

# The role of the voluntary sector in shaping a new economy for Wales

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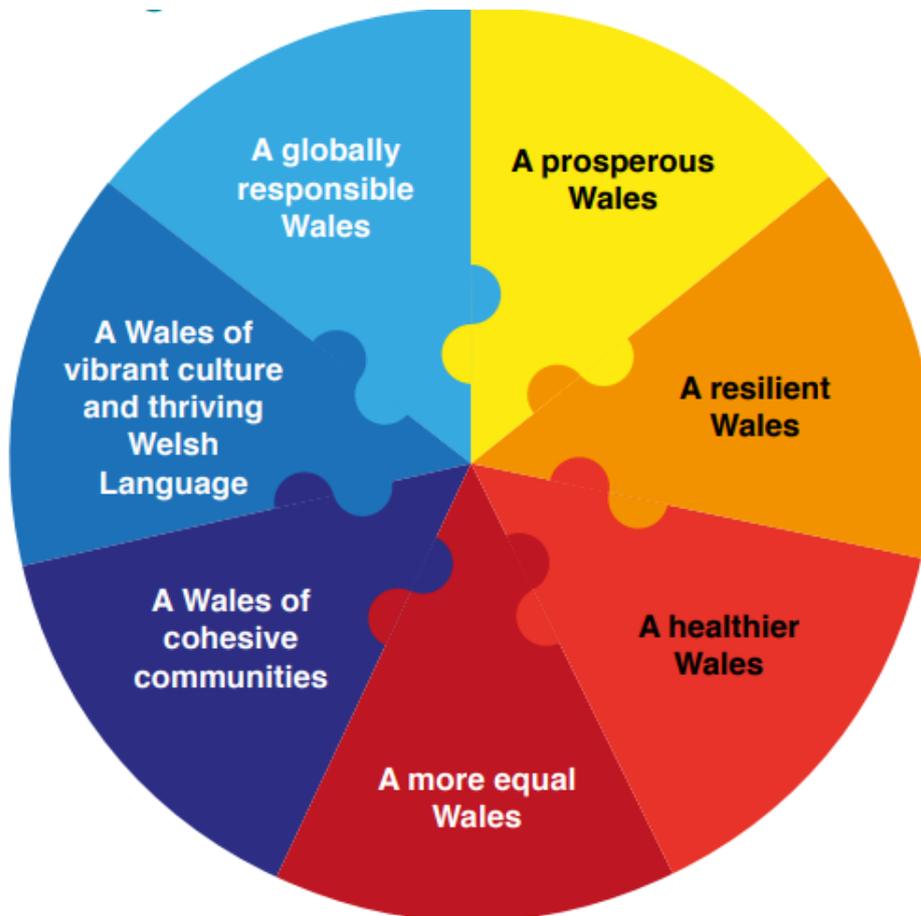
## 1. Introduction

### Wales's wellbeing

- 1.1. Wellbeing describes “how we’re doing’ as individuals, communities and as a nation, and how sustainable that is for the future” ([What Works Wellbeing n.d. a](#)). Our wellbeing depends upon multiple factors, including employment, education and skills, governance, health, the environment, our relationships, the quality of the places we live in and ultimately how we feel ([What Works Wellbeing, n.d.b](#)).
- 1.2. On most key measures wellbeing in the UK has increased or remained stable ([What Works Wellbeing n.d. a](#)). However, this masks considerable inequalities, with some groups experiencing much lower levels of wellbeing than others, and overall levels of wellbeing in Wales are threatened by challenges linked to climate change (addressed in a companion paper, Responding to the Climate Crisis [\[insert hyperlink\]](#)), poverty, health inequalities, jobs and growth ([WG, 2017](#)). Brexit adds to the risks and is forecast to have a negative impact on the economy and on funding in Wales ([WG, 2019](#)). In addition, the economic costs of the Covid-19 pandemic will not be fully known for many years.
- 1.3. However, even in the middle of the current pandemic, and despite the risks created by Brexit, there are still opportunities to “build back better”, to reduce inequalities and to improve overall levels of wellbeing, if Wales can seize them. Wales is a small country with strong networks and perhaps fewer ties to the *status quo*, given the historic weakness of the Welsh economy and the fragility highlighted by the Covid-19 pandemic; there is a growing public awareness of the environmental and social impact of carrying on as things are; and there is a political will to do things differently, embodied in flagship legislation, such as [the Well-being of Future Generations \(Wales\) Act](#) (WBFGA).

1.4. The WBFGA aims to help “create a Wales that we all want to live in, now and in the future” and identifies seven goals outlined by figure 1, coupled with a focus upon sustainable development and five ways of working<sup>1</sup> ([WG, 2017](#)).

**Figure 1. Wellbeing goals**



Source: ([WG, 2017](#)).

1.5. The Welsh Government has also recently joined the [Wellbeing Economy Governments Alliance \(WEGo\)](#). The objectives of the Alliance are to enhance wellbeing through a broader understanding of the role of the economy, progress toward the UN Sustainable Development Goals with a particular focus on Goal 17<sup>2</sup> and enhancing wellbeing, and to address economic, social and environmental challenges. These inter-governmental alliances are complemented by organisational alliances like the [Wellbeing Economy Alliance](#) (WEAll), which inspired WEGo and which works “to transform the economic system into one that delivers human and ecological wellbeing” through collaborative action ([WEAll, 2020](#)). In many ways the WBFGA embodies the vision of “wellbeing economy” advocated by the WEAll.

### **The Voluntary Sector in Wales**

1.6. There are over 32,000 voluntary (or “third”) sector organisations in Wales ([WCVA, n.d](#)). Whilst there are commonalities that unite the sector, such as a not for private profit structure and independence of purpose, it is also very diverse with organisations varying in:

- size and income. Over half the charities in Wales are “micro charities” with an income of less than £10,000 p.a., while a quarter of charities have an income of between £100,000 and £1m;
- social purpose and focus, including the arts, sports, health, anti-poverty work, community and education; and
- governance and structure, including branches of large formal charities answerable to trustees in England, autonomous Welsh charities, affiliated and non-affiliated sports groups and unconstituted community groups. Some are run entirely by volunteers, while others have large numbers of paid professional staff.

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<sup>2</sup> Goal 17 is “Strengthen the means of implementation and revitalize the global partnership for sustainable development” ([UNDP, n.d.](#)).

- 1.7. The links between the public and voluntary sectors are enshrined in the Government of Wales Act 2006. Unique to Wales, the Act requires the Welsh Government to set out how it will promote the interests of third sector organisations, and the third sector scheme sets out how the government will work with the voluntary sector.

### **This think piece**

- 1.8. The aim of this think piece is to “deepen understanding and stimulate debate” by exploring “the role of voluntary organisations in shaping and delivering an economy that will improve people’s long-term wellbeing” and developing “recommendations on ways forward”.

## 2. Our economy and wellbeing today and tomorrow

### A prosperous Wales: the economy and public finances

- 2.1. Economic growth is the key driver of higher material living standards and provides the tax base needed to fund public services ([WG, 2018](#)). The 2008 economic crisis continues to shape public finances and welfare reforms ([WCPP, 2019](#); [WG, 2019](#)). Low levels of economic productivity in Wales, linked in part to poorly paid, low skilled and insecure work, have contributed to a stagnation in real incomes, a greater reliance upon welfare than any other part of the UK, and have contributed to the challenges of funding public services ([WG, 2018](#)).
- 2.2. Looking forward, the effects of both Covid-19 and Brexit upon the Welsh economy are uncertain, but are forecast to be negative. The impact of Covid-19 will depend upon factors like the length of lockdown, which will impact upon business and employment<sup>3</sup> and also impact upon public finances ([OBR, 2020](#)). The impact of Brexit will depend to a large degree upon the UK's final exit arrangements, but is expected to have a more negative impact on Wales than other parts of the UK ([WG, 2018; 2019](#)).

#### Examples of the voluntary sector's contribution

- The sector generates wealth and provides employment opportunities. With a combined income of £1,258m<sup>4</sup> and over 100,000 employees, the sector is a major economic player. In addition, it is estimated that volunteering time contributes an equivalent of £757m in Wales. ([WCVA n.d.](#))

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<sup>3</sup> The longer the lockdown lasts, the greater the risk that businesses collapse and employees become “severed” from their employees, meaning that it will take the economy longer to recover ([IFS, 2020](#)).

<sup>4</sup> This is the income of “general charities” in Wales and excludes organisations like housing associations and universities.

- The sector contributes towards tackling the causes and effect of inequalities. It helps in developing a skilled and well-educated population, which is vital to increase productivity, through provision of education, training, non-formal and informal learning opportunities (e.g. through youth work, and volunteering) and supports people who would otherwise be excluded, to enable and encourage them to access learning and employment opportunities.

## **Power and policy**

- 2.3. Globalisation means decisions made by the public, private and voluntary sectors throughout the world will shape the economy and the wellbeing of Wales now and in the future; for example, the impact of climate change will depend upon international action, or inaction, and the economic impact of Brexit is forecast to be “almost entirely dependent on developments in the [UK and European] political arena” ([WG, 2018](#)). However, there is scope for Wales to do things differently and lead change in the world. The powers of the Senedd (including tax raising) have increased and the WBFGA legislation is viewed by some as ground-breaking.
- 2.4. The Senedd’s economic strategy Prosperity for All: Economic Action Plan (EAP) ([WG, 2019](#)) aims to grow the Welsh economy and reduce inequality. It includes a new focus on four sectors of the foundational economy: tourism, food, retail and care.

### **The Foundational Economy**

The foundational economy is the “economy of everyday essentials” like utilities, health, education and housing. It makes up around half the Welsh economy and it is central to people’s wellbeing ([Froud et al., 2018](#)). The

strengths of the foundational economy in helping to pursue the EAP purposes are seen in:

- its spread, being an essentially people based (rather than production based) economy that is distributed with the population;
- its groundedness, as it involves “anchored” services and businesses that are rooted into a place or region; and
- its sustainability and resilience, as it includes essential services which underpin Welsh society and will always be needed.

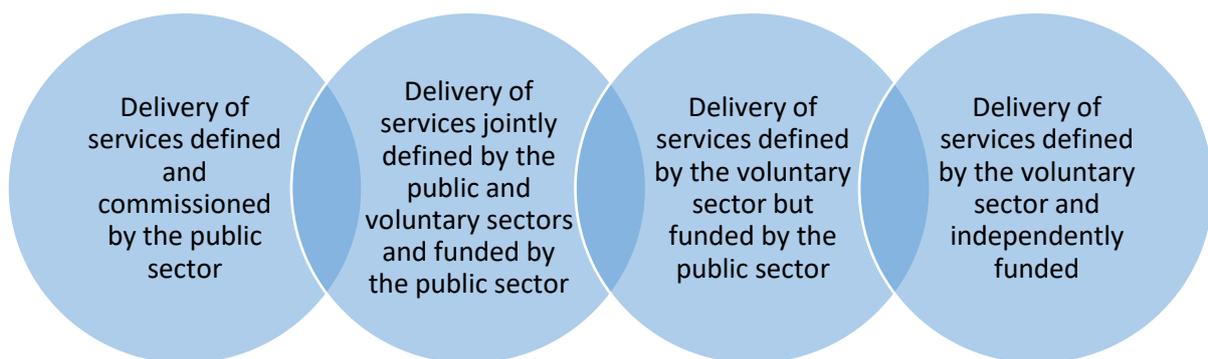
These are also characteristics usually (but not always) seen in the voluntary sector.

- 2.5. The EAP also includes a regional model of economic development, through City and Growth Deals and regional development plans, to address the distinctive opportunities and challenges faced by the three regions of Wales – North, Mid and West and South East Wales.

### **3. The role of the voluntary sector in shaping the new economy**

- 3.1. The voluntary sector makes a vital contribution to the seven wellbeing goals and the new economy. Sometimes this is direct and deliberate when, for example, the voluntary sector is commissioned or funded to deliver public services. However, much is not deliberately directed to the goals, in the sense that voluntary sector organisations operate independently of Welsh Government and do not articulate their aims or work specifically in relation to the WBFGA.
  
- 3.2. As figure 2 illustrates, the voluntary sector’s contribution to service delivery ranges from “contracted out” models, in which the sector delivers services that could have/have been delivered by a statutory body, such as drug and alcohol addiction services, through to services developed and funded independently of the public sector. The models are not mutually exclusive and organisations may be involved in more than one model of delivery.

**Figure 2. Service delivery models**



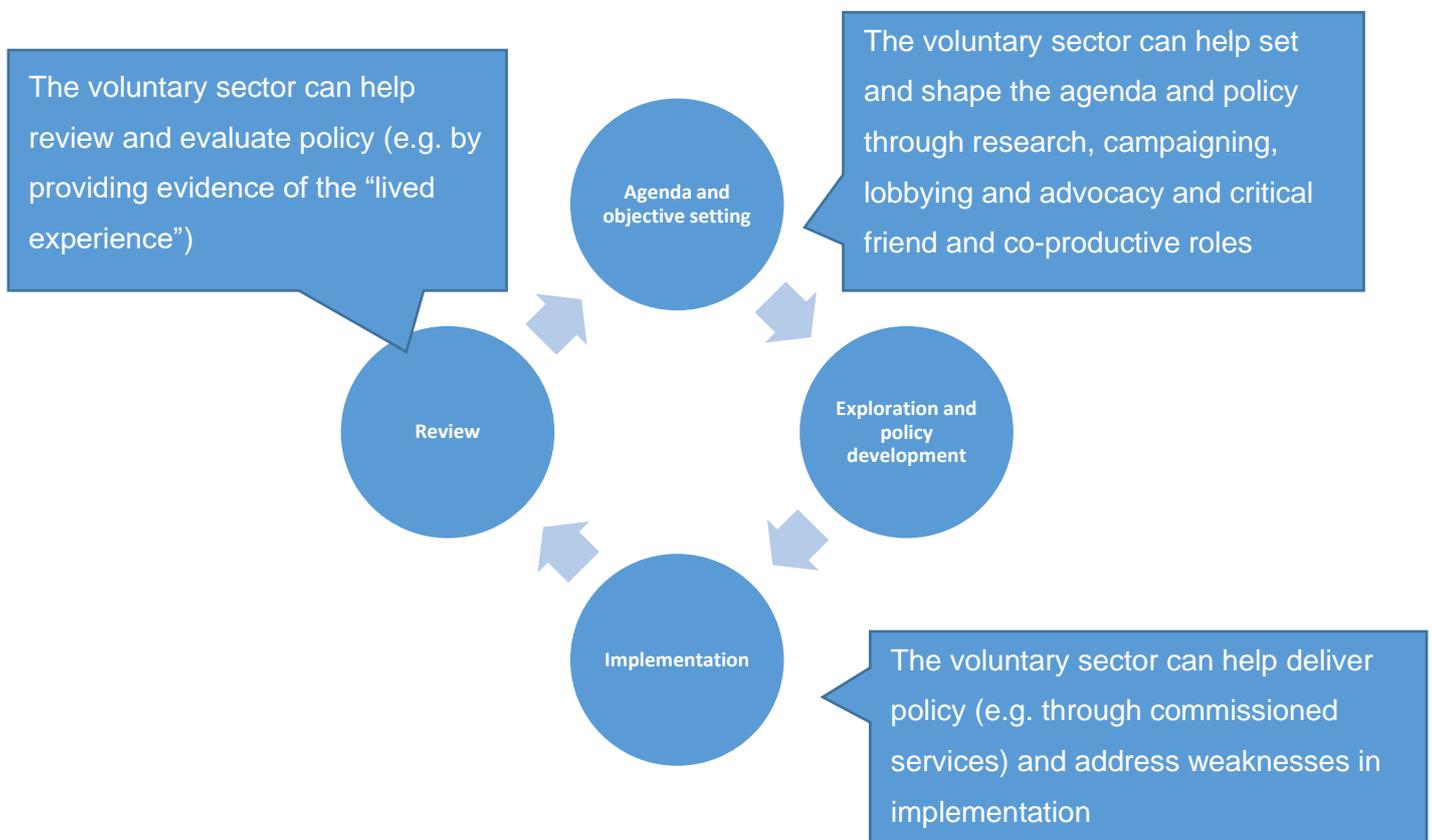
- 3.3. In addition, as outlined in section 2, the sector makes an important contribution to:

- shaping and informing policy and strategies for change, including advocacy, self-advocacy, research, critical friend and co-productive roles, campaigning and lobbying; and
- supporting other voluntary sector organisations and increasing their impact and effectiveness through, for example, training and networking.

3.4. The sector can play a key role in improving policy making and delivery by ensuring that those directly affected by a particular policy have a voice, and by reducing the risk of “groupthink” and “exclusion of marginalised groups” ([Rabey, 2015](#)).

3.5. As figure 3 illustrates, this means the sector can contribute to each stage of the policy making cycle.

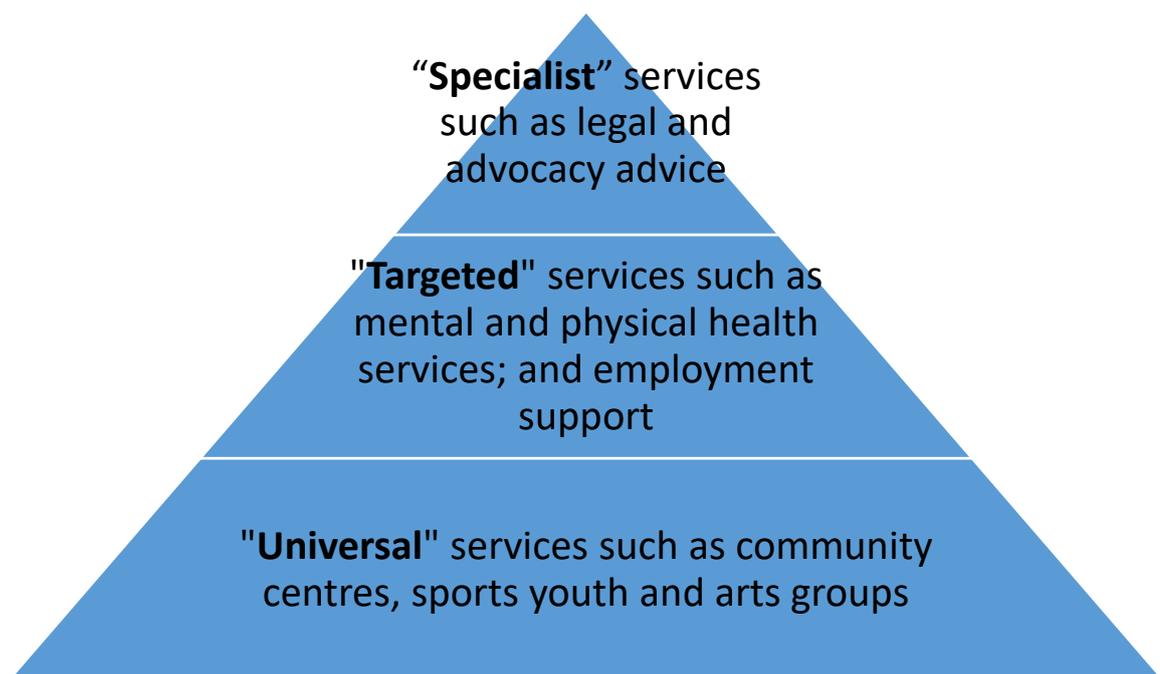
**Figure 3. The policy making cycle**



### Identifying and protecting the voluntary sector's comparative advantage

- 3.6. The seven wellbeing goals set out in the WBFGA cannot be achieved by any sector alone. Therefore, understanding the relative strengths and weaknesses of each sector is crucial in building sustainable wellbeing.
- 3.7. As figure 4 illustrates, in relation to the delivery of services, the voluntary sector works at different levels, or "tiers", complementing the public sector, and occasionally, the private sector, at each tier.

**Figure 4. Tiers of support and services**



- 3.8. Some contributors to this think piece described the voluntary sector's role as "filling in gaps" left by state or market failure or withdrawal, where services are not economic or cannot be afforded. This included, in particular, reaching out to those who would otherwise be excluded from public and private sector

opportunities and services. It was also observed that the voluntary sector, and in particular social enterprises, tend to be found in economic areas where entry costs are lower (e.g. in terms of expertise, technology and capital) so, for example, voluntary sector cafes are much more common than voluntary sector restaurants. This tends to limit the areas the voluntary sector can operate in, and is one reason why there are fewer specialist services provided by the voluntary sector.

- 3.9. However, other contributors were clear that community and voluntary organisations do more than “backfill” where other sectors are failing or have withdrawn. They can work in a different way to the public or private sectors, offering an alternative or complementary model. At their best they can work in agile, sustainable, holistic and person centred ways.

#### **Social enterprises**

Social enterprises blur the boundaries between the private and the voluntary sector. They are distinguished by their mission and not for private profit status. A relatively small sub sector of voluntary organisations is involved in trading. They can deliver commercial activity:

- like social care where, as one contributor put, “not stripping out cash feels appropriate”;
- like manufacturing and services, in ways that maximise social value by, for example, employing people with disabilities; and/or
- by trading competitively, but directing their surplus to social good.

- 3.10. The voluntary sector has been challenged to “scale up” and “professionalise” in order to increase its impact. This can bring important benefits, but also risks undermining the sector’s comparative advantage by making it “indistinguishable” from public and private sector organisations ([VCSE, 2016](#)). It was also observed that, within the sector, where informal community

organisations “run out of road”, bigger organisations can take over. This reflects their greater scale and capacity but also, for example, commissioners’ preferences for funding one large rather than many small organisations.

## **Collaboration**

3.11. Given the overlaps, and also magnitude of the challenges and opportunities facing Wales, collaboration between sectors is crucial. A combination of austerity, and the ways that public policy (through the WBFGA), has adopted the third sector ethos of preventative, people centred working and involving people, ought to mean that the relationship between the two is closer than ever. The voluntary sector could have a key role in helping the public sector develop and fulfil these roles (e.g. by helping people’s lived experiences to be voiced) and in some communities, Covid-19 has brought the sectors together more effectively than ever. The challenge will be to sustain this in the long term. There is much less collaboration with the private sector, which some contributors felt was a missed opportunity

## **4. Key barriers and enablers to the voluntary sector's contribution to the new economy and wellbeing**

### **Funding**

- 4.1. Funding is perhaps the key challenge for the sector. While some very small community organisations rely solely upon volunteers' time, most require financial as well as human resources to operate. Austerity has reduced funding to the voluntary sector<sup>5</sup> and Brexit (and the end of EU structural funds) threatens a further reduction and also the prospect of increasing reliance upon state rather than European funding, which provided more independence<sup>6</sup>. It is also difficult for the sector to borrow money for social investment because, for example, banks have limited experience of lending to the sector, require security/guarantees and find small loans less profitable than larger loans. However, demand for loans is low, and is suppressed by the availability of grants, the sector's lack of experience with repayable finance, and the need to generate surpluses to repay loans.
- 4.2. Funding flows to funders' priorities and interests and there are still few examples of collaborative models or co-production in commissioning or funder strategies. Funders' priorities may not align with those of the voluntary sector, which increases the risks of organisations being funding rather than mission driven. It may also mean that funding does not flow to those areas where the voluntary sector has a comparative advantage, reducing the efficiency and effectiveness of funding. Time limited grants and contracts also contribute to organisational instability.

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<sup>5</sup> For example, in the five years to 2014-15 the Welsh Government cut its grant funding by 40% (£142m). This was partly offset by an increase of £26m in contracts awarded to the third sector, but still represents a huge loss of income ([WCVA, 2016](#)).

<sup>6</sup> It is estimated that £304m of EU funding went to the voluntary sector in the 2007-2013 funding round ([WCVA, n.d.](#)).

### **Skills and entrepreneurial spirit**

4.3. The sector's workforce is a key strength. The voluntary sector's values and mission help it attract volunteers and staff with a passion to change lives and communities. Paid staff are often willing to accept poorer salaries, terms and conditions and job security when compared to the public and private sectors. Nevertheless, smaller organisations with a lower profile, sometimes struggle to recruit leaders (including trustees) with the skills and experience needed to fulfil their potential and maximise their impact. More broadly, what one contributor described as "entrepreneurial spirit", and the confidence, ambition and drive associated with this, is not evenly distributed across the voluntary sector – or indeed the public and private sectors, in Wales. Organisations like the WCVA, the Cranfield Trust and Business Support Wales all have a key role to play here in helping develop the sector's workforce and economic contributions.

### **Scaling up and down**

4.4. Given its comparative advantage, the voluntary sector in Wales can and should do more. One way it could do so would be for organisations to scale up. This can help organisations increase their impact, generate economies of scale, make it easier to professionalise and develop quality and human resource policies and practices. Contributors also observed that large organisations with policy officers have a capacity to impact on policy that small organisations, focused on survival and delivery, lack. However, as outlined in section 3, scaling up brings its own challenges and may undermine the very characteristics of the voluntary sector at its best, such as its agility to be person centred, just when these are needed most. One contributor also observed that, given the sector's dependence upon external funding, staying true to your mission and values might mean having to scale down at times, rather than simply chasing funding to sustain an organisation's current size.

## **Measuring impact**

- 4.5. As section 2 outlines, the voluntary sector makes a vital contribution to Wales's economy and wellbeing, but some contributors to this think piece are concerned that, because the sector does not effectively measure its full impact (i.e. the difference it makes, as opposed to its outputs and funders' targets), its contribution is not fully recognised, understood or valued. As section 2 outlines, the impact of the sector is very broad. However, commissioners and funders may only value, and require organisations to measure, a small slice of their contribution. So, for example, a local authority may fund a nursery provided by a community organisation, and require the organisation to account for inputs and outputs, such as the numbers of places provided and taken up. However, it may not be interested in the wider economic and social impact of the funding upon the organisation and the community it serves, such as the ways in which the centre is also a hub for the community, providing a social space for interactions and the provision of information, advice and support; contributions of vital importance to the wellbeing of the community, but irrelevant to a funder narrowly focused upon what they feel they are paying for.
- 4.6. This failure to demonstrate its full impact undermines the sector's case for funding and to be heard in policymaking. A narrow focus upon only monitoring what funders require also limits the sector's ability to learn from and improve its efficiency and effectiveness, to add to knowledge of what works and to account to its stakeholders, including not only funders, but the people and communities it serves.

## **5. Conclusions and recommendations**

- 5.1. There is scope for the voluntary sector's economic contribution to increase, particularly in the foundational economy, where it will sometimes have a comparative advantage over the private and public sectors, given its place and people based approach. Nevertheless, if measured in narrow economic terms, of economic output and jobs directly created, the voluntary sector's contribution will be important, but dwarfed by the private and public sectors, constrained by scale and the challenges of scaling up.
- 5.2. A broader perspective that accounts for the sector's contributions to, for example, health and skills (and therefore productivity); social capital (and therefore the exchange of information and ease of economic transactions) and public policy, whilst impossible to quantify, would better reflect the sector's economic contribution.
- 5.3. Looking forward, despite the human and social costs of Covid 19 and the risks created by Brexit, there are still opportunities to "build back better", to reduce inequalities and to improve overall levels of wellbeing, if Wales can seize them. Wales is committed (through the WBFGA) to developing an economy with sustainability and wellbeing at its heart. Given the scale and complexity of the challenges and opportunities facing Wales, this cannot be achieved without the active involvement of the voluntary sector. This creates a unique opportunity for greater collaboration between the public, private and voluntary sectors.
- 5.4. Collaboration can take many forms and the sector is not just the "delivery arm" of the public sector (as it is sometimes seen); it can make vital contributions to:
  - setting the agenda and policies for Wales through, for example, research, advocacy on behalf of those the sector works with and for, acting as critical

friend, and lobbying and campaigning for change, ensuring that a plurality of voices can be heard in policy making processes and fostering new narratives that enable and encourage change;

- delivering policy and addressing weakness in its implementation through, at its best, the sector's long term, collaborative, inclusive, flexible and holistic (or integrated) ways of working, with a focus upon prevention;
- strengthening the foundational economy through, for example, community co-operatives and food groups; and
- reviewing policy, to inform learning and policy development and to hold the public and private sectors to account. This can include, for example, encouraging the private sector to adopt new models and approaches, that better contribute to Wales' wellbeing goals.

5.5. Austerity has weakened the voluntary sector though and pressures upon the sector to, for example, professionalise and scale up and diversify their funding, through more commissioned work and narrowly focused grants, have benefits but also risk diverting organisations from their original missions.

5.6. For the sector to fulfil its potential as a core part of a wellbeing economy, it needs adequate funding. This is likely to require more collaborative approaches to commissioning and funding including "market shaping"<sup>7</sup>. This could include developing ways to better identify the true value and contribution of the sector, rather than narrowly focusing upon the lowest cost provider; and greater consideration of the sector's needs, like greater stability in funding, if it is to be able to sustain its rooted, holistic and co-productive ways of working; ways of working that take time to develop and embed in communities. Alternative sources of funding, including repayable finance, may also be important here in enabling the sector to scale up, whilst retaining its independence.

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<sup>7</sup> "Market shaping" involves a shift from a narrow "control" model to a broader role and relationship with the "market" (e.g. of service providers) that involves "influencing, coproduction and collaboration" with providers to ensure it meets local needs, and which includes considering factors such as the "health" and adequacy of providers' workforces ([IPC, 2016](#)).

- 5.7. The relatively small size of the sector is a challenge to both policy influence and delivery. Scaling up may be important, but can be a double edged sword, as gains in terms of capacity risk undermining the inclusive and responsive ways of working which are a key strength of the sectors. It may be necessary for the sector to collaborate more on a sectoral basis, complementing work on a geographical basis, through CVCs and the WCVA, so that it can articulate a common voice on key issues. This may also make it easier for the sector to become active members in policy networks. Models such as CWVYS (the Council for Wales of Voluntary Youth Services) and Cytûn - Churches Together in Wales, may provide a useful template here.
- 5.8. While the sector makes a vital contribution to Wales's economy and wellbeing, it must also be subject to challenge and scrutiny. The sector has comparative advantages, but also weaknesses, and within the sector performance is, like within the public and private sectors, variable. There is a need to better understand its strengths and weaknesses, if funding is to be deployed where it is most effective.
- 5.9. Finally, it is important to bear in mind that the very diversity of the sector make it difficult to generalise about it, and what is true about one part may not be true of another part of this rich, diverse part of Welsh society.