continues to present significant challenges for many third sector bodies. Overall, because of these weaknesses it is unclear if local authorities are consistently securing value for money from their third sector investment.



- 12 To get the best from funding decisions, local authorities need to ensure they have the right arrangements and systems in place to manage, evaluate, measure and scrutinise performance. We found that performance management arrangements are too inconsistent to provide an adequate level of assurance that services are working well and resources are being used effectively. Many third sector organisations are not clear about what is required from them and require better support from local authorities. Poor performance management arrangements are also weakening accountability and limit effective scrutiny of activity and performance by elected members. Most local authorities have not set measures to be able to consistently judge the impact of their work with the third sector and inconsistencies in risk management arrangements make it difficult for local authorities to evidence how well they are working with the third sector.
- 13 With public sector funding set to continue to fall in the immediate future, the Welsh Government, through its recent legislative changes and planned reforms, envisages a growing role for the third sector in delivering services across Wales. These changing expectations present both an opportunity and a risk. These are significant challenges which have implications for the Welsh Government, local authorities and third sector organisations, which need to be handled with clear leadership and drive. At this time it is unclear if these aspirations are deliverable.



Stepping out: Stroke Association Wales volunteers mark the course with balloons at a Step Out for Stroke event in Pontypridd. One of the top 14 photographs in WCVA's Members Photography Contest 2014.

Source: WCVA

## Recommendations

14 The key recommendations arising from our work are as follows:

Recommendations	Who is responsible
<p>R1 To get the best from funding decisions, local authorities and third sector bodies need to ensure they have the right arrangements and systems in place to support their work with the third sector. To assist local authorities and third sector bodies in developing their working practices, we recommend that local authority and third sector officers use the checklist in <a href="#">Appendix 3</a> to:</p> <ul style="list-style-type: none"> <li>• self-evaluate current third sector engagement, management, performance and practice;</li> <li>• identify where improvements in joint working is required; and</li> <li>• jointly draft and implement an action plan to address the gaps and weaknesses identified through the self-evaluation.</li> </ul>	<p>Local authorities, Public Service Boards and Third Sector Bodies</p>
<p>R2 Poor performance management arrangements are weakening accountability and limiting effective scrutiny of third sector activity and performance. To strengthen oversight of the third sector, we recommend that elected members scrutinise the review checklist completed by officers, and regularly challenge performance by officers and the local authority in addressing gaps and weaknesses.</p>	<p>Local authorities</p>
<p>R3 To support local authorities and the third sector in delivering the expectations of recent policy and legislative changes such as the Social Services and Well-being Act and the Well-being of Future Generations Act, we recommend that the Welsh Government provides commissioning and coordinating guidance and support clarifying its expectations of local authorities. This could be delivered jointly with the Wales Co-operative Centre and/or WCVA.</p>	<p>Welsh Government</p>

## Part 1

Local authorities mostly do not have an effective strategic approach to working with the third sector

Bone Appétit, a group of graduate musicians from the Royal Welsh College of Music and Drama, regularly volunteer for Music in Hospitals. In this photo they are raising awareness of the charity at The Senedd in Cardiff Bay, playing songs for children on Saint David's Day. One of the top 15 photographs in WCVA's Members Photography Contest 2015.



- 1.1 Local authorities should develop a clear rationale for why they are working with the third sector and should be clear as to how this partnership working supports them to deliver their corporate priorities. A strategic approach to working with the third sector will ensure the local authority as a whole understands what the third sector can offer and sets out how the local authority will engage with, fund and judge the impact of the third sector on communities and residents.
- 1.2 If local authorities are to work effectively with the third sector, they need:
- comprehensive and robust information on local needs to allow them to set an appropriate vision and strategic priorities for the third sector to be able to judge impact and improvement overtime;
  - good consultation to draw on the specialist knowledge of the third sector and to get buy in to work together to deliver the agreed strategic vision; and
  - the right partnership infrastructure underpinned by a compact to ensure joint working is effective, constructive and delivering what is required.
- 1.3 In this section of the report, we analyse the growth in local authority funding of third sector services. We also consider the strategic approach of local authorities to working with the third sector, reviewing the robustness of local authority strategies, the range of information used to identify and prioritise action and the effectiveness of consultation. We also consider how well partners work together, reviewing the structures that are in place for partnership working and especially the important role of county voluntary councils. We also draw on evidence from our surveys with local authorities, county voluntary councils and third sector organisations, which provide us with a good insight into the effectiveness of local authority strategic and operational working arrangements with the third sector. In [Appendix 1](#), we summarise the coverage and limitations of our survey work.

## The third sector's work with local authorities is growing

- 1.4 Data published by the Local Government Data Unit (LGDU) Wales<sup>7</sup> on behalf of the WCVA, shows that funding of third sector services by local authorities has increased in recent years. The LGDU research, set out in [Figure 2](#), found that between 2001-02 and 2013-14 the total amount awarded by local authorities to third sector organisations has risen from £68.2 million in 2001-02 to £248.8 million in 2013-14, an increase in real terms<sup>8</sup> of 165.5%.

<sup>7</sup> The LGDU Wales is part of the Welsh Local Government Association and provides support to local authorities in the management, use and evaluation of data. The information we have drawn on for our review is based on data provided by local authorities in 2001-02, 2003-04, 2009-10 and 2013-14. The return for 2013-14 is the most recent information available in Wales on the funding of third sector services by local authorities.

<sup>8</sup> The level of income taking into consideration the effects of inflation on purchasing power. Real-terms income refers to the amount of goods and services you can buy today compared to the price of the same goods and services you could have purchased in an earlier period.

Figure 2 – Local authority funding of third sector services in cash and real terms by service area between 2001-02 and 2013-14

Service area	2001-02	2003-04	2009-10	2013-14	Change in real terms
Central Services	£4,949,000	£4,475,000	£4,852,000	£6,108,000	-10.0%
Culture and Related Services	£4,898,000	£5,558,000	£4,726,000	£4,351,000	-35.3%
Education Services	£3,493,000	£5,566,000	£9,441,000	£18,026,000	276.0%
Environmental and Regulatory Services	£315,000	£1,425,000	£2,449,000	£7,007,009	1,521.0%
Highways and Transport Services	£274,000	£530,000	£860,000	£811,000	115.7%
Housing Services	£2,556,000	£21,283,000	£11,443,000	£45,181,000	1,187.9%
Planning Services	£3,061,000	£8,110,000	£4,090,000	£13,203,000	214.3%
Social Care Services	£48,677,000	£78,786,000	£118,514,000	£154,165,000	130.7%
<b>Total</b>	<b>£68,223,000</b>	<b>£125,733,000</b>	<b>£156,375,000</b>	<b>£248,852,000</b>	<b>165.5%</b>

Source: Wales Audit Office analysis of third sector funding produced by LGDU for the WCVA (data has been rounded to the nearest £1,000).

1.5 The LGDU research found that for six of the eight areas authorities fund third sector services there has been a significant real-terms increase in investment. Funding of social care services has consistently remained a priority and accounts for the bulk of funding provided by local authorities to third sector bodies (although as a proportion of overall spend it has fallen from 71.4% in 2001-02 to 61.9% in 2013-14). Outside of social care, the only other area where local authorities invest a significant amount of money is funding for housing services, which has risen from 3.8% of all third sector funding by local authorities in 2001-02 to 18.2% of expenditure in 2013-14. The other six areas collectively accounted for roughly 20% of the total investment by local authorities in the third sector in 2013-14. Between 2001-02 and 2013-14 only funding for central services and culture and related services has fallen in real terms.

1.6 **Figure 3** summarises the change in third sector funding by local authority in cash and real terms between 2001-02 and 2013-14. With the exception of one authority (and even here funding has increased in recent years), local authorities have increased their funding of third sector services in both cash and real terms. Given the level of local authority investment in third sector services, it is important that local authorities have the right strategies, systems and processes in place to get the best from their investment. For local authorities, this is a significant challenge, particularly with ongoing reductions in public finances, which requires the development of new, more cost-effective and efficient ways of working.

**Figure 3 – Funding of third sector services in cash and real terms by local authority between 2001-02 and 2013-14**

Local Authority	2001-02	2003-04	2009-10	2013-14	Change in real terms
Blaenau Gwent	£1,438,000	£1,513,000	£709,000	£981, 000	-50.2%
Bridgend	£3,759,000	£5,979,000	£8,322,000	£7,127,000	38.1%
Caerphilly	£2,083,000	£2,734,000	£6,367,000	£10,179,000	256.0%
Cardiff	£4,660,000	£32,634,000	£38,101,000	£47,969,000	650.0%
Carmarthenshire	£2,356,000	£4,781,000	£10,730,000	£20,922, 000	547.0%
Ceredigion	£1,282,000	£5,424,000	£12,464,000	£11,805, 000	571.0%
Conwy	£2,567,000	£3,976,000	£4,921,000	£5,340,000	51.6%
Denbighshire	£1,688,000	£2,268,000	£3,273,000	£5,986,000	158.0%
Flintshire	£2,052,000	£2,087,000	£3,349,000	£4,074,000	44.7%
Gwynedd	£5,082,000	£5,523,000	£11,683,000	£16,044,000	130.0%
Isle of Anglesey	£1,002,000	£2,180,000	Not submitted	Not submitted	N/A
Merthyr Tydfil	£1,081,000	£1,143,000	Not submitted	£4,387,000	195.7%
Monmouthshire	£1,024,000	£981,000	£1,785,000	£3,708,000	163.8%
Neath Port Talbot	£4,396,000	£3,380,000	Not submitted	Not submitted	N/A

Local Authority	2001-02	2003-04	2009-10	2013-14	Change in real terms
Newport	£1,560,000	£2,240,000	Not submitted	Not submitted	N/A
Pembrokeshire	£2,145,000	£2,911,000	£5,491,000	£7,890,000	168.0%
Powys	£7,984,000	£12,546,000	£16,278,000	£21,466,000	95.9%
Rhondda Cynon Taf	£9,563,000	£17,207,000	Not submitted	£28,229,000	115.0%
Swansea	£7,289,000	£6,465,000	£16,701,000	£25,086,000	150.7%
Torfaen	£929,000	£2,081,000	£7,315,000	£15,080,000	1,082.8%
Vale of Glamorgan	£2,446,000	£4,263,000	£4,598,000	£5,602,000	66.9%
Wrexham	£1,808,000	£3,419,000	£4,289,000	£6,975,000	181.1%
<b>Total</b>	<b>£68,223,000</b>	<b>£125,733,000</b>	<b>£156,375,000</b>	<b>£248,852,000</b>	<b>165.5%</b>

Source: Wales Audit Office analysis of third sector funding in 2001-02, 2003-04, 2009-10 and 2013-14 produced by the LGDU for the WCVA (data has been rounded to the nearest £1,000).

## Local authorities generally do not have a comprehensive and planned approach to working with the third sector

- 1.7 A comprehensive strategy to working with the third sector will set out the local authority's principles and vision for the third sector. The strategy should also set out the outcomes the local authority is seeking to achieve for residents and communities. To be fully effective, the strategy should cover all local authority services and be based on consultation, a robust analysis of needs, priorities for improvement, the actions planned and the outcomes sought in delivering services through the third sector.
- 1.8 None of the local authorities that responded to our survey<sup>9</sup> reported that they have a single strategy for working with and funding the third sector; however, seven of the eight reported that they have a series of service-specific strategies and funding plans that together they consider make up an overarching framework for working with and funding the third sector. The other local authority which responded to our survey reported that it does not have a strategy or framework. The other 14 local authorities did not respond to our survey.

<sup>9</sup> We surveyed all 22 local authorities, requesting information on their funding of third sector services. We received eight responses from local authorities (36%). Given the low response rate we have not used the survey extensively in the report.

- 1.9 From our analysis of local authority documentation, we rated six local authorities as having a good strategic approach for working with the third sector. Generally, these are local authorities where there is a corporate-wide strategy on third sector funding that covers all services, and the strategy clearly links to overall corporate priorities. The best strategies have relevant objectives, which are both SMART<sup>10</sup> and also focused on delivering outcomes, and are subject to regular review and evaluation. These strategies are usually underpinned by a good analysis and understanding of needs, including equalities and the Welsh language, and there is evidence of effective engagement with stakeholders to develop the strategy. The best strategies have also been effectively challenged in their development and are subject to ongoing review, evaluation and effective risk management. **Figure 4** highlights how Flintshire County Council has developed its strategic approach to the third sector since 2011.
- 1.10 We assessed a further 13 local authorities as having a strategic approach of variable quality but gaps existed and arrangements needed to be strengthened if the aspirations of the local authority were to be realised. We also rated three authorities as having poor or insufficiently evidenced strategic approaches with significant gaps in both the range and quality of plans, actions, needs information and the supporting delivery arrangements.
- 1.11 Through our surveys with county voluntary councils<sup>11</sup> and third sector advice agencies<sup>12</sup> we tested awareness, understanding and knowledge of current strategic arrangements within local authorities for third sector services. Overall, our surveys found that third sector organisations do not believe that local authorities have an adequate strategic approach to working with, and making the best use, of the third sector. For instance:
- nine county voluntary councils report that their local authorities have no strategies or frameworks and one county voluntary council did not know;
  - only one county voluntary council considered that its local authority uses accurate and comprehensive data to identify what needs and issues it is seeking to address through its funding of third sector services; and
  - only one county voluntary council reported that the local authority follows its strategy consistently.

10 SMART is a project goal and objective-setting process that supports the setting of trackable and relevant measures that have sufficient resources to achieve them and within a definite delivery deadline. SMART is an acronym and stands for Specific, Measurable, Attainable, Realistic and Timebound.

11 We surveyed all the county voluntary councils in Wales and received 20 responses. The Gwent Association of Voluntary Organisations (GAVO) covers four local authorities: Blaenau Gwent, Caerphilly, Newport and Monmouthshire. We received three individual returns from GAVO covering two of the four local authorities covered by GAVO. In addition, the Neath Port Talbot Council for Voluntary Service did not complete the survey but was interviewed as part of our fieldwork. The local authority areas where we have no survey information are Denbighshire, Neath Port Talbot, Monmouthshire and Newport.

12 We received responses from 33 organisations which provide advice and information services funded by local authorities in Wales, a mix of national and local bodies.



#### Figure 4 – Flintshire County Council – third sector funding review

For local authorities and the third sector to work together effectively, local authorities should have in place a strategic approach that links to the local authority priorities. This makes it clear to third sector organisations how they can contribute to the local authority priorities.

Flintshire County Council had considered how this could be implemented. The authority, like others, was faced with addressing significant budget pressures in funding across all areas of its services. Some of the pressures were likely to affect the council's grant funding to the third sector.

The authority had, in conjunction with the third sector, already developed grant management guidelines which set out clearly how it manages grants to the third sector. The authority made it clear that the third sector will be treated in the same way as authority departments in terms of budget decisions. For example, any bid from a third sector organisation is expected to align its bid for funds to the authority's key priorities. The authority has emphasised its commitment to a strategic approach by providing funding for three years but has made it clear the authority's expectations of how the funding would reduce during the three years.

To emphasise the commitment for the third sector to work in a more business-focused way the authority has moved to outcome-based agreements. This meant the successful organisations were clear about what the authority expected from the grant funding and the level of service to be delivered.

Since 2000 the authority has provided core funding to some third sector organisations. The purpose of this funding is to provide a more stable funding base to those organisations which can allow them to compete in commissioning exercises. The authority has agreed core funding for third sector organisations for a three-year period from 2015-16 onwards. The authority has also mapped all expenditure and who in the third sector was receiving money. Whilst individual departments continue to manage their own funding of third sector services, the local authority's central policy has a long-established role of overseeing all funding activity to ensure effective central oversight across the local authority.

Having a clear methodology when it comes to funding helps the authority and the organisations involved to plan ahead and understand where the local authority wants to be in a certain timescale.



Even if you're feeling blue - volunteering puts a smile on your face!: Volunteer paint thrower Mary Heath at The St David's Hospice Colour Run, a unique colour race that celebrates healthiness, happiness, individuality and giving back to your community. One of the top 15 photographs in WCVA's Members Photography Contest 2016.

Source: WCVA

1.12 In addition, even where local authorities have established frameworks to guide their work with the third sector, partners felt these are mostly not implemented consistently and often have limitations, particularly in respect of the robustness, quality and comprehensiveness of need and demand assessments. We also found evidence of individual departments using local data and information to inform their service planning – for example, in Torfaen, the third sector contributes to the needs mapping database that feeds into a five-year housing commissioning strategy. However, county voluntary councils highlighted that if local authorities do not have a clear long-term strategy, then funding focuses on hot topics – immediate priorities that require a short-term intervention but which rarely require a sustained response – rather than longer-term preventative services that will have a greater and wider benefit to the community and for the local authority. These conclusions are echoed in the findings of our other surveys which, taken together, highlight that local authority strategic and planning arrangements for third sector services often have weaknesses.

## Better-performing local authorities understand and regularly review their work with the third sector to streamline and improve their strategic funding priorities

- 1.13 Three of our six fieldwork local authorities have undertaken comprehensive reviews of their third sector funding in the past four years, mainly focused on accurately identifying the overall level of expenditure on the third sector. As a result of these reviews, some local authorities found that different departments and services in the local authority were funding the same third sector organisation to deliver broadly similar services. By conducting these reviews, the three local authorities consider that they have a better understanding of the range of activity they fund through the third sector and are subsequently better placed to develop a more strategic approach for their future work with the third sector. For instance, Carmarthenshire County Council identified in its wider third sector review that a large number of organisations report that they are delivering advice and information services than the authority was aware of – [Figure 5](#).

### Figure 5 – Carmarthenshire County Council – coordinating third sector funding

Carmarthenshire County Council's review started in 2013 from a request to identify the local authority's annual spend on the third sector. At that time, the local authority had some anecdotal evidence that its third sector spending was uncoordinated. The local authority sought to identify a clear understanding of its annual spending and to assess the alignment of that spending with the local authority's single integrated plan priorities. The local authority aimed to ensure that future corporate approaches to funding the third sector would be more effectively coordinated to ensure minimal impact on residents of reduced third sector funding. The review also highlighted duplicated funding within the local authority which had previously been agreed with no central oversight.

The local authority sought to engage with all third sector organisations in receipt of funding and held a major conference to look at the issue. The local authority's chief executive and leader were heavily involved with leading the process. The local authority requested information from the third sector organisations that it was funding and its own departments to understand the total quantum of funding.

At the time of our fieldwork, the local authority had just completed its review and was developing the next iteration to its approach to working with, and funding, the third sector. The local authority acknowledged that the review had taken longer than anticipated but that the review findings have provided it with a very firm knowledge base to further develop its approach. The previous disaggregation of funding of the third sector to departments meant the local authority did not have a clear understanding of its overall spend on the third sector.

- 1.14 In Neath Port Talbot, the local authority has worked closely with the voluntary and community sector of Neath Port Talbot to review its grant funding arrangements and identified that a number of departments used their own grant funding arrangements and the local authority lacked a corporate overview of that activity. Following the review, the voluntary and community sector coproduced a **Grant Funding Scheme**, which was aligned with the Welsh Government's **Third Sector Scheme**. The management oversight of third sector funding is now contained within a single corporate department that now oversees all grant funding through a single local-authority-wide application process. That process makes it easier to align funding on achieving local authority priorities. The new process for third sector grant funding is easier to administer and enables the local authority to focus and align the work of third sector organisations on delivering authority strategic priorities. The local Voluntary Sector Liaison Committee also has an input into the scheduled regular reviews of the scheme to maintain the joint approach.
- 1.15 In Flintshire, the local authority reviewed the delivery of its domestic abuse support. At the start of the review, the local authority was funding two third sector providers in two separate locations. The local authority was reducing its funding for this area of work and proposed that the two third sector organisations should work together to provide the service in the future, thereby managing the reduction but maintaining the provision. The service is now provided on a collaborative basis by the two organisations, albeit at a lower cost than previously, but with the same level of service to the public.
- 1.16 However, we found that the other three fieldwork local authorities have not yet mapped out or reviewed the full range of their third sector funding for all services, although there tends to be a greater understanding of third sector provision in social care than other authority departments. Where authorities have not taken a strategic overview of third sector work and funding, interactions between the local authority and the third sector can often be patchy and less formal, with working practices driven by individual departments, services and officers. Because of poor oversight and coordination, local authorities miss out on opportunities to identify cost savings by rationalising management overheads.
- 1.17 A lack of corporate oversight can also result in variable funding arrangements and inconsistent decisions which can influence the quality of the services provided by third sector organisations. Individual local authority departments often work independently of each other, set different outcomes and use different approaches to procuring and grant funding the third sector with very different performance management arrangements. For example, we found that one local authority has funded a number of organisations with overlapping remits to deliver advice and information services by different local authority departments. Each contract incurred a management set up and administration cost which could have been reduced or avoided if an integrated approach to funding was in place. An integrated funding approach as adopted by other local authorities could reduce the burden on third sector organisations by simplifying administration, payment, performance and monitoring requirements.

- 1.18 County voluntary councils reported that where a local authority lacks an overall strategy or corporate framework, communication with the third sector can often be ad-hoc, uncoordinated and framed against very different department standards. One noted that local authority 'departments do things differently. A recent Communities First process.....was relatively simple, but with a quick turnaround for applicants to submit. Other examples such as Families First tenders, are often excessive and prohibitive.' Others noted that 'ad hoc arrangements across different departments leads to an inconsistent approach – ie differing financial thresholds for SLAs, contracts, Tendering' and another that because 'there is no apparent coordinated approach this sometimes impacts on perception of equality and transparency'.
- 1.19 During our fieldwork interviews and in responses to our call for evidence, third sector organisations frequently commented that officers and elected members do not fully understand how the third sector can help local authorities to deliver their corporate objectives and improve services for the public. A number of third sector organisations told us local authorities often lack the in-depth knowledge to understand and benefit fully from the opportunities that are available to add value to their own investment by linking their allocation of resources with other programmes of work.
- 1.20 For instance, third sector organisations noted that local authority funding is sometimes a prerequisite for organisations successfully bidding for, and securing, funding provided by others; for example, European structural and investment funds<sup>13</sup>, monies made available from other public sector bodies and national programmes such as the Big Lottery<sup>14</sup>. These are funds that are also not open to local authorities to access and use, and consequently offer opportunities to add value to local authorities' own third sector investment. As respondents to our call for evidence stated, 'the ripple effect of the third sector is massive (but) the local authorities don't understand this' and another that 'if the Local Authority does not have the faith in a project that is being delivered within the locality what hope do we have of convincing others to also come in'.

<sup>13</sup> Funding provided by the EU Commission administered by the Welsh Government that can be used to support people into work and training, youth employment, research and innovation, business competitiveness, renewable energy and energy efficiency, and connectivity and urban development.

<sup>14</sup> [Big Lottery Fund UK, Third Sector Early Intervention Fund webpage](#)

## All local authorities have compacts with the third sector but these are not always up to date or effective

- 1.21 An important element in encouraging and developing the work of the third sector is the local third sector compact. Compacts provide a clear framework for local partnership working between local authorities and the third sector. A good compact will clearly set out the roles and responsibilities of the partners, be tailored to the needs of the area, the funding that is available and the diversity of third sector provision locally. An effective compact will also set out the principles of how the partners will do business and signatories have a responsibility to work in line with its principles and commitments.
- 1.22 The Welsh Government, in recognition of the important role of the third sector in supporting and helping public bodies deliver services and meet national priority objectives, introduced the **Code of Practice for Funding the Third Sector** (the Code)<sup>15</sup>. The Code sets out the key principles which underpin how the Welsh Government works with and funds the third sector. All Welsh Government departments must comply with the Code and Welsh Government sponsored bodies are required to comply through their funding agreements. All other public bodies (including NHS bodies and local authorities) must comply with the Code in cases where the Welsh Government has awarded them hypothecated funding. Local authorities are also expected to adhere to the principles of the Code and reflect these in their local third sector compacts.
- 1.23 Given the Welsh Government's expectations of public bodies as set out in the Code, and in particular local authorities, in their funding of third sector services, we surveyed the county voluntary councils on the use of the Code and how local authorities treat hypothecated funding. Of the nine county voluntary councils who stated that their local authority had a strategy for third sector services, five felt that the Code added value to the procurement of third sector services by local authorities. However, only three of the nine felt that their local authority's strategy is consistent with the Welsh Government's Code – ie the strategy covers all services and influences all decisions by the local authority in its works with the third sector.
- 1.24 We also reviewed all the compacts from our fieldwork local authorities. While a few compacts clearly reflected local circumstances and relationships, others appeared to be rather generic and showed little variation from the Welsh Government's Code. There was a stronger sense of ownership from third sector organisations where compacts had been reviewed and adapted to reflect local circumstances and changing financial positions. Those changes were viewed as encouraging improvements in the relationship between the local authority and the local third sector. For example, Blaenau Gwent recently reviewed and updated its compact (the **Third Sector Scheme**) in early 2016 and extended coverage to draw in other public sector bodies, including the local health board, Gwent Police Force and the Gwent Police and Crime Commissioner. The local authority recognised the revised scheme was in the early stages of implementation but anticipated that it will provide a clearer strategic framework for how public bodies with different budgets work with, and fund, the third sector within the county borough local authority area.

<sup>15</sup> The Code has been updated on several occasions, most recently in January 2014.

1.25 However, we found that whilst local authorities have formal compacts with the third sector in their area, these are not always up to date nor do they reflect current partnership arrangements. We found that a number of compacts have been in existence for over 10 years without being revised or updated and often do not reflect current strategic priorities, how services are configured, provided and funded by local authorities nor accurately reflect the range of partners that provide services on behalf of the local authority. One county voluntary council noted that ‘there is no third sector compact, nor a Funding Code’.

## Partnership working between local authorities and the third sector is not consistently effective to drive improvement

- 1.26 In order to understand how the third sector can make the best and most cost-effective contribution to addressing local authority priorities, it is essential that local authorities have a full and detailed knowledge of the services that the third sector currently provides. To achieve this, local authorities need to have effective and ongoing engagement and dialogue with the third sector. Poor engagement and consultation can result in local authorities designing services which do not reflect priorities, need or demand or result in poorly framed service specifications which are neither economic, efficient nor effective. However, because the third sector ranges from very small local community-based organisations to large UK-wide charities, it can be challenging for local authorities to both consistently and effectively engage with the full range of stakeholders.
- 1.27 Regular local authority and third sector partnership meetings are important mechanisms to oversee activity and ensure the local authority and third sector organisations are working effectively to deliver improvements. These are often framed around joint liaison committees which include both elected members and local authority officers. We found greater evidence of positive engagement between local authorities and the third sector where the local authority has a corporate approach to engaging and working with the third sector (which is usually underpinned by a robust and up-to-date compact). For example, the work of Neath Port Talbot County Borough Council summarised in [Figure 6](#).

### Figure 6 – Neath Port Talbot County Borough Council – third sector partnership working

In Neath Port Talbot, the Voluntary Sector Liaison Committee has been looking at the importance of the third sector informing the local authority of the issues local people are facing. The local authority recognises that it is facing reducing budget settlements from the Welsh Government and the need to respond to, and work with, communities in more innovative ways. The local authority has clearly recognised the need to understand the services that it currently provides and what the third sector can provide. The local county voluntary council identified that it could also play a more effective role itself in improving the effectiveness of the Voluntary Sector Liaison Committee.

- 1.28 Likewise, the relationship between Flintshire County Council and third sector organisations is based around open and effective dialogue. From 2015-16 Flintshire County Council is reducing its core funding to third sector organisations but due to its effective engagement with partners, the reductions in funding have not been significantly challenged, primarily because the local authority communicated that reductions will be at the same level as the pressures needing to be addressed in the local authority's own services. The local county voluntary council considered the open and transparent nature of its dialogue with Flintshire County Council as a positive demonstration of the effective joint working and funding arrangements developed by partners in Flintshire.
- 1.29 Nevertheless, a number of respondents to our call for evidence considered that the relationship between local authorities and the third sector are not effective, often citing the relationship as unequal and more akin to a parent-child relationship. Concerns were raised that as the funding body, the local authority has greater power within the relationship, and if third sector organisations challenge the local authority then future funding decisions could be detrimentally affected. Only 14 of the 56 organisations that responded to our call for evidence stated that current partnership working between local authorities and third sector organisations is effective or very effective compared with 35 who considered current partnership working as not very effective. One respondent said 'most relationships labelled 'partnership' are no such thing. Neither is there any effective strategic planning around third sector funding.'
- 1.30 Many of the third sector organisations that responded to our call for evidence did not consider that local authorities have effective partnership arrangements for third sector working. One provider commented that 'the third sector could be utilised more fully and that there is insufficient value placed on what the third sector can offer' and another that 'although partnership is often talked about the reality is very different. Our experience has been that the third sector has limited influence in decision making and involvement often feels 'tokenistic'.' Some respondents considered that local authorities place a greater emphasis on third sector organisations delivering services at a lower cost rather than appreciating the additional value that the third sector can deliver, whilst others raised concerns that local authorities will seek to reduce funding to the third sector rather than be faced with having to cut services directly delivered by the local authority.
- 1.31 Where local authorities have not yet adopted a single strategy for working with the third sector, we found that partnership working is often variable and is dependent upon the approach of individual local authority service departments. Many local authority social care services have longstanding and more formal relationships with the third sector, which highlights the role of third sector organisations in delivering services. Partnership arrangements between local authorities and the third sector in social care are often framed around Welsh Government strategic documents – for example, **Fulfilled Lives, Supportive Communities**<sup>16</sup> – and supplemented by social services market position statements – [Figure 7](#). These arrangements have supported partners – local authorities and third sector bodies – to continue to develop and strengthen strategic funding of third sector social care services.

<sup>16</sup> **Fulfilled Lives, Supportive Communities** is the Welsh Government's strategy for social services in Wales. Whilst it is primarily for local authorities who have the responsibility for strategic planning, the role and contribution of the third sector is recognised as fundamental in meeting social care needs.



### Figure 7 – Social services market position statements

The market position statement is an important part of a strategic funding process. It is a statement of what a local authority care and support market needs to look like in future and forms part of that dialogue with partners, including providers and local people so that they can plan to provide the best for service users. The market position statement should set out how the local authority will work with the organisations which offer services, care and support to individuals, families and communities.

Local authorities publish these documents to enable all potential providers to understand what services the local authority will consider providing in the future. All of the local authorities set out clearly that they expect that the third sector can compete to provide those services. Those market position statements enable the third sector to understand the local authorities' strategic approach, albeit only in social services, and how the sector can contribute to the delivery of services. This clarity is valued by the third sector as it can help it to develop services that the local authority needs but these should be accompanied by a clear approach to funding the identified services. We noted that in social services, the following contributed to the successful partnership working between the local authority and third sector organisations:

- a clear funding process;
- a focus on the needs of the local authority for the service being funded;
- clear objectives for the contract;
- regular reporting mechanisms;
- staff who had the expertise to commission and manage projects;
- organisations which were capable of writing bid documents and utilising the procurement process; and
- a clear exit strategy.

Interviewees considered that the development of well-being assessments under the **Social Services and Well-being Act 2014** will help to further develop local authorities' understanding of the needs of their local populations.

- 1.32 Despite the third sector's growing role in providing public services in Wales, the relationship between local government and the sector has suffered from a variety of problems. One respondent to our call for evidence noted that 'funding does not appear to be 'joined up'. Often a single service can be funded from several different 'pots'. The third sector is not always engaged as a strategic partner by local authorities and the contribution voluntary bodies make to strategies, priorities and joint working to deliver better services is variable.

1.33 With public sector partnership working increasing through public service boards<sup>17</sup>, it is important that all partners are represented effectively so that the widest understanding of funding of third sector services is available. In some areas, however, local authorities report that engaging the local health board in joint funding arrangements has not always been as successful and that this needs to be addressed given the level of funding health boards also provide to the third sector. Poor coordination of funding approaches between local authorities and local health boards is more onerous for both the local authority and third sector bodies and is less efficient than a joined-up local approach covering the range of public sector bodies including local authorities, health and police for example.

### County voluntary councils play a key role in focusing and coordinating the third sector but their work is not always valued nor recognised and weaknesses in current arrangements undermine their effectiveness

- 1.34 County voluntary councils are often seen as ‘the voice of the third sector’ in a local authority area, often representing the third sector on strategic partnerships. County voluntary councils act as a conduit for policy information, supporting networks around key themes and areas of interest, with the aim of ensuring that policy and decision makers understand the needs of third sector organisations in a specific area. The Welsh Government views county voluntary councils as representing their member organisations and volunteers to meet their core service obligations, and the Welsh Government funds county voluntary councils to deliver this role.
- 1.35 The Welsh Government provides funding for local county voluntary councils to coordinate and support the activity of the third sector. Local third sector organisations can become members of their local county voluntary council. At present, the county voluntary councils reflect local authority boundaries with the exception of GAVO which covers Blaenau Gwent, Caerphilly, Monmouthshire and Newport.
- 1.36 We found that where relationships between local authorities and their county voluntary council are effective, then county voluntary councils are able to promote and support third sector organisations to secure funding and project work. We found examples of local authorities using their county voluntary council to identify suitable third sector organisations to deliver specific projects locally. In these situations, the county voluntary council acted as a broker and provided advice and support to its members to secure funding as well as develop the capacity and skills of third sector organisations. For example, GAVO and Caerphilly County Borough Council have developed a clear process to support the third sector’s capacity as shown in [Figure 8](#).

<sup>17</sup> The **Well-being of Future Generations (Wales) Act 2015** establishes statutory public service boards in each local authority area. The purpose of public services boards is to improve the economic, social, environmental and cultural well-being in their areas by strengthening joint working across all public services in Wales.

## Figure 8 – GAVO – developing the capacity of the third sector to compete in procurement

Caerphilly Central Policy Team has worked with procurement colleagues and the local county voluntary council (GAVO) to strengthen the capacity of the third sector. The Procurement Service provides guidance and support to third sector organisations in line with the Welsh Government's Opening Doors Initiative: Procurement and the Third Sector. The local authority aims to ensure more local organisations are successful in securing contracts with the local authority.

In 2014-15 this work continued with close work between procurement and GAVO around third sector procurement. The local authority's Procurement Team runs fortnightly procurement clinics where third sector organisations can receive advice and guidance on the tendering process and the use of the local authority's e-procurement system. There is a dedicated Supplier Relationship Officer within the Procurement Team who provides support to organisations. The local authority has also produced directorate procurement plans and these are hosted on the authority's website.

Alongside the above proactive work with the third sector, the local authority, in the autumn of 2014, in conjunction with GAVO and Aneurin Bevan University Health Board, ran seven bite-sized seminars for third sector organisations, to support their development and sustainability, and prepare them for future procurement and funding opportunities. Those sessions included the following areas:

- what are social enterprises?
- business plans
- risk management
- legal structures
- VAT matters
- the difference between grant/contract/service level agreement

Following those sessions, the local authority, in partnership with Aneurin Bevan University Health Board and the Office of the Police and Crime Commissioner held a conference that brought together third sector organisations with commissioners of services. The event provided the third sector with the opportunity to hear about the procurement processes and to meet organisations that would be running procurement exercises. At the time, the Office of the Police and Crime Commissioner funded a Development Liaison Officer to support the third sector to access funding for service provision via their Strategic Commissioning Board.

- 1.37 In some areas, county voluntary councils are seen by local authorities as the single representative of the third sector and consequently are invited to represent the third sector on strategic working groups and committees, irrespective of their expertise or knowledge of the subject matter. However, respondents to our call for evidence identified that local authorities focus primarily on local county voluntary councils as the key conduit into the sector but reported that county voluntary councils do not always liaise and communicate with their member organisations or effectively represent their views.
- 1.38 For example, a number of third sector organisations reported their concerns that they are not consistently consulted by their local county voluntary council and therefore questioned whether the county voluntary council could be seen as the authentic voice of the third sector. This lack of communication can lead to mistrust within the third sector and some organisations questioned whether county voluntary councils can be seen as an effective representative of the whole sector if there is no effective and ongoing engagement. It is important that local authorities seek assurance that for whatever forums they use to consult with the third sector, the process is as representative as possible of the sector and facilitates a wider range of third sector representatives for working groups and committees.
- 1.39 We also found evidence that some county voluntary councils are competing with their member organisations for both project funding and volunteers. One North Wales county voluntary council set up a befriending service funded by the National Lottery which the Red Cross<sup>18</sup> was already in receipt of funding to provide in the same local authority area. This resulted in the two organisations providing the same service and ‘competing’ for both volunteers to run the service but also service users who would benefit from the work. To make best use of third sector funding, local authorities and county voluntary councils need to clarify their expectations of how funding will be used to support the third sector locally to avoid duplicated activity wherever possible and to maximise the impact and benefit that can be achieved from investment.
- 1.40 We also received information that some county voluntary councils are part of decision-making panels in local authorities for funding to which they have also applied. This can lead to a potential conflict of interest and this is something that should be managed. Whilst policies and procedures cannot predict all situations, and the seriousness of some conflicts of interest will be a question of degree, county voluntary councils are obliged to identify and disclose potential conflicts in a timely and effective manner.

<sup>18</sup> The British Red Cross is a charity that helps people in crisis through its voluntary network, which helps vulnerable people in the UK and abroad prepare for, withstand and recover from emergencies in their own communities.

- 1.41 The key question that must always be addressed is whether a county voluntary council's duties or responsibilities to the local authority could be affected by some other interest or duty that they may have. One respondent to our call for evidence noted their concerns 'about our local county voluntary council making decisions around allocation of funding in the same room as authorities and health board. They are effectively getting funding, they say it's because they are meeting an unmet need, but are not always working with third sector organisations to ready themselves to be able to bid and they do not always share things they have learned. Relationships have been pre-forged between LA and CVC which gives them the edge. This is clear conflict of interest.' County voluntary councils should be clear about their role on such panels, and local authority funding of services through such mechanisms needs to ensure that due process is followed and decisions are transparent.
- 1.42 In addition, some local authorities have also sought to coproduce services in conjunction with current and potential third sector service providers, especially county voluntary councils. The development of these approaches which value the expert knowledge of service providers and service users is one that can produce valuable insights into future service design. However, we found that these coproduction approaches had been constrained by current service providers being reticent to share their knowledge and expertise with other providers. This is a tension that local authorities need to manage if they are to get the maximum return from their resources. It is clear that engagement and trust must be built between all partners and that the focus should be on improving outcomes for people.
- 1.43 There is need for clarity about the role of county voluntary councils in the changing public sector environment. The current position where some county voluntary councils both support third sector organisations and also compete against them means that local authorities cannot always be clear as to how representative county voluntary councils are of the third sector. By having a stronger articulation of the role of the local county voluntary council, both local authorities and individual third sector organisations would be in a clearer position to work together to improve outcomes for citizens in Wales. It would also ensure that local decision-making processes are fully transparent and that trust is further developed across the third sector.

## Part 2

Inconsistencies in local authorities' arrangements for funding the third sector make it difficult to demonstrate value for money

Colin volunteers on the Cynefin project, and is also involved in recording the conditions of OS Maps, at The National Library of Wales. One of the top 15 photographs in WCVA's Members Photography Contest 2016.



- 2.1 Once local authorities have approved their strategy for third sector services and the programme of works to be procured is identified and agreed, local authorities must develop and set out their administration arrangements to secure third sector services. These should be as simple as possible with approval systems, controls, monitoring and evaluation arrangements proportionate to the value of the funded work. Local authorities must decide on whether to use a grant or a contract, the period the funding award will cover, the frequency of payments and whether full cost recovery will be met. Processes for advertising and awarding services should also be transparent with information on how decisions will be made and performance reviewed clearly set out, up front and before any decisions are made.
- 2.2 It is therefore important that local authorities' arrangements for funding third sector organisations are efficient and effective, as the choices made by authorities are crucial to the achievement of value for money. Done badly, the funding processes can impose heavy burdens on the third sector with organisations having to invest resources to comply with systems which are often perceived by the third sector as onerous. Poor funding arrangements can also increase the risk of third sector organisations being unable to deliver what they are being paid to do and consequently result in public monies being wasted or a service failing.
- 2.3 Given that administration arrangements can be critical for the third sector successfully bidding for, securing and delivering services, we set out in more detail below our analysis of current practices. Our analysis looks at:
- the quality and accessibility of local authority information on the services required, the processes for applying and the criteria used to award contracts;
  - whether local authorities have good arrangements to identify when to run open or closed procurement;
  - the basis for a local authority deciding to use contracts or general grant support for third-sector-funded services;
  - the length of time local authority third sector service contracts last; and
  - the funding arrangements in place and whether they cover full cost recovery.

## Application processes are not always streamlined to support full engagement from third sector organisations

- 2.4 Within local authorities, there are likely to be many different teams and services involved in funding the third sector, awarding grants and agreeing contracts for a wide range of purposes. To ensure local authorities are making the best use of the third sector and encourage participation from as wide a range of organisations as possible, local authorities need to have clear and appropriate application and information systems in place. From our review, we consider the best local authorities to operate single application systems covering all services and departments which commission services within the local authority. Corporate-wide systems ensure third sector organisations and local authorities have familiarity and understanding on arrangements, and when consistently used can streamline and reduce the burden of administration for all parties – for example, the work of Merthyr Tydfil County Borough Council set out in [Figure 9](#).
- 2.5 From our fieldwork and document reviews, we found that local authorities are beginning to improve their application processes for third sector funding by:
- standardising application forms within the local authority and using one process for all third sector funding;
  - introducing electronic processes to request and store information from third sector organisations to reduce duplicated information requests;
  - centralising grant management processes corporately to streamline administration, and improve coordination and oversight in the award of funding;
  - greater transparency of local authority processes – for example, clearly setting out the qualification criteria for contracts, the process for approving contracts and review and management arrangements;
  - revising application processes to ensure third sector organisations focus on demonstrating how their work contributes to delivering the local authority's corporate objectives; and
  - appointing third sector strategic partners who receive longer-term funding – subject to meeting delivery and performance targets – to reduce the need for regular tendering.



### Figure 9 – Merthyr Tydfil County Borough Council – centralising grant claims from the third sector

We found that Merthyr Tydfil County Borough Council had sought to improve its application process and address the fragmented use of grants to third sector organisations by creating a Voluntary Sector Funding Protocol. The protocol was set up to achieve the following:

- a single point of access to financial support;
- a single joint assessment panel;
- create a consistent and transparent process; and
- avoid potential duplication and that resources are allocated according to identified need.

In addition to these aims, the local authority identified eight principles that would underpin the relationship between the local authority and those applying for funding:

- delivery of strategic policy objectives
- accountability
- stability
- efficiency
- transparency, consistency and fairness
- security of funding
- payment in advance

All the principles go to help build a working relationship which can help build a strong sustainable third sector.

The local authority uses two panels to look at applications from organisations; they are the Technical Appraisal Panel (TAP) and the Grants Panel. The TAP is made up of members and officers of the local authority, and is there to look at the viability and fit of the application from an organisation. The TAP will then make a recommendation to the Grants Panel as to whether the application should be approved/rejected/deferred.

The Grants Panel is made up of local authority elected members and also representatives from other organisations such as Heads of the Valleys, registered social landlords and the Welsh Church Fund. The panel will receive the applications from the TAP but it is also set up to look for opportunities:

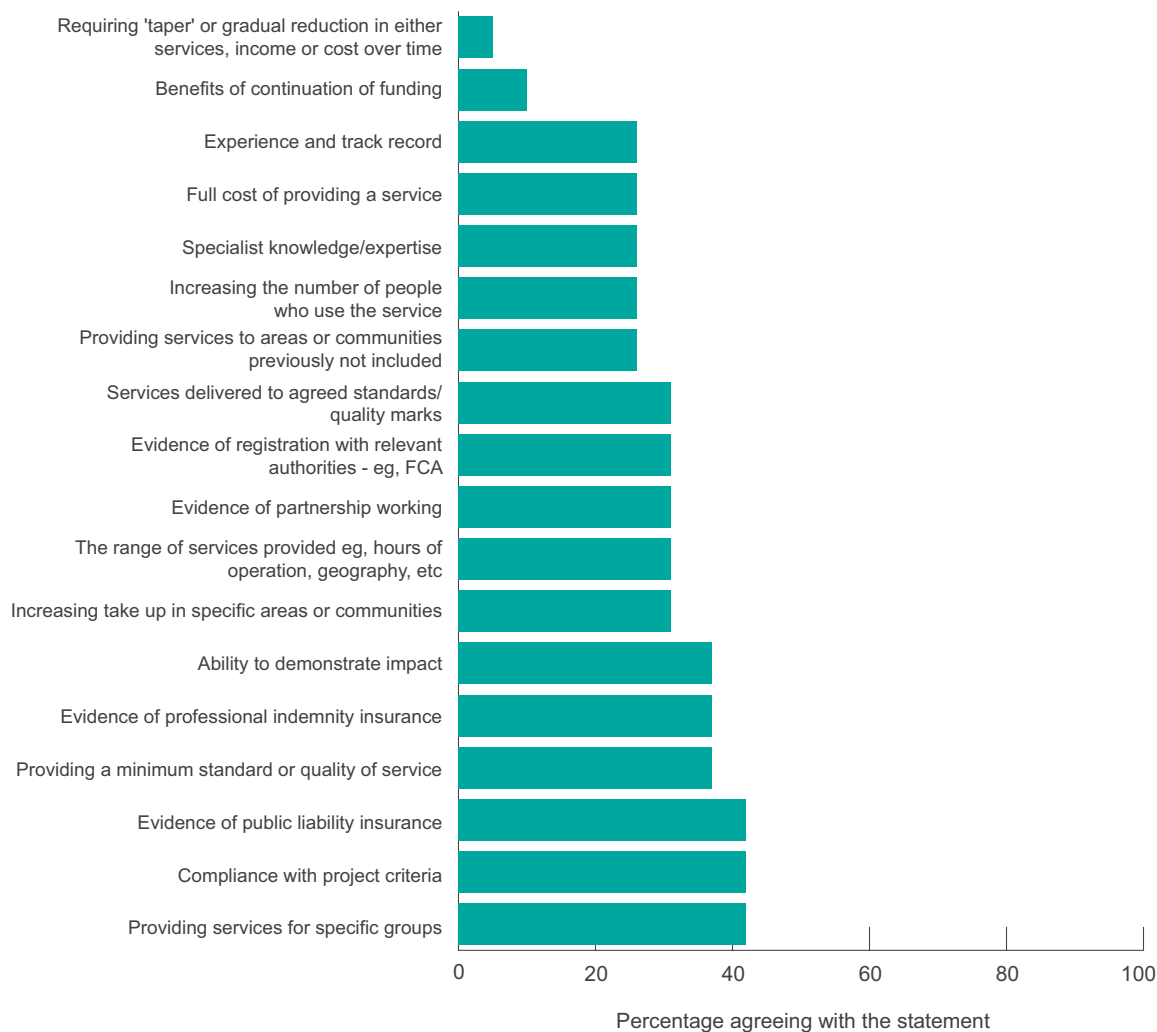
- to streamline processes and improve the transparency of processes and decision making;
- for rationalisation where schemes could be combined; and
- to achieve better and more effective use of resources.

The panel also receives information about the status of projects in place.

This provides the third sector with confidence that the local authority is looking at applications for funding in a fair and equitable way. It also demonstrates that the local authority wants to maximise the benefit of the small amount of funding that it has to distribute.

2.6 Several of our fieldwork local authorities have also revised their funding codes of practice for the third sector, clearly setting out their expectations on both the local authority and the third sector organisations. In particular, local authorities are focusing on setting clearer standards and emphasising their expectations of what third sector organisations are required to deliver and achieve. Whilst a focus on delivering outcomes is becoming more important in strategic funding decisions, the cost effectiveness of third sector organisations remains the key driver and price comparisons – usually unit costs – are often used as the main basis to determine who to award contracts to. This is drawn out in our survey of county voluntary councils set out in [Figure 10](#).

**Figure 10 – County voluntary councils' views on the key issues considered by local authorities in awarding funds to third sector organisations**



Source: Wales Audit Office, Advice County Voluntary Councils Survey, May 2016

- 2.7 The graph lists the potential criteria that local authorities can use to award funding to third sector organisations. Taken together, these represent key drivers for local authorities to use in balancing cost, risk, impact, quality and support to organisations. For all options, very few county voluntary councils believe that local authorities use a sufficiently wide range of criteria to decide on funding awards and these findings suggest that local authorities need to undertake further work to develop their basis for awarding monies. Whilst cost is undoubtedly an important consideration, local authorities also need to ensure this is balanced with, and does not outweigh, other considerations if they are to deliver value for money from their strategic funding decisions.
- 2.8 Our survey of advice and information providers asked third sector organisations to identify the steps taken by local authorities to streamline application processes to support the work of third sector bodies. The survey findings set out in [Figure 11](#) highlight that the experience of the majority of advice providers is that local authorities have not rationalised their funding arrangements to minimise the burden of third sector bodies when bidding for contracts.

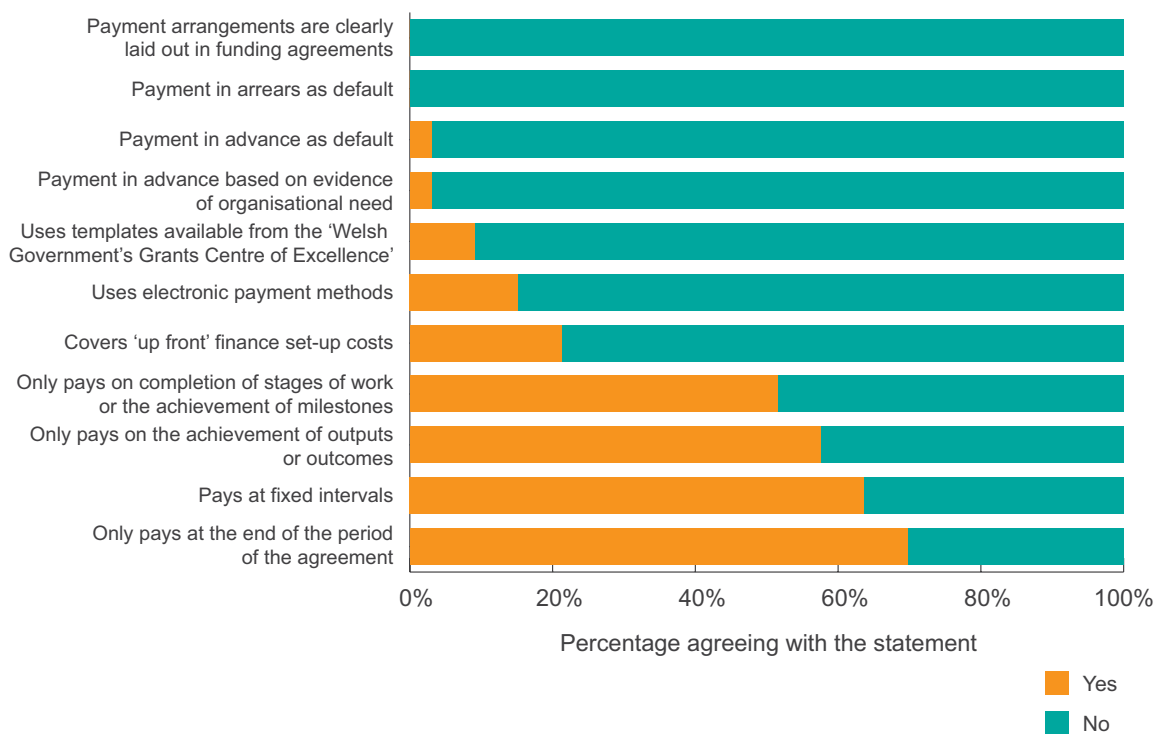
**Figure 11 – Third sector advice agencies’ views on how local authorities seek to streamline application arrangements to reduce burdens on organisations**



Source: Wales Audit Office, Advice Providers Survey, May 2016

- 2.9 In addition, the survey findings in **Figure 12** show that overall advice providers do not consider that local authorities have payment arrangements that are streamlined and support third sector organisations. Just over half of advice providers receive payments at fixed intervals and on the achievement of agreed targets/outcomes. However, the majority responded that local authorities do not adequately set out payment arrangements in funding agreements and few advice providers (less than 25%) receive payments from local authorities electronically – the cheapest and most efficient method of payment – or have the upfront costs of setting up contracts covered by local authorities.
- 2.10 We concluded that overall, the application and information processes used by local authorities for the third sector are too variable and are not efficient or economic. Consequently, because of these weaknesses, local authorities are not doing all they can to support and encourage third sector organisations to apply for funding.

**Figure 12 – Third sector advice providers' views on local authorities' payment arrangements for services**



Source: Wales Audit Office, Advice Providers Survey, May 2016

## Local authorities are not always using the most appropriate approach for funding services

- 2.11 Through their strategic funding arrangements, local authorities specify the services they require and this represents a substantial investment of public resources. To ensure that local authorities receive the best possible supply of services at the most economical price, whilst at the same time ensuring that third sector service providers are provided the opportunity to compete for work on a fair and equitable basis, is a challenge. Generally, local authority funding of services is based on two main approaches – open or closed procurement – and [Figure 13](#) summarises the advantages and disadvantages of these two approaches.
- 2.12 We found that a small number of local authorities continue to work with the same third sector organisations without regularly testing the market to ensure that they are securing the best return on their resources. Whilst working within established partnerships can reduce or limit risk for local authorities, the approach reduces the pool of potential suppliers and can also inadvertently work against the Welsh Government’s objectives of local authorities developing local third sector organisations, and can be a frustration where such closed approaches are considered inequitable and limit opportunities for local authorities to drive further improvements and efficiencies. Local authorities need to recognise that using a closed approach does not allow equal access to all third sector organisations and better placed, more cost-efficient and effective organisations may be missed.
- 2.13 Conversely, open funding approaches allow for greater competition and enable a wider range of organisations to bid for funding, although this can negatively impact on small local organisations who now have to compete with a wider range of organisations for local authority contracts. On this basis, local authorities should be using the recently introduced European Union procurement regulations – the **EU Public Contracts Directive 2014**<sup>19</sup> (the 2014 Directive) – to support how they fund work.
- 2.14 The 2014 Directive provides a new light-touch procurement regime. These regulations allow local authorities to resource third sector activity below a threshold of €750,000 without the need for a formal procurement processes. The directive introduces a number of simplified rules and procedures. They broaden the possibilities for negotiation: the competitive procedure with negotiation may be used when justified by the specific circumstances in relation to the nature, complexity or the legal and financial make-up of a given project, or by the fact that the needs of the contracting authority cannot be met by an off-the-shelf type of solution. The documentation required by the directive is also reduced, notably through the compulsory acceptance of self-declarations from bidders (through a standardised European single procurement document) with only the winning bidder having to submit formal evidence (certificates and attestations).

<sup>19</sup> Specifically, local authorities are able to advertise their contracts via less burdensome prior-information notices (instead of contract notices). Furthermore, they are able to agree with the preselected bidders on the deadlines in their procurement procedures. Crown Commercial Service, [A Brief Guide to the EU Public Contract Directives 2014](#), October 2016.

Figure 13 – Advantages and disadvantages of open and closed procurement for local authorities and third sector organisations

### Open procurement

Open procurement is usually a one-stage process, where all interested third sector organisations respond to a notice inviting submissions to deliver specified services. The contract notice states where to obtain documents and the last date when submissions will be accepted. Open procurement is available to all interested third sector organisations with no or few restrictions.

#### Advantages

- no favouritism (application process open to everyone);
- new suppliers can enter into the market;
- increased employment opportunities if new firm secures work;
- supports suppliers to develop and grow their work;
- local authority spreads risk by increasing the number of suppliers used;
- competitive process results in highly competitive proposals; and
- lower cost and likelihood of respondents accepting greater risk/responsibility.

#### Disadvantages

- inexperienced and unknown suppliers can enter into the market;
- upfront investment in time and money from suppliers with no guaranteed return;
- increased evaluation time for local authority to complete background checks and evaluate documents;
- unrealistic competition;
- greater chance of litigation (compared to closed procurement);
- can take a long time and can be expensive;
- process requires strict adherence and compliance with procedures;
- restricts suppliers from participating in developing and agreeing specifications;
- restricts the possibility of building long-term supplier relationship;
- it can suppress innovation by focusing on the bottom line;
- it limits supplier participation because of its excessive formalism; and
- suppliers cut corners to be competitive which enhances risk.

### Closed procurement

Closed procurement limits the request for submissions to a select number of third sector organisations. Although considered a competitive process, competition is limited to only those third sector organisations shortlisted or invited to apply for the contract following a prequalification or selection process. Key to effective closed procurement is to ensure those selected to participate are qualified to fulfil the specific type of requirement, or certain conditions warrant the use of a limited number of third sector organisations in order to reduce the time and cost of the selection process.

#### Advantages

- you only invite those suppliers who can demonstrate references, knowledge, resources, financial stability and experience;
- keeps supplier list to a manageable number;
- process can be turned around quickly and is less expensive than other options;
- rewards best-performing suppliers and removes an element of risk; and
- continuity in process and performance for local authority and suppliers.

#### Disadvantages

- local authority open to accusations of favouritism;
- less price competition;
- potential for cartel tendering;
- new suppliers who could deliver a good service at less cost are not able to compete;
- suppliers are kept to a minimum and local authorities run risk of operating difficulties if one supplier drops out of the market;
- prequalification process needs to be open and fair and well thought out; and
- closed procurement can limit the number of potential third sector organisations from bidding.

Source: Wales Audit Office

- 2.15 However, a number of the county voluntary councils noted slow progress by local authorities in adopting the new streamlined system for contracts with values under €750,000, and were critical that local authorities are not using the provisions of the directive to streamline and speed up their strategic funding approaches. To ensure that the benefits of the funding method selected outweigh the costs, we would therefore expect local authorities to consider the need, wherever possible, to promote open and effective competition throughout the procurement process; and to balance this with the value of, and risk associated with, the approach.
- 2.16 In deciding which approach to pursue, local authorities should therefore:
- decide on the types of services that are being funded;
  - consider the type of information required to make a decision (for example, seeking quotations or using a tender or proposal process);
  - define the value and risk associated with the procurement;
  - determine whether light-touch processes in line with the **EU Public Contracts Directive 2014** are possible for the funded work;
  - decide the degree to which third sector organisations are able to meet the funding requirements;
  - consider whether innovative solutions are required; and
  - the cost and resources required of both the local authority and the potential third sector organisations seeking to supply the service.

## There has been a significant growth in contracts for services and the decline in general grant support is creating some difficulties for third sector organisations

2.17 Third sector organisations receive both 'grants' and 'contracts' from local authorities to enable them to carry out their work. Grants contribute towards the expense of developing and running an organisation but do not necessarily fund a specific service. In comparison, contracts are funds provided by local authorities to a third sector organisation for specific work where the level and type of service are clearly defined. [Figure 14](#) summarises the difference in approaches.

Figure 14 – The main differences between grants and contracts for third sector services

Grants	Contracts
<p>Grants to third sector organisations are resources that are paid to support the running of the third sector body and are not allocated for a specific contract or service. These are often referred to as core grants or core support and the grant enables a third sector organisation to continue to operate and support its core activity. Grants tend to be based on the cost of the third sector organisation providing a range of services, the impact of which it can be difficult to quantify. Funding risks are as much with the funder as the provider and the grant will be unique to the circumstances of the third sector organisation as it has not been subject to market testing and is often based on negotiation. Historically, grants have traditionally been provided to smaller and more local community-based bodies who are seen as being more accountable to the communities they serve.</p>	<p>Contracts to third sector organisations are resources for a specific service as specified by the local authority and is usually awarded following some form of tender and appraisal. These resources are used to fund only the service that has been funded and should not be used to cross-subsidise other activity. Contracts are secured via some form of competition and are price-based (although pricing may be only one determinant of the contract). Contracts operate against a defined output and operate with more certainty for both the funder and the third sector organisation. Funding risks are much more with the service provider. As contracts are open to a wider range of third sector organisations to tender for work, the approach adopted by local authorities can attract national and multi-national organisations to tender which will lose the potential local or community focus.</p>

Source: Wales Audit Office



- 2.18 Our analysis, set out in [Figure 15](#), shows that between 2001-02 and 2013-14 there has been a shift in local authority funding of third sector services. Whilst the amount of grant funding has increased in cash terms from £30.8 million in 2001-02 to £39.5 million in 2013-14, in real terms (taking inflation into account) there has been a 19.1% reduction. There has also been a significant decrease in the proportion of resources allocated by local authorities to third sector bodies as grants. In 2001-02 grants accounted for 45.1% of all third sector funding provided by local authorities. By 2013-14 grant funding had reduced to 15.8% of all third sector funding by local authorities. In the same period, contracts to third sector organisations increased by £171.9 million, a rise of 302% in real terms. The proportion of funding provided as contracts has also increased significantly from 54.9% in 2001-02 to 84.2% in 2013-14. The shift in funding from grants to contracts demonstrates that local authorities are refocusing their third sector funding to investment to services that directly benefit or support delivery of specific activities.
- 2.19 Whilst contracts are likely to have clearer and identifiable delivery objectives and outcomes, grants are valued by third sector organisations for providing greater freedom to organisations to develop and deliver a wider range of services. The reduction in grant funding therefore highlights that local authorities are less willing to contribute to meeting the day-to-day running costs of organisations where it is generally more difficult to identify how resources directly contribute to benefiting local people and communities or, indeed, the work of local authorities.

**Figure 15 – Local authority funding of third sector services between 2001-02 and 2013-14**

<b>Funding area</b>	<b>2001-02</b>	<b>2003-04</b>	<b>2009-10</b>	<b>2013-14</b>	<b>Change in real terms</b>
Amount of funding for grants	£30,785,000	£48,579,000	£35,797,000	£39,484,000	-19.1%
Amount of funding for contracts	£37,439,000	£78,154,000	£120,578,000	£209,368,000	302%
<b>Total</b>	<b>£68,223,000</b>	<b>£125,733,000</b>	<b>£156,375,000</b>	<b>£248,852,000</b>	<b>165.5%</b>

Source: Wales Audit Office analysis of third sector funding in 2001-02; 2003-04; 2009-10; and 2013-14 produced by the LGDU for the WCVA (data has been rounded to the nearest £1,000).

- 2.20 We found that contracting processes and the decline of grants can create a more difficult environment for third sector organisations. Only 4 of the 56 organisations responding to our call for evidence stated that the change in funding from grants to contracts has positively affected their organisation, with 19 stating that the change has had a negative impact and 18 stating that they had seen no positive or negative impact. Fourteen of the respondents did not know and one did not respond. The cumulative effect of reductions in grant and local authorities seeking to maximise the benefits arising from their funding is resulting in many third sector groups, especially small and medium-sized locally based bodies, struggling to stay afloat and maintain appropriate levels and standards of service.
- 2.21 For example, Welsh Women's Aid stated that in some cases, local authorities have awarded contracts to generic service providers rather than specialist providers because of lower competitive-tender prices. However, the appointed provider often lacked the specialist knowledge to provide such niche and specialist services, which was impacting adversely on service users. Whilst it is legitimate for local authorities to secure the best price for a service, it should not be the only driver. Quality, impact, coverage and take-up are also important, particularly in specialist services which, by their very nature, often provide better value for money even though they may be more expensive.
- 2.22 Four local authorities responding to our survey stated that they have protected third sector funding from budget cuts in the last three financial years but three have not been able to offer that protection. However, only one of the county voluntary councils reported that local authorities have protected third sector funding from budget cuts. The vast majority – 17 of the 19 respondents – reported that local authorities have not sought to protect third sector funding and one respondent did not know. In addition, only 8 of the advice and information agencies felt that their local authority has protected third sector advice and information services from budget cuts in the last three financial years, with 22 stating that this had not happened and 3 not responding to that question. Our data analysis shows that only one local authority has seen a reduction in third sector funding with all others increasing spending in real terms. The difference in opinion may be a reflection of the change in funding with grants reducing and contracts for services increasing.
- 2.23 Third sector organisations responding to our call for evidence noted that 'grants are more efficient to the third sector as commissioning is costly and has a huge amount of waste, in both time and resources'. Another respondent noted that 'the challenge is to remain a customer focused service rather than becoming an income chasing business', whilst another respondent noted that 'sadly there is little respect for volunteering and lack of understanding of the costs or benefits of volunteering for individuals' and communities' health, well-being and up skilling as well as the added value in direct service delivery. There is too much expectation of the third sector being able to provide services at no cost or at least self-finance part of the service. Full cost recovery is not accepted. Middle managers often have little business understanding. Too often annual contracts are not paid until end of financial year causing cash flow problems for smaller organisations.'

- 2.24 In response to the reduction in grants, some groups have looked elsewhere for support either through general donations or funding applications to trusts and foundations. However, this has been generally inadequate to meet running costs or requires support from public bodies in the form of match funding to access such funds. Other third sector organisations have moved to become social enterprises<sup>20</sup> and looking to access social investment<sup>21</sup>, trading opportunities and adopting business practices as a means of generating income to fund mainstream activities.
- 2.25 Through these moves, some third sector organisations are now engaging with the 'social investment market' intended to replace public funding for public services, through the use of financial instruments such as payment by results and social impact bonds<sup>22</sup>. Some social enterprises that attract private finance do so by entering into debt commitments with private investors, whilst continuing to rely on public sector finance both to provide the contracted service and repay their investors. The rise of social enterprise investment therefore presents opportunities but is also a potential risk for third sector organisations if not managed effectively. There is no right or wrong approach in the use of grants, and local authorities need to ensure that when deciding what service they want, they use the best funding approach, grants or contracts, to deliver what is intended. This approach also has to be balanced with procurement policy at a national level which itself can present a challenge with local authorities needing to balance on the one hand the drive toward aggregations and economies of scale in order to reduce costs and lever in savings with local delivery approaches which enhance broader community objectives and better support smaller community based groups.

## The recent growth in local authorities requiring third sector organisations to form consortia to bid for contracts presents potential risks as well as opportunities for all parties

- 2.26 We found a growing trend of third sector bodies being encouraged by local authorities to participate in bids as part of a consortium. The move by local authorities to encourage third sector bodies to develop consortia to bid for contracts is based on a belief that this will deliver better services for citizens and communities but also improve value for money for the local authority. Consortia are seen as offering economies of scale, more efficient processes and clearer lines of engagement. However, consortia can also present significant disadvantages. To be effective, consortia require high initial investment in time and resources and, whilst this approach can prove to be effective in engaging a wide range of expertise to meet the needs of service users, we found that local authorities are not always considering the time and resources that such bids take to compile.

20 Social enterprises are organisations that apply commercial strategies to maximise improvements in human and environmental well-being alongside profits. Social enterprises can be non-profit, and may take the form of a cooperative, a mutual organisation, a social business, a benefit corporation, a community interest company or a charity organisation. What differentiates social enterprises is that their social mission is as core to their success as any potential profit.

21 Social Investment Business (SIB) is a UK registered charity and trading company that offers loans, grants and other financial products to charities and social enterprises. SIB manages one of the largest social investment portfolios in the UK. Its foundation pioneered community investment in the UK and, to date, has leveraged over £30 million from corporate and public sector organisations.

22 A social impact bond is a contract with the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings.

- 2.27 Local authorities are expecting organisations which are normally in competition to join together where there is no tradition of cooperation or a there is reluctance to work collectively. This collaboration is intended to make tenders more attractive to local authorities but does create some significant challenges for third sector organisations. For example, third sector organisations are governed by charity law and have their own objectives which may be constrained to a specific set of users or locality. Consortia may therefore may not be a viable option.
- 2.28 One of the main values of the third sector is its diversity. Encouraging independent organisations to work together to deliver services where no relationships have previously been in place (especially where they have been in competition) is not making the best use of the differences that exist. Local authorities also need to make sure they have an adequate lead-in time in their strategic funding arrangements to ensure consortia are able to develop sufficiently to be able to submit realistic and sufficiently robust bids and tenders for services. This does not always happen and we found examples of local authority timescales continuing to be driven by optimism rather than realism.

### **The continued use of annual funding awards does not support sustainable funding of the third sector**

- 2.29 Annual or short-term funding creates a variety of problems for third sector organisations. It can result in difficulties in attracting and retaining staff, spending disproportionate time on developing and submitting applications for funds rather than delivering services, and difficulties in optimising performance when there is a great degree of uncertainty. A number of third sector organisations report that annual funding does not provide an effective basis for the planning and delivery of services, mainly due to the difficulty in aligning funding decisions, staff recruitment and contract length. Sustainable funding is essential to third sector organisations recruiting and retaining suitably qualified and experienced staff.
- 2.30 Only three of the nine county voluntary councils where the local authority has a single strategy or a framework stated that their local authority's strategy is consistent with the Welsh Government's code of practice for funding the third sector with the other six stating that local strategies are inconsistent with that code. Although the Welsh Government's code of practice on funding third sector services identifies that local authorities should provide a minimum of three months' notice for the ending of funding, we found that not all local authorities were always able to provide this information in a timely manner. This can be affected by late confirmation of budgets at a national level by the UK Government and the Welsh Government.



Christian Merrick at Cosmeston: Christian has been volunteering with Innovate Trust's Green Days project at Cosmeston Lakes Country Park since the beginning of 2016. One of the top 15 photographs in WCVA's Members Photography Contest 2016.

Source: WCVA

- 2.31 Poor communication creates considerable uncertainty for third sector organisations, business planning, and affects their ability to recruit and retain high-quality staff as well as look to provide innovative solutions. The lack of timely information about future funding means that third sector organisations are providing staff with redundancy notices, in some cases three months before the end of a funding cycle, which can be annual funding. This can contribute to the loss of staff who are looking for job security and also increase administration, recruitment and training costs. More importantly, the lack of sufficient notice critically affects service users where services may be withdrawn or changed.
- 2.32 Only three of the county voluntary councils reported that local authorities provide third sector organisations with sufficient notice of funding decisions which can support better continuity of service provision. Nine of the county voluntary councils stated that their local authorities do not. This inefficient cycle of funding can lead to ineffective service delivery and local authorities do not always receive full value for the contract that they are funding. For example, one respondent to our call for evidence noted that 'over the last five years there has seldom been a level playing field. Projects are confused, both in application and design. They are not efficient or effective with a long set up and long wind down and when a new similar project starts again they do not learn from the mess of last time, time and money are wasted again and beneficiaries miss out.'

- 2.33 Two of our six fieldwork local authorities have sought to overcome the challenge of the annual cycle of funding by providing third sector organisations with a commitment of longer-term funding. In Neath Port Talbot the local authority has agreed in principle to fund eight third sector organisations as strategic partners for the next three financial years starting from 1 April 2016. The local authority has identified that these organisations are essential to the delivery of the local authority's corporate objectives and is providing them with longer-term funding. However, the local authority does not wish to create a dependency culture and so is working with these strategic partners to access alternative sources of funding at the end of the three years.
- 2.34 A number of third sector organisations called for local authorities to consider greater flexibility in their use of grants when funding the third sector. This is because third sector organisations feel that due to their innovative delivery approaches and use of volunteers, they can deliver more with a smaller sum than local authorities can with larger budgets. There was also a call for local authorities to consider carefully what they fund to improve outcomes for the public and avoid only funding activity that can be easily quantified. Third sector organisations identified that funded services have less flexibility to respond to emerging service user needs compared to grant funding.

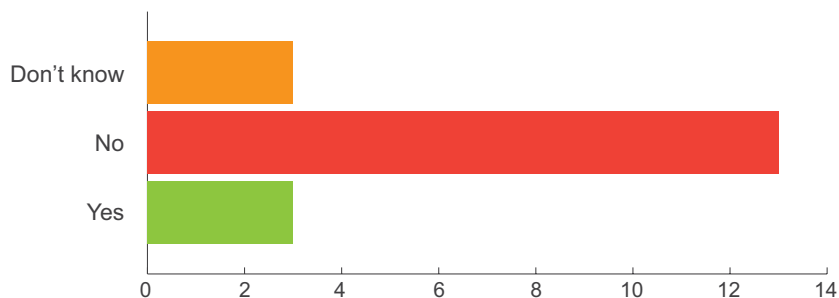
## Full cost recovery continues to be a problem for many third sector bodies

- 2.35 Traditionally, it has been standard practice for third sector organisations to price activities based on the full cost of delivery and include within costs salaries of staff directly involved in the project as well as overheads<sup>23</sup>. However, management and accommodation overheads are often not requested nor included in tenders by local authorities. This is partly a result of difficulties that some in the third sector have in working out the true cost of service, but is also a reflection of a growing reluctance amongst local authorities to meet the full cost<sup>24</sup> of a third sector organisation.
- 2.36 **Figure 16** shows that for 13 of the 19 county voluntary councils who responded to our survey do not believe that their local authority have full cost recovery processes in place.

<sup>23</sup> Overheads are the operating expense of providing a service including, for example, the costs of rent, utilities and taxes, exclusive of labour and materials.

<sup>24</sup> Full cost recovery means that a third sector organisation receives money to cover the direct costs incurred in providing a service and also the overhead costs.

Figure 16 – County voluntary councils’ views on whether local authorities operate a full cost recovery model for third sector projects they fund



Source: Wales Audit Office, County Voluntary Council Survey, May 2016

2.37 One county voluntary council commented that ‘full cost recovery is included in the funding code of practice but there is a statement to say that full cost recovery might make the third sector group less competitive, so it is not really actively encouraged’. In some cases, only direct service provision is covered by the local authority funding agreements and organisations have to subsidise the cost of providing services through other sources. Many third sector organisations felt that local authorities do not fully understand the full costs of delivering services and the importance of overheads in enabling organisations to deliver what is specified, costs related to offices, ICT, management costs, legal advice and insurance. For example, one advice provider who completed our survey noted that their experience is that local authorities have ‘little recognition of need for full cost recovery’ and another that there is ‘no recognition of need for full cost recovery. No respect for third sector.’

## Part 3

Local authorities are unable to consistently evidence the impact of their work with the third sector

Foraging Day at Merthyr Mawr: A group of regular conservation volunteers with Innovate Trust's Green Days at Wild Spirit Bushcraft, where they learned about foraging and bushcraft, and cooked their own lunch over an open fire in a yurt. One of the top 15 photographs in WCVA's Members Photography Contest 2016.



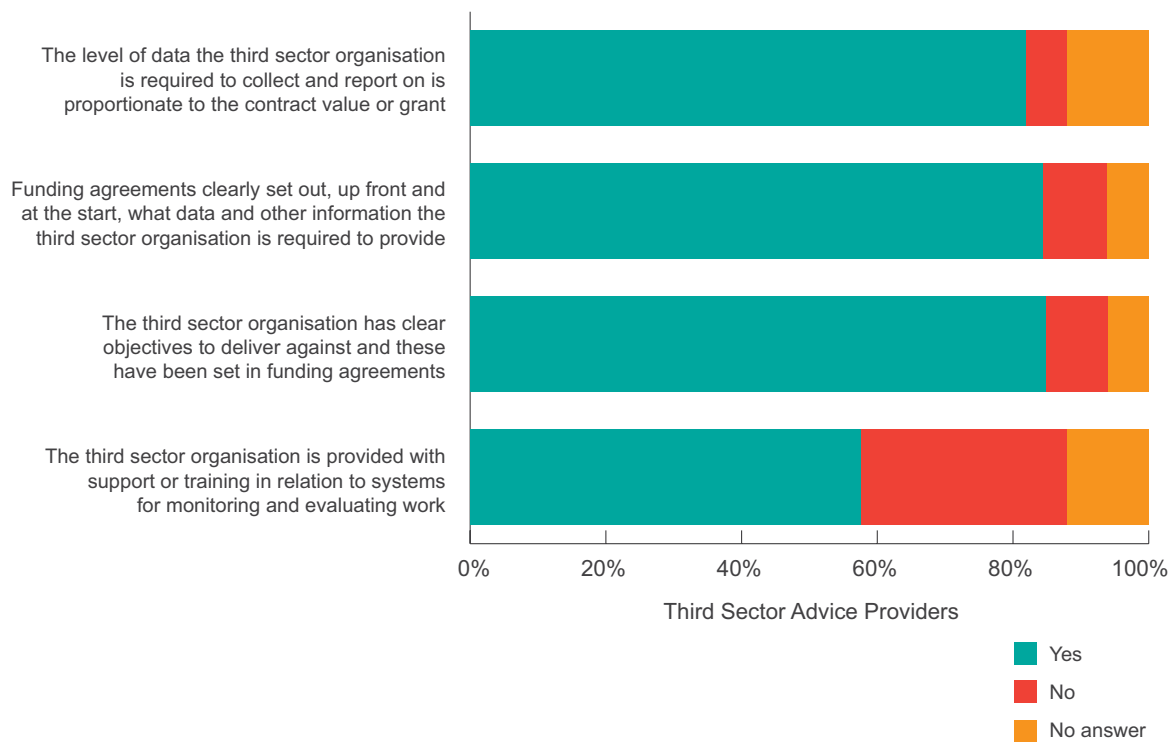


- 3.1 To get the best from funding decisions, local authorities need to ensure they have the right arrangements and systems in place to manage, evaluate, measure and scrutinise performance. Effective scrutiny of the third sector is centred around a number of key principles: providing training and support to organisations, and developing efficient systems to collect information that is proportionate; setting clear standards of how and what third sector organisations are required to perform against; and having the right processes in place to scrutinise and judge performance. This section of the report looks at the robustness of the arrangements put in place by local authorities to manage, review and scrutinise the performance of the third sector.

### Local authority arrangements to monitor and review the performance of third sector organisations are not always consistent or effective

- 3.2 **Figure 17** summarises the findings of our survey of advice providers, and generally provides a positive picture of the systems created by local authorities to manage and oversee third sector funding. Just under 60% of third sector organisations stated that they receive support and training from local authorities on the how their services will be monitored and evaluated. In addition, over 80% of third sector advice organisations responded positively that local authorities set clear and appropriate objectives to judge performance when contracts are first agreed and signed. In addition, 80% of survey respondents felt that the level of data they are required to collect and report to local authorities is proportionate to the value of their contract. Taken together, the views of third sector advice organisations suggests that most local authorities are setting clear standards for advice providers to perform against, and operate balanced and appropriate systems to manage, evaluate and scrutinise third sector performance.
- 3.3 However, in comparison to advice providers, the county voluntary councils are less positive about local authorities' arrangements. **Figure 18** summarises the findings of our survey of county voluntary councils and shows there are wide variances in partners' views on the effectiveness of local authorities' systems to manage and oversee third sector funding. Seven county voluntary councils reported that their local authorities provide third sector organisations with support and training in relation to systems for monitoring and evaluating their work but eight stated that this does not happen and three did not know. Twelve of the county voluntary local authorities stated that local authorities set out the data and the other information that third sector organisations are required to provide at the outset of funding agreements; however, three stated that their local authorities do not and four did not know. Only seven county voluntary councils reported that the data that third sector organisations are required to collect and report is proportionate to the contract value or grant. Eight county voluntary councils did not agree and four did not know.

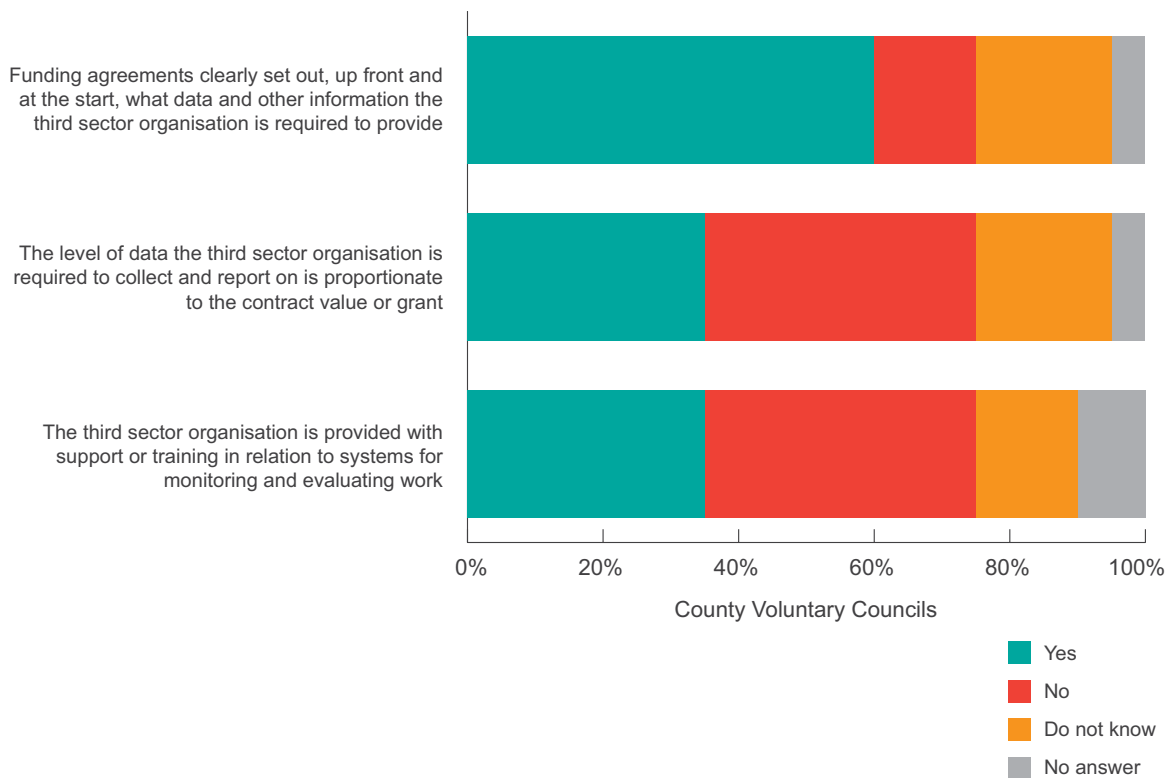
Figure 17 – Advice providers’ views on the requirements of local authority performance management arrangements



Source: Wales Audit Office, Advice Providers Survey, May 2016

3.4 Taken together, the views of county voluntary councils suggest that whilst most local authorities are clearly setting out the data that they require organisations to collect, there is more that local authorities could do to ensure these requests are proportionate and manageable for the third sector. In addition, local authorities also need to improve their support and engagement with third sector organisations to ensure they are properly equipped to play their full role in monitoring and evaluating performance.

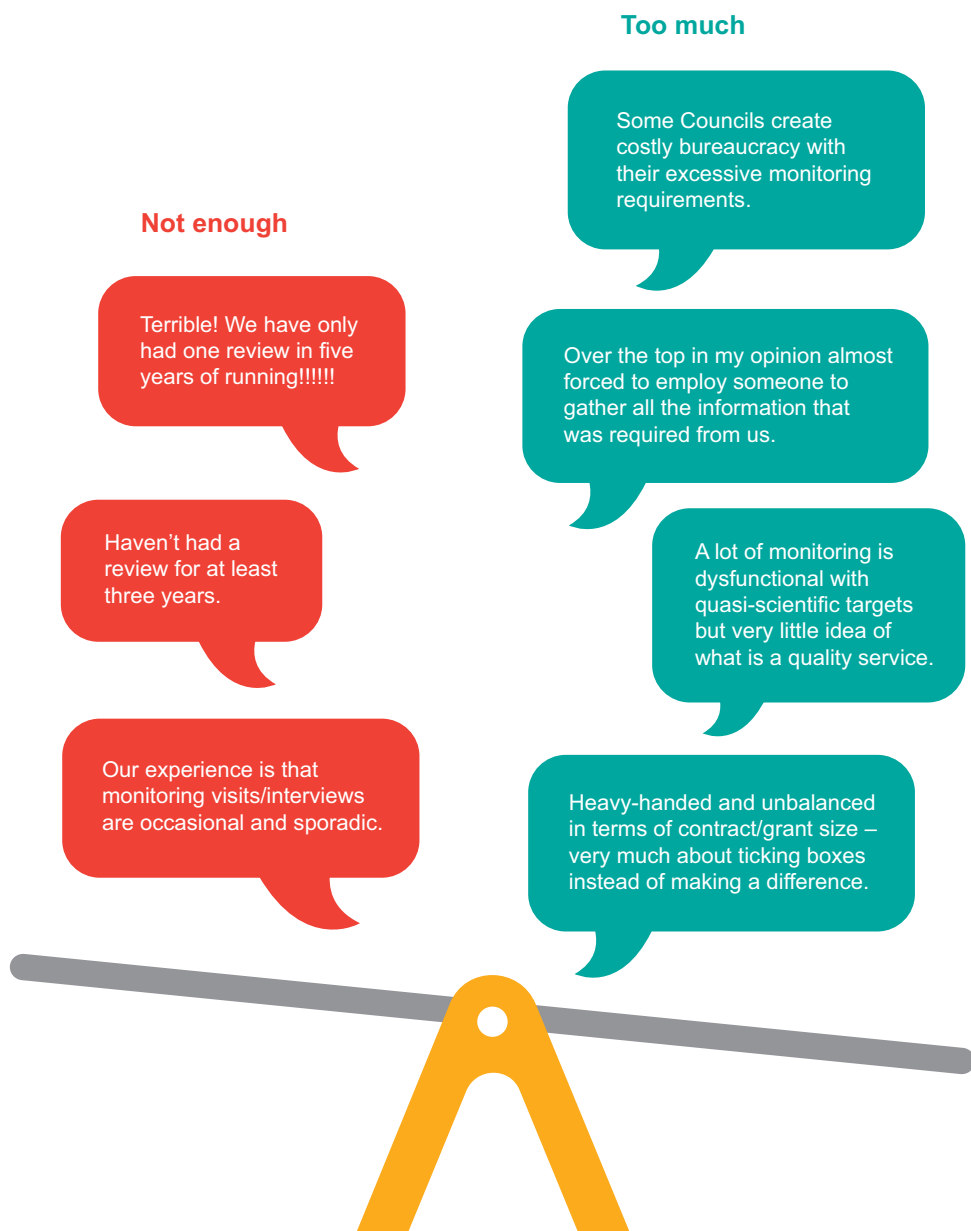
Figure 18 – County voluntary councils’ views on the requirements of local authority performance management arrangements



Source: Wales Audit Office, County Voluntary Councils Survey, May 2016

3.5 The reported lack of support and training is a critical issue for local authorities to consider when looking at the capacity and skills of third sector organisations. We found that a number of local authorities are also not specifying to third sector bodies the key information they require to judge the effectiveness and performance of the services they commission. In some cases, limitations in local authority performance measurement frameworks and reporting arrangements for third sector organisations has resulted in some third sector organisations not reporting on their performance for a number of years. This contrasts with the views of other organisations which stated that reporting and data collection requirements were overly onerous and not always meaningful or appropriate – Figure 19.

Figure 19 – Third sector advice providers' views on local authority processes for managing and reviewing their performance



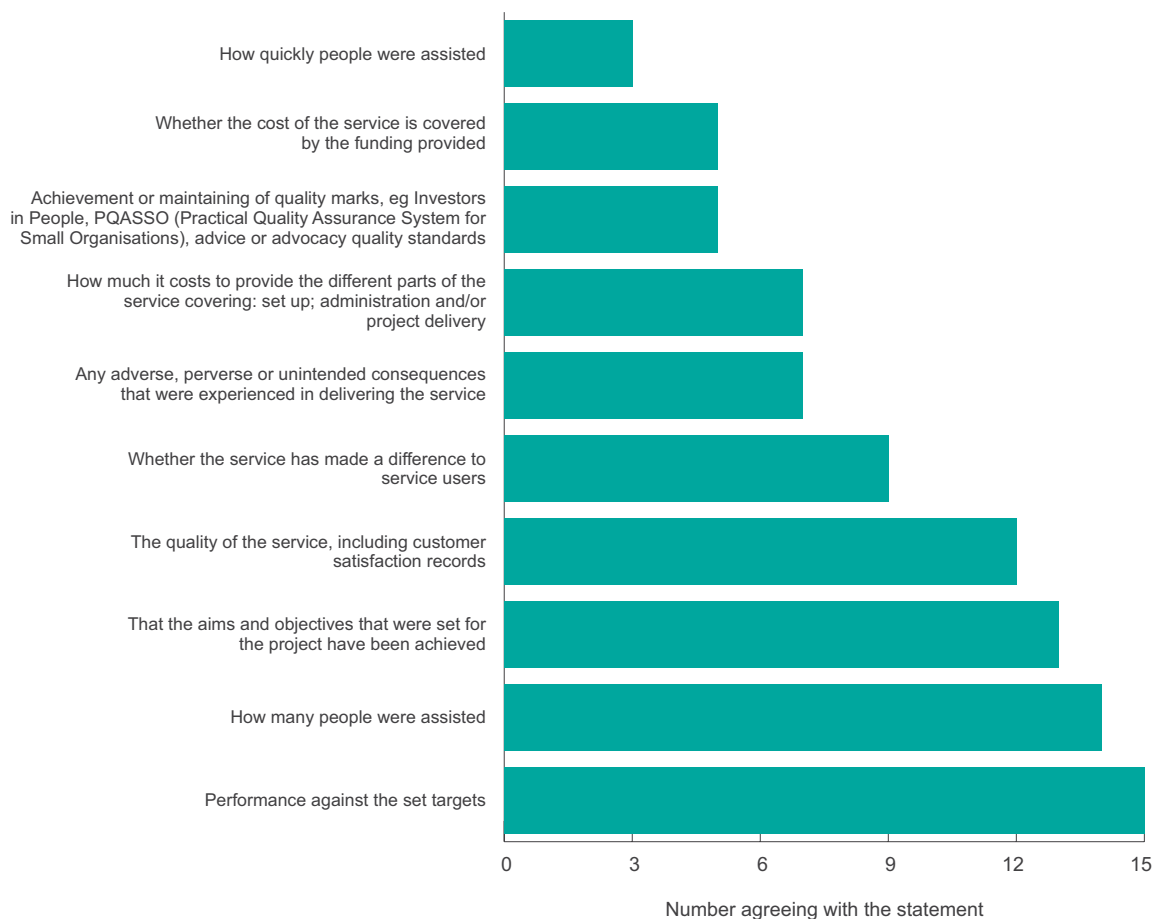
Source: Wales Audit Office, Advice Providers Survey, May 2016

- 3.6 From our document review of all 22 local authorities, we evaluated 6 as having established what we consider to be effective arrangements to monitor, review and evaluate the performance of third sector organisations. In these circumstances, local authorities have clearly stipulated the information they required from third sector organisations and have developed clear and simple processes to capture data from the third sector. We found few gaps in information and the data provided was largely focused on judging performance against delivery of the local authority's strategic objectives. Generally, we considered the volume of data and detail being provided, and the frequency of submissions, to be appropriate to the size and length of the contracts being monitored. Some services, in particular Supporting People and Social Care, have also developed monitoring systems with clearer expectations and better-quality review systems, something echoed by respondents to our surveys. With regard to the other 16 authorities, 11 provided evidence that they were covering some of these elements, but gaps existed in their processes and the remaining 5 showed poor or insufficiently evidenced approaches, with significant gaps in processes.
- 3.7 Some third sector organisations noted that in the absence of local authorities specifying their reporting and evaluation requirements, they had chosen to submit internal management reports to provide some form of assurance to those funding them on how their services are performing. Whilst internal management reports will be of interest to local authorities, the information will not specifically focus on demonstrating how the third sector organisation is necessarily delivering against the local authority's priorities for the funding. Internal management reports have also been developed to meet the specific reporting and performance management requirements of the organisation and charity funders, not local authorities, and are unlikely to therefore provide adequate assurance that services are delivering against local authority funding objectives.
- 3.8 Inconsistent and ineffective local authority monitoring and evaluation arrangements means that the third sector is not always clear about what is required and how best it can demonstrate the positive impact of its work. Poor performance management arrangements also weaken accountability and limit potential scrutiny of activity by elected members.

## Most local authorities have not set measures to be able to consistently judge the impact of their work with the third sector

- 3.9 Monitoring and reviewing performance is about collecting information and evaluating the extent to which third sector funding has met its objectives. Effectively assessing performance will also help local authorities and third sector organisations to improve management of third sector funding, wider accountability for performance and expenditure, and policy development. Setting poor indicators makes it difficult for local authorities to therefore judge the true value of the services they are funding and the impact of the work of third sector organisations. Key to the effective scrutiny of performance is having robust but streamlined processes that strike the right balance between collecting everything and nothing.
- 3.10 Through our fieldwork and document review work, we assessed the quality and range of measures set by local authorities to judge the impact of third sector services. We assessed 10 authorities as showing good practice in setting appropriate measures for their third sector services to work. The best-performing authorities linked performance measures for third sector organisations with authority corporate priorities and strategic plans to be able to judge the impact from investment. We also rated a further four authorities as having some weaknesses in performance management information systems, and further work is required to appropriate measure are in place to be able to judge performance. We rated the remaining eight authorities as having poor or insufficient performance measures, which means that they are unable to effectively challenge and scrutinise performance. These are mostly authorities where third sector funding decisions continue to be managed by individual departments, which has resulted in a wide variation in the quality and robustness of working practices. We similarly found weaknesses in the way that grant funding is evaluated, and evidenced some local authorities continuing to provide monies to third sector organisations with few or no clear performance measures attached to the funding.
- 3.11 **Figure 20** summarises the findings of our survey of county voluntary councils about the criteria that local authorities use to monitor and evaluate their work with third sector organisations. The responses show that local authorities place greater reliance on meeting project targets than the quality of the service and user experience, and many local authorities are still heavily focused on outputs not outcomes.
- 3.12 Where data is collected, some county voluntary councils felt that much of the information has little or no relevance to judging the effectiveness of services. This is despite the view from the third sector that many third sector organisations focus on outcomes monitoring and tracking the difference made to service users. Similarly, just 4 of the 33 advice and information agencies that responded to our survey reported that local authorities set appropriate outcome measures for the third sector advice and information services they fund to be able to judge improvement over time.

Figure 20 – County voluntary councils’ views on the criteria used by local authorities to judge the performance of third sector organisations



Source: Wales Audit Office, County Voluntary Councils Survey, May 2016

3.13 Torfaen County Borough Council linked its funding of third sector organisations to outcomes and has created a series of measures to calculate the Social Return on Investment (SROI), which is used as a guide to assist decision makers on where to allocate funds to get the best return for their investment – Figure 21. Other local authorities, including Pembrokeshire, have also started to use community benefit clauses within their procurement processes. These clauses often focus on developing wider benefits for local communities through the delivery of services and employment and training opportunities for residents.

### Figure 21 – Torfaen County Borough Council – social return on investment

The SROI allows the local authority to make the reduction in an equitable way and on the basis of those organisations that were making the most of the grant funding they receive for the community and the local authority.

The SROI is calculated by identifying the cost per head based on the number of people who have had contact with the organisation and then divided by the number of social impacts the service provides; this provides a value per head. The value per head is then divided by the number of corporate plan priorities where the service delivers outcomes. This then provides the local authority with an SROI per head figure. The lower the cost the better the value for money in respect of social impact.

The calculation was shared with the local council for voluntary services and local third sector organisations to ensure that everyone understood the calculation and how it would be used. The local authority set up a group to evaluate the organisations using the SROI. Membership of the group included the executive member with responsibility for grant funding and other local authority elected members to create a grant advisory panel. The local authority used the SROI to rank the organisations and those that achieved a low-cost figure were successful in receiving continued funding.

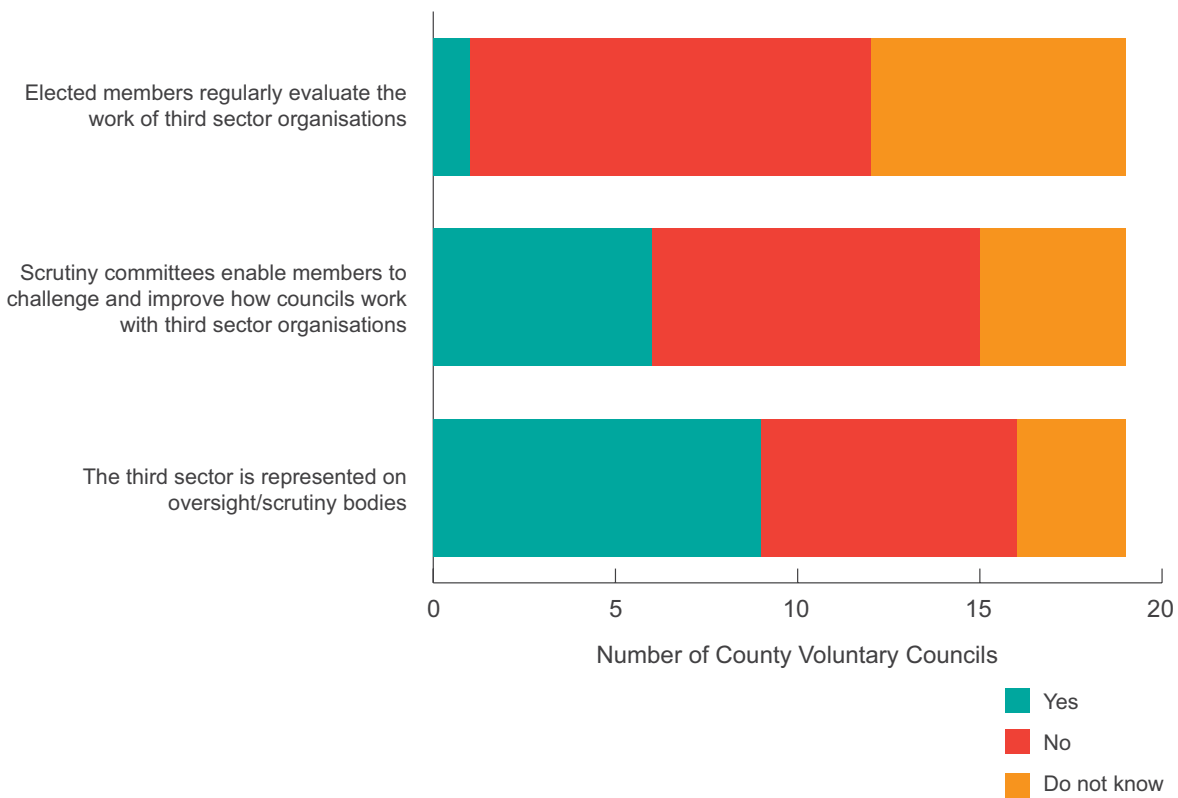
## Scrutiny and risk management arrangements to evaluate and oversee third sector funding are not always suitable or effective

- 3.14 Scrutiny committees can play a key role in overseeing the funding of third sector services to challenge underperformance, hold organisations to account and identify opportunities for improvement. Local authority scrutiny committees should maintain rigorous levels of oversight in relation to services contracted to third sector organisations as they would to those directly provided by the authority itself. We did find some examples of developing practice where local authorities' scrutiny of their third sector funding is improving. In Neath Port Talbot, the local authority's Policy and Resources Committee has been fully engaged in a review of third sector funding. As a result of the review, elected members better understand the benefits and challenges of the local authority's work with the third sector and have identified opportunities to up skill elected members to improve the effectiveness of scrutiny going forward. However, we found that, overall, scrutinising the performance of the third sector is an area of work that some local authorities struggle with.



3.15 Responses to our survey of county voluntary councils highlight concerns with their local authorities' scrutiny work in overseeing and challenging the performance of third sector services as set out in Figure 22. Just under half of county voluntary council respondents acknowledged that third sector organisations are represented on oversight and scrutiny bodies. However, only 6 of the 19 county voluntary councils who responded to our survey felt that scrutiny committees enabled members to challenge and improve how their local authority worked with third sector organisations and only one that elected members regularly evaluated the work of the third sector.

Figure 22 – County voluntary councils' views on local authority scrutiny arrangements



Source: Wales Audit Office, County Voluntary Councils Survey, May 2016

- 3.16 The findings from our call for evidence echo the views of county voluntary councils and highlight that arrangements to review and scrutinise third sector performance are not consistently used. Only 14 of the 56 organisations which responded felt that local authorities' monitoring arrangements for third sector projects are effective. Common weaknesses identified by third sector organisations included:
- inconsistent monitoring processes between and within local authority departments;
  - information provided by third sector organisations not being used by local authorities when reviewing projects;
  - processes being overly burdensome on third sector organisations; and
  - limited capacity within local authorities to conduct reviews in a timely manner.
- 3.17 We found that scrutiny of third sector funding is often devolved to the individual subject-specific scrutiny committees. By vesting scrutiny in individual committees, local authorities often lack a central or corporate oversight of the full range of third sector funding taking place within the authority. This can result in an authority being unable to identify potential areas of duplication and miss out on opportunities to improve efficiency in their future funding of third sector services. Local authorities need to, therefore, improve how they collect, manage, share and analyse data to ensure they have the right intelligence to both take decisions and to clearly understand the potential impact of these decisions on the local authority, third sector organisations and service users.
- 3.18 Risk management is an important part of local authorities' scrutiny and oversight arrangements and, done well, can provide local authorities with assurance that the risk of certain kinds of events happening or having an impact on the business of the local authority are reduced or eliminated. Effective risk management is a process for identifying, assessing and prioritising risks of different kinds and, once the risks are identified, creating a plan to minimise or eliminate the impact of negative events. Local authorities need to consider a range of risks that working with the third sector can present; those may include reputational and financial risks.
- 3.19 Our fieldwork identified that local authorities do not always consider risk in their work with the third sector. Of the six local authorities we visited, only one had a clear process to specifically assess the risk of funding third sector organisations. One local authority told us that senior officers' professional judgment was used to judge risk, but this approach lacked any formal system to consistently assess and mitigate risk as information is not recorded or managed and is a point-in-time evaluation against no agreed criteria. Where there is a history of procuring services, especially in social care, we found more established processes with a greater focus on capturing risks in formal registers which are subject to review and mitigation actions.



Volunteer front walkers leading the way on Tenovus Cancer Care's Goodnight Walk in 2014. This event sees hundreds of walkers light up the night to remember and celebrate the lives of loved ones affected by cancer, and would be impossible without the help of fantastic volunteers. One of the top 15 photographs in WCVA's Members Photography Contest 2014.

Source: WCVA

3.20 In Flintshire, the internal audit service had identified funding of social care third sector organisations as an area for focus. The internal audit team's review, published in 2015, found that significant improvement in the control environment was required despite a number of areas that the local authority managed well including relationships between the local authority and the third sector and joint development of service specifications. The report noted that 'Key controls exist but fail to address all risks identified and/or are not applied consistently and effectively.' The audit team made a number of recommendations for improvement which the local authority was in the process of implementing when we visited.

## Part 4

Changing expectations of the third sector present both opportunities and risks which need to be carefully managed if the anticipated benefits are to be realised

Young volunteers of Ferndale Grassroots having a hard earned rest by the newly developed pond high above the Rhondda Fach. This photograph was the runner-up in WCVVA's Members Photography Contest 2016.



- 4.1 With public sector funding set to continue to fall in the immediate future, the Welsh Government (and local authorities) have taken the opportunity to redefine public services focusing on new sustainable and preventative approaches for service delivery. Within recent legislative changes and planned reforms, a growing role for the third sector is identified. In this final section of the report, we consider the opportunities and risks presented to the new agenda of a stronger and more mainstreamed third sector.
- 4.2 The squeeze on government spending has focused policy makers' attention on the role of voluntary participation and the third sector in the provision of public services, leading to greater funding scrutiny and a need to understand how communities can participate in sustainable public services. This policy shift towards coproduction assumes that levels of volunteering, third sector activity and its distribution in all localities can effectively meet growing demand for public services. However, this has to be balanced against the reliance of the Welsh third sector on public monies which have reduced in recent years and brought with it a need for local authorities and other public bodies to seek to maximise the benefits that can be secured from every pound of investment.
- 4.3 For the third sector to be fully effective it needs to be able to compete to provide services in a fair and equitable way. Building capacity within the third sector to ensure as wide a range of organisations are able to participate in strategic funding processes is therefore an important role of local authorities. Torfaen County Borough Council has recently employed a Community Grants and Development Officer who has engaged with third sector organisations to help them improve how they work with, manage and review local authority funding services. Through this work, the Community Grants and Development Officer is both supporting third sector organisations to work with the local authority, but also ensuring that the local authority's funding is being used in the most effective way.
- 4.4 Some respondents to our call for evidence acknowledged that whilst many third sector organisations often do not possess the necessary capacity, skills, time and expertise to bid for local authority contracts, most local authorities are not looking to proactively support and encourage the development and growth of their local third sector. In particular, smaller, local and community-based third sector organisations find it particularly challenging to continue to evolve and meet new and more demanding local authority requirements.
- 4.5 We found that local authorities' procurement processes did not always help the local third sector. Because of the monetary value of the contracts, many had to follow the strict procurement procedures. Some organisations found this to be prohibitive for them to apply for opportunities. Some local authorities, through the county voluntary council, did provide information meetings where organisations were walked through the process and shown how it worked, and in some cases,

local authorities were able to demonstrate that third sector organisations had succeeded in competitive bids as a result of the training. However, information exchange does not solve the issue around capacity and expertise in the third sector and this is something local authorities need to consider in their strategic funding processes.

- 4.6 A strong message from our research is that while supporting the third sector to enable them to bid for contracts is essential, there is also an equally important need for training and support for those within the local authorities involved in funding services in order to ensure that they adopt and use appropriate and proportionate practices. Very few local authorities have staff dedicated to work with, and develop, the third sector and even where there are designated officers whose primary remit is to encourage and develop third sector capacity, these officers will find it difficult to understand the diversity and complexity of their local third sector.
- 4.7 Working proactively with the local third sector is more than capacity building – it is also a prerequisite to ensuring local authorities are getting the best return from their investment through their engagement with the local third sector market. A good understanding of the local market is therefore critical to local authorities maximising the potential benefits that can be secured from the third sector. To have a full understanding of the market, local authorities need to therefore recognise its diversity, its intrinsically competitive nature, how much power the local authority has through funding organisations and how decisions influence the future development of the third sector market.
- 4.8 Proactive management of the market is also critical to ensuring the aspirations of recent and emerging policy decisions of the Welsh Government fully deliver their intended benefits. **Figure 23** summarises three policy directives from the Welsh Government which highlight a growing role for the third sector.
- 4.9 However, we found that local authorities and third sector organisations do not always have a clear understanding of the amount of competition in different service areas and the shift in funding noted above – from grants to contracts for services – has changed the funding relationship between local authorities and the third sector. Underlying this change from grants to contracts for services is a shift in assumptions: from one that sees local authority funding as a way of supporting a third sector to deliver its own plans and priorities, to one that sees the third sector as part of a wider approach to delivering local authorities' plans and priorities. At a strategic level, the assumptions driving strategic funding decisions have therefore diminished third sector input into service planning and needs assessment, and replaced collaborative with competitive relationships (often invoking commercial confidentiality), amongst third sector bodies and between third sector bodies, county voluntary councils and local authorities.

**Figure 23 – The Welsh Government sees a growing role for the third sector in the delivery of public services**

The **Social Services and Well-being (Wales) Act 2014** (the 2014 Act) provides the legal framework for improving the well-being of vulnerable adults and children, and carers who need support, and for transforming social services in Wales. The 2014 Act aims to address issues of demographic change and raise the expectations of those who access care and support. The role of the third sector is referenced several times in the 2014 Act and Section 16(1) imposes a duty on local authorities to promote social enterprises, cooperative organisations, cooperative arrangements and third sector organisations to provide care and support and preventative services in their area. The 2014 Act also requires local authorities to change how they work with individuals to help them achieve their well-being outcomes. Firstly by asking ‘what matters to them?’ and secondly by maximising their support networks and accessing community and voluntary resources, which are vital to achieving the aims of the 2014 Act. The third sector is key to supporting this culture change.

Similarly, the **Well-being of Future Generations (Wales) Act 2015** (the 2015 Act) requires public bodies to take a long-term view, structured around the five themes of long term, prevention, integration, collaboration and involvement. Welsh local authorities will need to be mindful of these requirements and in particular the objectives set by their local public service boards. Each public service board must set out a local well-being plan, detailing how their area will achieve the Sustainable Development Principle of the 2015 Act, and must invite ‘relevant voluntary organisations’ to participate on the board. Although only public bodies are bound by the 2015 Act, it is clear that for a local authority to achieve its well-being goals, it will require the support of other sectors, in particular third sector bodies.

The white paper, **Reforming Local Government: Power to Local People**<sup>25</sup>, identified a greater role for third sector organisations in the delivery of public services in the future. The white paper set out the Welsh Government’s proposals for improving public services and looked at a wider role for the third sector in a number of areas, in particular an accelerated model of local authorities funding services through the third sector, social enterprises and mutuals. The white paper supported the expansion of third sector organisations with a much greater involvement in the direct delivery of public services. The Welsh Government is currently reviewing its options to take forward the white paper proposals but remains committed to a growing role for the third sector in providing public services.

<sup>25</sup> Welsh Government, **Devolution, Democracy and Delivery – White Paper Reforming Local Government: Power to Local People**, February 2015

- 4.10 The WCVA has recently undertaken a strategic review to set a new vision and priorities for its work in the coming years. The WCVA has worked with county voluntary councils to review priorities for local, regional and national third sector support services. The WCVA has looked at the future risks and opportunities that face the third sector and how the sector can collectively respond to these. These issues include environmental factors including climate change; economic impacts on society and individuals; the collection and use of data to shape services and the impact of increasing digitisation; demographic changes; and the changing face of public services through the impact of new legislation.
- 4.11 The WCVA consulted on a revised strategic framework in the autumn of 2016 setting out its aims and strategic priorities for the future and its principles for third sector working. The WCVA recognises the challenges that the sector faces and recognises the variety of responses that the sector could offer to these in the coming years. The WCVA highlights that as public services change in the coming years there are opportunities and risks to the sector. The risks include greater competition for funding from other public bodies and also the private sector, and the opportunities include greater collaboration between third sector organisations in the delivery of services.
- 4.12 It cannot be ignored that the third sector faces a number of major challenges, especially around its role, remit, funding and status in Welsh society. As noted above, there is a pressing urgency from the Welsh Government for the third sector to have a greater role in facilitating and delivering public services as well as maintaining its advocacy and representation role on behalf of Welsh citizens. It is also important to recognise the contribution the third sector makes to the strategic and statutory objectives of local authorities, and the economic and employment benefits in many Welsh communities. To deliver the aspirations presented by the emerging policy direction of the Welsh Government will therefore require changes in how local authorities and other public bodies work with the third sector.
- 4.13 There is a need for closer working relationships to be developed between local authorities and the third sector to ensure the third sector is equipped to play an active and effective role in strategic funding processes but also has the capacity and ability to meet the new and emerging requirements of recent legislation and policy priorities. These are significant challenges which have implications for the Welsh Government, local authorities and third sector organisations, which need to be handled with clear leadership and drive.



# Appendices

Appendix 1 - Study methodology

Appendix 2 - Good practice case studies

Appendix 3 - Checklist for local authorities effectively engaging and working with the third sector

Step Up, Step Out volunteers, stepping up and stepping out to help their local community by creating a path at Loggerheads County park. One of the top 15 photographs in WCVA's Members Photography Contest 2015. Photo by Graham Davies, a volunteer with the Step Up, Step Out Programme.



# Appendix 1 - Study methodology

## Review of literature

We have reviewed a wide range of documents and media, including:

- Welsh Government policy and guidance documents
- local authority plans and strategies for the third sector in all 22 local authorities
- the WCVA's reports on third sector funding produced by the LGDU (Wales)

## Data analysis

We have analysed the data collected from local authorities by the LGDU about local authority funding of third sector services. The LGDU carried out this work on behalf of the WCVA in 2001-02, 2003-04, 2009-10 and 2013-14. The returns include information for 19 of the 22 local authorities and does not include any information for the Isle of Anglesey, Neath Port Talbot and Newport which did not provide returns to the LGDU. The 2009-10 return had data missing for five local authorities – the Isle of Anglesey, Merthyr Tydfil, Neath Port Talbot, Newport and Rhondda Cynon Taf. Despite these omissions, the information published by the LGDU remains the most comprehensive, consistent and recent source of data on the level of funding provided by local authorities to third sector organisations in Wales. The data drawn from individual returns from each authority has not been audited for accuracy.

## Local authority fieldwork

We visited six local authorities in Wales in 2016. The local authorities selected represented a mix of authorities which are geographically spread across Wales and also reflected different levels of funding to the third sector as reported in the LGDU reports. These were:

- Blaenau Gwent County Borough Council
- Carmarthenshire County Council
- Flintshire County Council
- Neath Port Talbot County Borough Council
- Pembrokeshire County Council
- Torfaen County Borough Council

During the visits, we interviewed a range of local authority staff, third sector organisations and members.

## Surveys

We undertook a range of online surveys and the coverage of the surveys with response rates were as follows:

Survey respondents	Purpose of survey	Response rate
Local authorities	<p>To gather views on the following areas:</p> <ul style="list-style-type: none"> <li>• strategic approach to funding third sector services;</li> <li>• how the approach takes account of the Welsh Government's frameworks;</li> <li>• how effective communication with the third sector is;</li> <li>• governance-related issues including risk management;</li> <li>• support for third sector organisations applying for funding;</li> <li>• funding processes; and</li> <li>• how third sector organisations' performance is managed, reviewed and evaluated.</li> </ul>	<p>Heads of procurement for the 22 local authorities and received 8 responses (36%). Given the low response rate we have not used the survey extensively in the report.</p>
Local county voluntary councils	<p>To gather the third sector's views on the following areas:</p> <ul style="list-style-type: none"> <li>• local authority strategic approaches to funding third sector services;</li> <li>• how local authority approaches take account of the Welsh Government's frameworks;</li> <li>• how local authorities communicate with the third sector;</li> <li>• governance-related issues including risk management;</li> <li>• local authority support for third sector organisations applying for funding;</li> <li>• local authority funding processes; and</li> <li>• how local authorities manage, review and evaluate third sector organisations' performance.</li> </ul>	<p>The 19 county voluntary councils, and we received 20 responses, although 1 county voluntary council that responded was also a fieldwork local authority area and requested to be interviewed rather than complete the survey. The Gwent Association of Voluntary Organisations covers four local authorities (Blaenau Gwent, Caerphilly, Monmouthshire and Newport). The survey asked about the approach of individual local authorities and we received three responses from the Gwent area. We have only used the findings to report views at an all-Wales level. Denbighshire Voluntary Services Council was unable to respond to the survey due to the retirement of the Chief Executive who left in November, and the Interim Chief Officer being off work ill for the period. The local authority areas where we have no survey information are Denbighshire, Neath Port Talbot, Monmouthshire and Newport.</p>

Survey respondents	Purpose of survey	Response rate
Information and advice agencies	<p>To gather views of third sector information and advice agencies providing services to local authorities on the following areas:</p> <ul style="list-style-type: none"> <li>• local authority strategic approaches to funding third sector services;</li> <li>• how local authority approaches take account of the Welsh Government's frameworks;</li> <li>• how local authorities communicate with the third sector;</li> <li>• governance-related issues including risk management;</li> <li>• local authorities support for third sector organisations applying for funding</li> <li>• local authority funding processes; and</li> <li>• how local authorities manage, review and evaluate third sector organisations' performance.</li> </ul>	<p>We focused on information and advice services because local authorities provide a high proportion of funding to these organisations and they also cover a wide range of services for the public. The Welsh Government undertook a national review of information and advice services in 2013 which made a number of recommendations. In March 2015 the Welsh Government created a National Advice Network to provide advice to the Welsh Government on policy requirements to improve access to good-quality social-welfare law information and advice services.</p> <p>We surveyed advice and information agencies, and 33 organisations responded to the survey. Of these 33 organisations, 21 were from a national organisation that has delivery contracts with 20 local authorities. These organisations provided responses, as far as possible, for each of the 20 local authorities up to question 30 and then the national umbrella organisation completed questions 31 to 35. We have only used the findings to report views at an all-Wales level.</p>
Call for evidence to the wider third sector	<p>To gather views of the third sector on:</p> <ul style="list-style-type: none"> <li>• the effectiveness of local authority systems for publicising, awarding, managing and reviewing third sector projects;</li> <li>• current partnership working between local authorities and third sector organisations;</li> <li>• how effectively local authorities fund third sector services;</li> <li>• how the move away from grant funding to greater payment for services under contract has affected third sector organisations; and</li> <li>• to what extent does local authority funding of third sector services deliver the intended benefits and outcomes.</li> </ul>	<p>The call for evidence was promoted to the third sector through the WCVA and local county voluntary councils. We received 56 responses to that call for evidence. We have summarised themes from the call for evidence.</p>

# Appendix 2 - Good practice case studies

## Good practice – how we determine it

These are the parameters we use to judge whether to include a case study as good practice:

- a programme, activity or strategy that has proven effectiveness, supported by a comprehensive evaluation.
- a programme, activity or strategy that has been shown to produce successful outcomes and is supported to some degree by subjective and objective data sources.
- a programme, activity or strategy that has worked within one organisation and shows promise during its early stages for becoming practice with long-term sustainable impact.
- a programme, activity or strategy that has the potential for replication among other organisations.
- a programme, activity or strategy that is delivering value for money. Value for money is defined as the optimal use of resources to deliver the intended benefits.
- a programme, activity or strategy that is delivering savings/reductions in expenditure with no or low impact on performance.

Within the body of the report, we have identified the following areas of good practice:

- Flintshire County Council – third sector funding review ([page 17](#))
- Carmarthenshire County Council – coordinating third sector funding ([page 19](#))
- Neath Port Talbot County Borough Council – third sector partnership working ([page 23](#))
- social service market position statements ([page 25](#))
- GAVO – developing the capacity of the third sector to compete in procurement ([page 27](#))
- Merthyr Tydfil County Borough Council – centralising grant claims from the third sector ([page 33](#))
- Torfaen County Borough Council – SROI ([page 56](#))

In addition, we have also identified the following transferable practice.

## Case study 1 – Pembrokeshire County Council – working closely with the third sector

The local authority was finding the cost of bulk collections in a large sparsely populated county was becoming prohibitive. The local authority looked for a solution other than to stop the service and to see if it could be delivered in a different way. FRAME, a registered charity and social enterprise, was interested in taking over the work.

FRAME provides education, training and employment opportunities to people with all disabilities and people who are considered to be socially excluded, to enable them to test their ability to work, develop new skills and change direction in their lives. These opportunities are provided through the operation of a community reuse and recycling project which as well as offering reusable furniture and household items to the general public, targets those experiencing the effects of poverty and social deprivation in Pembrokeshire, providing items at very low cost or free of any charge to individuals or families in crisis.

The awarding of the work to FRAME by the local authority has other benefits. The local authority:

1. does not have to pay for the infrastructure to collect the items;
2. reduces its costs on landfill; and
3. through working with FRAME is encouraging people who are considered socially excluded to get back into society and reduce their dependence on welfare benefits and other local authority services.

FRAME is also working with the local authority's Education Department to help maintain a small woodland and use it for students with challenging behaviour to get an understanding of their environment. The local authority's strategic approach to funding services has allowed it to make the best use of the third sector. By ensuring the tender documentation is developed and appropriately focused, the local authority is encouraging local organisations to bid for important services to complement its provision and develop further capacity.

Since the fieldwork in March 2016, the woodland project has ceased (the woodland was on a short lease) and FRAME hopes to run a similar project in future.

# Appendix 3 - Checklist for local authorities effectively engaging and working with the third sector

Area	In place	Under development	Not in place
<b>1. Strategic arrangements</b>			
<b>Vision</b>			
The local authority has an agreed vision on how it will work with the third sector that covers all services and all third sector funding.			
The vision has been shared with, and is understood by, all relevant staff in the local authority.			
The vision has been shared with, endorsed by and is understood by elected members.			
The vision has been shared with, and is understood by, the local county voluntary council.			
The vision has been disseminated to third sector organisations working with the local authority.			
<b>Corporate Approach</b>			
The local authority has a corporate led approach for working with the third sector that covers all departments and services.			
The corporate approach translates the corporate vision into practical actions.			
The local authority has designated a corporate lead for the third sector who is responsible for overseeing and coordinating the totality of the local authority's third sector funding.			

Area	In place	Under development	Not in place
<b>Compact</b>			
The local authority has an up-to-date compact with the third sector.			
The compact clearly outlines and defines the relationship and expectations of the local authority and the third sector in working together.			
There is a shared understanding between the local authority and the third sector about what can be achieved through working together.			
The compact is tailored to the needs of the local area and has been developed in partnership with the third sector.			
The compact is reviewed regularly.			
The compact considers funding made to the third sector from health bodies and police and crime commissioners.			
<b>County voluntary council</b>			
The local authority and the county voluntary council have agreed the latter's remit and responsibilities as well as its limitations.			
There is agreement on how and what the county voluntary council represents the third sector on.			



Area	In place	Under development	Not in place
<b>Partnership arrangements</b>			
The role of the third sector is identified and agreed on all suitable and required partnerships and committees at a:			
<ul style="list-style-type: none"> <li>• corporate level – in the work of strategic partnerships and corporate scrutiny committees;</li> </ul>			
<ul style="list-style-type: none"> <li>• department level – in specific partnership arrangements to support wider policy agendas within defined areas; and</li> </ul>			
<ul style="list-style-type: none"> <li>• service level – on local partnerships and specific service-led initiatives.</li> </ul>			
<b>Understanding engagement with the third sector</b>			
The local authority has a central record of all funding to third sector organisations made by the local authority which is refreshed annually.			
The local authority collates financial information and reports at least annually on the totality of its third sector funding showing:			
<ul style="list-style-type: none"> <li>• which organisations are funded by the local authority;</li> </ul>			
<ul style="list-style-type: none"> <li>• the contract value;</li> </ul>			
<ul style="list-style-type: none"> <li>• which funding mechanisms, either grant or contracts, has been used;</li> </ul>			
<ul style="list-style-type: none"> <li>• the length of the contract;</li> </ul>			
<ul style="list-style-type: none"> <li>• which department/service has contracted the third sector organisation;</li> </ul>			
<ul style="list-style-type: none"> <li>• the measures of success established for the work; and</li> </ul>			
<ul style="list-style-type: none"> <li>• what the intended benefits of the work are.</li> </ul>			

Area	In place	Under development	Not in place
<b>2. Funding processes</b>			
<b>Designing services</b>			
The local authority draws on the third sector's expertise and knowledge in designing new services to be provided by the third sector.			
In designing services, the local authority clearly sets out:			
<ul style="list-style-type: none"> <li>• what demand the service is meeting;</li> </ul>			
<ul style="list-style-type: none"> <li>• how it has decided on the type of service that it requires;</li> </ul>			
<ul style="list-style-type: none"> <li>• whether innovative solutions are required; and</li> </ul>			
<ul style="list-style-type: none"> <li>• how the local authority will engage with current and potential providers to further refine and develop the service.</li> </ul>			
<b>Effective award systems</b>			
The local authority has established a single centralised and corporate funding system for the management and ward of all third sector monies.			
The local authority has effective systems to award funding to organisations that sets out:			
<ul style="list-style-type: none"> <li>• a clear funding timetable that is available to all potential bidders so that they can prepare for opportunities;</li> </ul>			
<ul style="list-style-type: none"> <li>• the process that will be used to make a decision (for example, seeking quotations or using a tender or proposal process);</li> </ul>			
<ul style="list-style-type: none"> <li>• the value and risk associated with the various funding routes;</li> </ul>			

Area	In place	Under development	Not in place
<ul style="list-style-type: none"> <li>whether light-touch processes in line with the <b>EU Public Contracts Directive</b> are possible for appointing organisations to deliver the work;</li> </ul>			
<ul style="list-style-type: none"> <li>clear and published criteria that are understood by all organisations seeking funding, including community benefit clauses;</li> </ul>			
<ul style="list-style-type: none"> <li>the cost and resources required for the local authority to oversee and administer the process;</li> </ul>			
<ul style="list-style-type: none"> <li>the length of time that funding will be provided; and</li> </ul>			
<ul style="list-style-type: none"> <li>how full cost recovery will be addressed.</li> </ul>			
<b>Efficient award systems</b>			
The local authority has efficient corporate systems to award funding based on:			
<ul style="list-style-type: none"> <li>concise and clear application processes;</li> </ul>			
<ul style="list-style-type: none"> <li>use of online and electronic systems to distribute and collate information and bids;</li> </ul>			
<ul style="list-style-type: none"> <li>short end-to-end decision-making arrangements;</li> </ul>			
<ul style="list-style-type: none"> <li>the minimum number of stages and processes required to make a decision; and</li> </ul>			
<ul style="list-style-type: none"> <li>decisions being delegated to the lowest level.</li> </ul>			

Area	In place	Under development	Not in place
<b>Grants or contracting</b>			
The local authority has set out the circumstances when it will use grant funding and when it will contract for services. This has been shared with all potential bidders, including the third sector.			
The local authority ensures that this process is consistent and appropriate to the risks and size of the funding provided.			
The local authority's contract terms and conditions are proportionate to the level of funding being made and are specific to the work that is being funded.			
The local authority reviews these funding processes to ensure they are not unintentionally excluding third sector organisations from securing local authority work.			
<b>Training</b>			
The local authority provides training to support the third sector covering:			
<ul style="list-style-type: none"> <li>• how to apply for funding – the dos and don'ts;</li> </ul>			
<ul style="list-style-type: none"> <li>• complying with the local authority's procurement systems;</li> </ul>			
<ul style="list-style-type: none"> <li>• data collection processes;</li> </ul>			
<ul style="list-style-type: none"> <li>• performance management and scrutiny arrangements;</li> </ul>			
<ul style="list-style-type: none"> <li>• payment cycles and performance targets; and</li> </ul>			
<ul style="list-style-type: none"> <li>• contract termination/continuation requirements.</li> </ul>			

Area	In place	Under development	Not in place
<b>3. Managing performance</b>			
<b>Information collection</b>			
The local authority has specified the information required to monitor and evaluate the performance of third sector organisations it funds and this is set out in the agreement for funded work.			
The information only measures relevant activity.			
The systems to collect information are streamlined and efficient, and third sector organisations only submit information once and electronically on agreed timescales.			
<b>Performance review</b>			
The local authority regularly reports third sector funding to scrutiny committee(s) against a balanced and local-authority-wide set of performance information. This covers:			
<ul style="list-style-type: none"> <li>• clear standards of how and what third sector organisations are required to perform against specific to the service the local authority funds;</li> </ul>			
<ul style="list-style-type: none"> <li>• conclusions of external audit/inspection reviews; and</li> </ul>			
<ul style="list-style-type: none"> <li>• relevant service-based performance data.</li> </ul>			
The local authority has the right processes in place to scrutinise and judge performance. These should be proportionate to the value of the funding but ensure that they provide the local authority with assurance that its funding is achieving the expected outcomes.			

Area	In place	Under development	Not in place
<b>Risk management and internal audit</b>			
Risks associated with third sector funding are considered at both a corporate and service level in developing and agreeing risk management plans across the local authority.			
A rolling programme of internal audit systems testing and compliance reviews is undertaken on the local authority's funding of third sector services, systems and practices.			

Source: Wales Audit Office



Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

We welcome telephone calls in  
Welsh and English.

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan

Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

Rydym yn croesawu galwadau  
ffôn yn Gymraeg a Saesneg.

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)