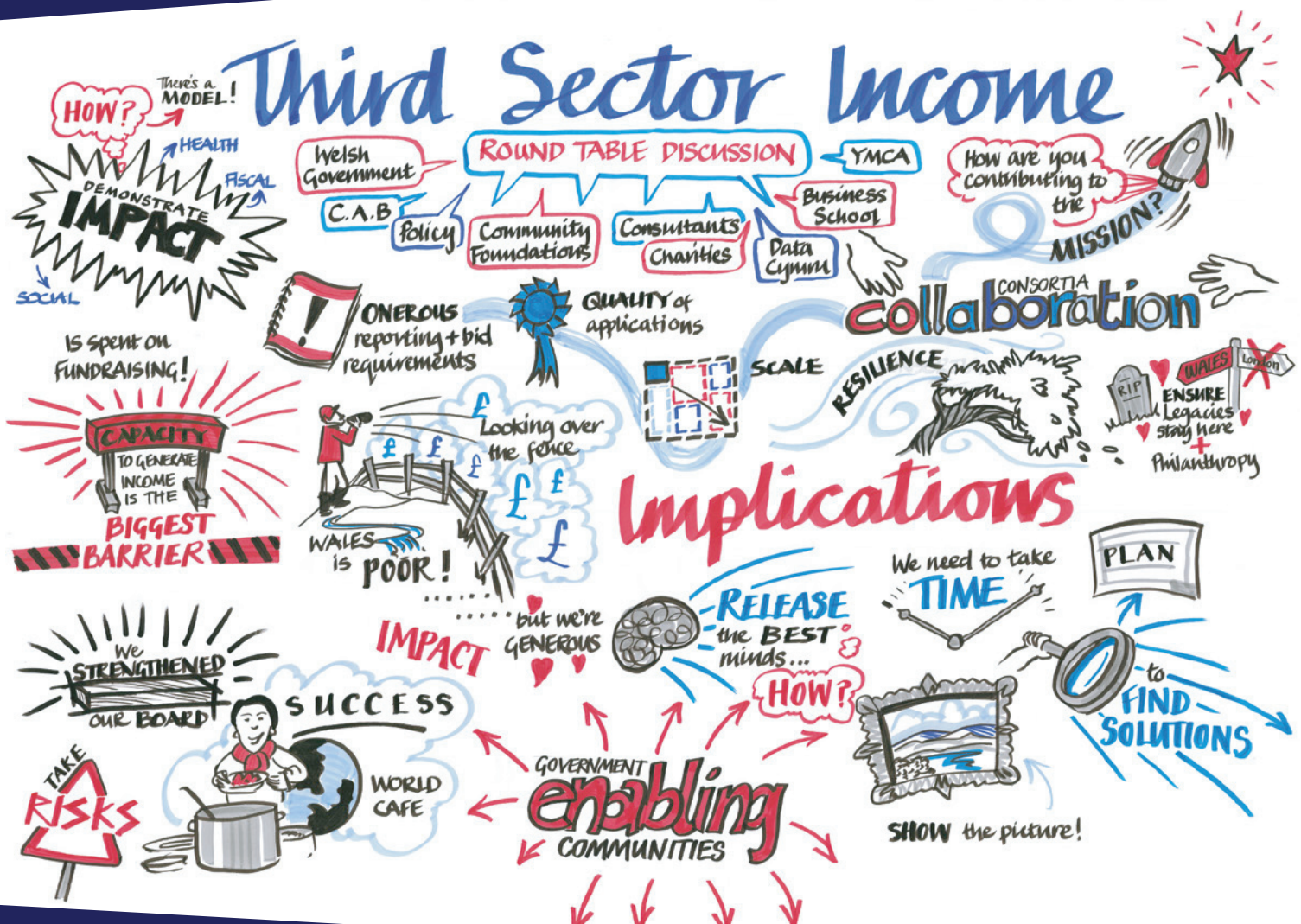


## Sustainable funding for the third sector: 2021 Update



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## Purpose of this paper

In November 2018 WCVA convened a discussion with representatives from the third sector, funders, Welsh Government, local government, academics, and charitable foundations to explore the state of third sector income in Wales. The discussion focused on the challenges the sector faces in finding funding.

In 2019, we launched the accompanying report, Sustainable Funding for the Third Sector, which included an action plan for how WCVA, its partners and other bodies and organisations could address the issues and barriers voluntary organisations struggle with in their journey to become sustainable.

Now, in 2021 and over 12 months after the arrival of the Covid-19 pandemic and the associated restrictions we have revisited the report and action plan to see:

- **what progress has been made since 2019**
- **what has changed (for better or worse) with regards to the issues and barriers we identified**

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## Background

Our 2019 report highlighted the reduction in funding and contracts from the Welsh Government between 2010/11 and 2016/17 (representing 55% of Welsh voluntary sector income in 2010/11 down to 46% in 2016/17).

Ten years of austerity and the associated public sector cuts, increased demand for services, Brexit, and uncertainty around the replacements for the EU Structural Funds (of which Wales is a net recipient) had already caused serious causes for concern for voluntary organisations in Wales and their confidence in financially sustaining their organisation.

The report acknowledged the internal and external issues (including Brexit) voluntary organisations reported experiencing, which acted as barriers to financial sustainability. The Sustainable Funding Action Plan at the end of the report then listed actions that were identified to help address these barriers.



We initially planned to revisit the Action Plan and provide an update in 2020. However, the arrival of the Covid 19 pandemic and the associated restrictions on society both interrupted our plans and required a reconsideration of the original barriers once the impact of the pandemic and restrictions became more apparent.

WCVA estimates that the Covid-19 pandemic has resulted in a loss of £620m in income to the voluntary sector in Wales. UK-wide, it is estimated that organisations will lose/have lost 24% of their projected income for the year, but we know that this means much more serious losses for some organisations.

Ironically, it is organisations with more diverse income streams that have suffered the most during the pandemic. The Welsh Parliament's Equality, Local Government and Communities Committee, in their investigation into the **'Impact of Covid 19 on the voluntary sector'** received evidence quoting the loss of income across many income streams;

retail (charity shops), challenge and mass participation events, face-to-face fundraising activity, legacy income\* and charging for services (e.g. attendance fees and admission, training, room hire).

Organisations with higher proportions of grant-funding and contracts have generally fared better, as some funders prioritised their existing grantees for additional support and public sector bodies were encouraged to honour existing funding arrangements and allow flexibility in delivery and reporting from the organisations they support financially. However, colleagues across Third Sector Support Wales report concern from organisations of what the funding picture in 2021-22 and beyond will look like as the budgetary repercussions of the response funding provided in 2020-21 are felt by some funders and statutory bodies. This is a concern shared by funders themselves. Community Foundation Wales expects a “difficult year ahead”.<sup>1</sup>

Research commissioned by Clore Social Leadership has found that the ‘need to diversify our funding’ is the most relevant challenge organisations are currently facing; “All third sector organisations post-Covid will need to [...] find alternative ways of generating income”.<sup>2</sup>

This report will explore the internal and external barriers to financial sustainability currently being faced by voluntary organisations in Wales. In Autumn 2021, we will publish a follow up report, exploring the positive changes that have occurred within the sector since 2019 and highlighting the opportunities for sustainable income generation.

\* The Charity Benchmarking Covid 19 Monitor notes that legacy income is still there, but delays to the probate service will affect when legacy income is received by charities.<sup>3</sup>

<sup>1</sup> Welsh Parliament Equality, Local Government and Communities Committee Impact of Covid-19 on the voluntary sector (Welsh Parliament, 2021), Page 36

<sup>2</sup> Clore Social Leadership programme for Wales research (Eva Trier Consulting and Penbryn Consulting, 2021)

<sup>3</sup> Charity Benchmarks Covid-19 Monitor (Charity Benchmarks, 2021), Page 36

## Internal barriers (updated)



### THINKING TIME

In 2019 we flagged the lack of capacity in both staff and time as a key internal barrier which prevents organisations from being able to work on their income generation. In many cases, this will have been exacerbated by the Covid-19 pandemic.



Organisations working in areas including domestic violence, mental health, debt advice and food poverty have seen the demands on their services skyrocket whilst all charities have had to spend time and financial resources on adapting their services to online delivery as much as possible. The furlough scheme has been well used by charities, but anecdotally has often focused on staff normally associated with income generation and other back-office functions as frontline staff have been needed to maintain services.

Volunteer time has also reduced in certain instances. NCVO reports 35% of participants in their ongoing monitoring project have seen their volunteer numbers decrease since March 2020<sup>4</sup> (NB: 20% respondents reported their volunteering numbers had increased); many trustee boards and management committees in Wales are older and more likely to be shielding and/or have less digital literacy which would otherwise enable them

to continue activities remotely during lockdowns. The Charity Retail Association noted that shielding and lost confidence have and will impact on charities' abilities to reopen their shops when restrictions lift as volunteers do not return to their previous roles.<sup>5</sup>

As the pandemic progressed and the second wave increased in likelihood, changes to charity staffing became more permanent. Pro-Bono economics estimated that by August 2020 over 25,000 jobs had been lost in the voluntary sector across the UK.<sup>6</sup>

All of this will have increased the time demands on senior leadership (whether that be staff of larger charities or volunteer boards of unincorporated groups), further reducing the time and brain-capacity they have for taking a step back, looking at the big picture and making strategic plans towards or in support of their organisation's sustainability.

<sup>4</sup> Respond, recover, reset: the voluntary sector and COVID-19 (NCVO et al, 2021), Page 9

<sup>5</sup> How do we get enough volunteers into our charity shops now we've reopened? (Charity Retail Association, Unknown)

<sup>6</sup> Weathering the storm: PBE Covid Charity Tracker (Pro Bono Economics, 2020), Page 17

## SKILLS AND KNOWLEDGE

We previously cited skills gaps in fundraising and other associated areas of charity management (including finance, management, and marketing) as being a key issue for voluntary organisations in Wales. However, the Covid-19 pandemic has brought digital skills and the lack thereof, into sharp focus.

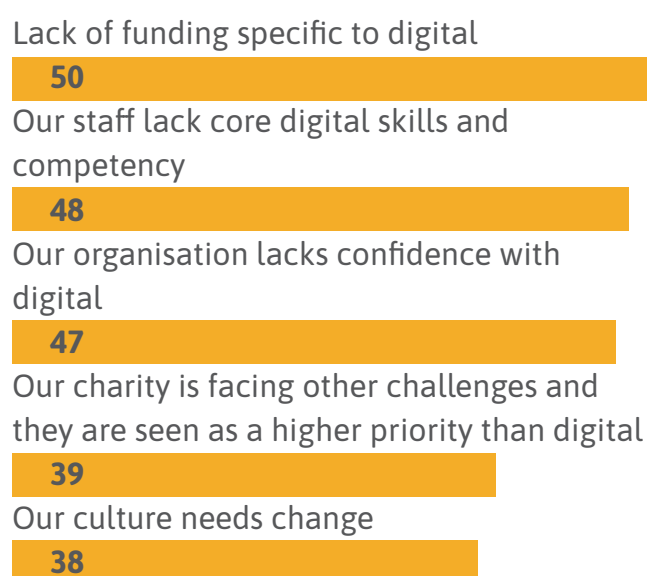
Stay at home regulations have meant that much of the population are now working and accessing services from home. This has required voluntary organisations to progress or implement digital ways of working across their organisation at pace, otherwise cancelling those services. Organisations in 2020 found themselves needing to connect with colleagues and access systems remotely, deliver services online and generate income digitally.

The Charity Digital Skills 2020<sup>7</sup> report found that skills and knowledge was the second biggest barrier to “getting the most from digital” (behind funding); 83% respondents rated themselves fair or poor at digital



service delivery, with 27% cancelling services due to not having the necessary skills and technology. 78% of respondents also reported fair to poor skill levels for digital fundraising.

### Top five biggest internal barriers to getting the most from digital, 2020 (% of survey respondents)



**Source:** Charity Digital Skills Report, 2020 created with Datawrapper

<sup>7</sup> Charity Digital Skills Report 2020 (Skills Platform, 2020)



Improving digital skills around fundraising will be key to organisations being able to attract new donors and maintain existing relationships in coming months and years, especially whilst lockdowns and restrictions continue to limit possible fundraising activities. Charity Benchmarks recently found that across their participating charities (large UK national organisations) “For regular giving, the number and percentage of donors recruited online has more than doubled compared to 2019 and, for the first time, has outstripped offline activity”<sup>8</sup>.

This period of remote working has shown organisations what is achievable when working digitally. WCVA itself has found delivering events online has increased the number of people able to access them. [The 2020 Charity Skills Report](#) highlighted that 66% of respondents were delivering work remotely and 61% intend to offer more services online moving forwards. Improving the digital skills of staff, trustees, and volunteers, including how to evaluate its impact, is a necessity to allow organisations to improve and/or evolve how they work, what they offer and how they fund it.



## DEMONSTRATING IMPACT

The 2019 report acknowledged the challenge voluntary organisations face with regards to the knowledge, skills, and confidence to appropriately measure impact. Measuring impact is key to several facets of sustainable funding, including using it to develop a case for support for fundraising activities and reporting to funders. However, anecdotal evidence and feedback suggests that this can be a challenging area, especially for small organisations that do not have dedicated staff to carry out evaluation activities.

WCVA leads the UK-wide Inspiring Impact project in Wales, supporting the voluntary sector with developing good impact practice through webinars, events, and the free resources available on the Inspiring Impact website until August 2021. The project has been in high demand with over 40% of all participants being based in Wales in year three (2020/21), showing the level of interest in this area of work.

<sup>8</sup> Charity Benchmarks: Covid 19 Impact Monitor (Charity Benchmarks, 2021), Page 45

Mantell Gwynedd leads on work on **Social Value Cymru**, which includes four key areas of impact: Social, Environmental, Economic and Cultural. It's a more holistic approach to measuring the broader impact of an intervention, enabling "...you to invest in the areas where you will get the greatest return..."<sup>9</sup>. The Senedd has included a recommendation on researching the social value of its own investment in the voluntary sector. It will be interesting to see the results of this and if this approach trickles down throughout the public and voluntary sectors and has a positive impact itself on the experience of organisations.



organisations clamoured to maintain services despite massive interruptions to their income generating activities. The statement commits funders to increased flexibility with spend, adapting activities and reporting deadlines. New emergency funds were designed with ease of use at the forefront of funders' minds.

## REPORTING TO FUNDERS

It has long been reported that voluntary organisations, especially smaller ones, find the reporting procedures for some funders to be prohibitive due to their limited capacity. In the early months of the pandemic, many funders in Wales signed up to a Covid-19 Funders Statement. The statement recognised additional barriers to accessing funding could be catastrophic as

Processes throughout the grant cycle were sped up and adapted across funding bodies to ensure funding reached voluntary organisations and communities quickly. Voluntary organisations will now be keen to see if and how funders are able to maintain these streamlined processes, particularly previously onerous or disproportionate reporting requirements, in the long term. Association of Charitable Foundations has found that 80% of their surveyed members plan to extend or make permanent the flexibility and changes they made during the pandemic into 2021 and beyond<sup>10</sup>.

<sup>9</sup> Welsh Parliament Equality, Local Government and Communities Committee Impact of Covid-19 on the voluntary sector (Welsh Parliament, 2021), Page 41

<sup>10</sup> Rising to the challenge: Charitable foundations' responses to Coronavirus and their forecast for the future (Association of Charitable Foundations, 2021), Page 3

## Internal barriers <sup>(new)</sup>

The following barriers have become apparent during the Covid-19 crisis.



### RESERVES

As fundraising and trading income levels dropped off the cliff edge in the first quarter of 2020-21, the levels of reserves in the voluntary sector became a big topic of conversation.

NCVO's Almanac for 2020 reported that less than a quarter of charities hold any reserves<sup>11</sup>. A recent focus on project funding was cited as a reason as to why many charities, especially small and micro-organisations, have been unable to build up cash reserves<sup>12</sup>. We will not see the full impact of the pandemic on the reserves of registered charities until returns for the 2020-21 (and 2021-22) are filed with the Charity Commission.

Where organisations did have reserves, they will have been used to help maintain services and keep organisations running; the February 2021 edition of the 'Respond, recover, rest: the voluntary sector and Covid-19 project' found that of their 600 respondents, 46% had used cash reserves to cope during the pandemic<sup>13</sup>. It will take time both to understand the full extent of how much cash reserves have been depleted during the pandemic, and for these reserves to be built back to pre-pandemic levels. This could mean previously planned expansions or investments, which could have otherwise contributed to an organisation's long-term sustainability, will have been delayed or abandoned.

## LEGAL STRUCTURE

The ability to access funding, and quickly, has been vital to voluntary organisations in the pandemic period as they seek to protect their services, communities, and staff and/or volunteer teams. Core or unrestricted funding is always at the top of list when we ask voluntary organisations what they need. The Third Sector Resilience Fund (TSRF) was funded by the Welsh Government and delivered by the Social Investment Cymru team at WCVA. In its first iteration the TSRF was "designed to support those voluntary sector organisations that need financial support to survive the current crisis primarily because of an unprecedented fall in their fundraising and donation income"<sup>14</sup>. It sought to provide organisations with funding to 'keep the doors open' in a way that unrestricted earned income or core funding would normally have done. However, the inclusion of 25% loan financing in the scheme meant that unincorporated organisations were not suitable recipients.

<sup>11</sup> UK Civil Society Almanac 2020 (NCVO, 2020)

<sup>12</sup> One tenth of charities could operate for just a few days if forced to rely on reserves (Civil Society, 2020)

<sup>13</sup> Impact of pandemic projected to be 'uneven and unpredictable' over the coming year, research finds (Third Sector, 2021)

<sup>14</sup> Coronavirus funding: which should I apply for? (WCVA, 2020)

Social Investment Cymru found that a surprising number of organisations were not incorporated and so did not provide recommended protection from liability to their trustees, making them ineligible for the funding. ‘Surprising’ as many of these organisations employ staff, rent, or own premises or undertake more risky activities (such as physical activity that could result in accidents or working with children) that, without the limited liability provided by incorporation, could result in individual trustees being held liable in the event of accidents etc.

Funders consider good practice when setting eligibility criteria; only accepting incorporated organisations for loan finance is a perfect example of this. Therefore, assessing the impact of a particular structure on organisation’s ability to attract funding or finance and generate income is an extremely useful and informative exercise; arguably one that is over-looked.

Un-constituted groups have also found it harder to access funding, with only a small number of funders able to provide funding to the grass-roots community response groups working valiantly across Wales.

## EQUALITY, DIVERSITY, AND INCLUSION (EDI)\*

People, projects, campaigns, and specific funds have been working to increase the diversity of the voluntary sector throughout the UK for some time, it is not new. However, research shows just 9.6% of trustees in 100 UK major charities are BAME (Black, Asian, and minority ethnic)<sup>15</sup> and numbers are likely to be even lower for small organisations in Wales. The Black Lives Matter demonstrations in 2020, and the over-representation of people from ethnically diverse communities affected by Covid-19 has brought the importance of representation and diversity of all protected characteristics into sharper focus. A diversity of backgrounds and experience, and therefore diversity of thought, increases an organisation’s resilience and opportunities to become more sustainable as more ideas, audiences and methods are explored and tested<sup>16</sup>.

<sup>15</sup> Green Park Leadership 10,000 (Green Park, 2019)

<sup>16</sup> Charity Governance Code; Principle 6. Equality, diversity and inclusion (Good Governance Steering Group, 2017)

The need and impetus to diversify organisations and ensure equity of access to services (etc) is not a barrier that we are highlighting here. Unfortunately, as with many areas of organisational development, there is limited funding and capacity within organisations available for time and financial investments to be given to addressing EDI related issues. This prevents organisations utilising support on offer and from realising the full potential that equality, diversity and inclusion within their organisations could achieve.

(\*We recognise that different organisations use different iterations of this phrase, including using equity instead of equality. We have used EDI due to its prevalence in use. We also recognise that BAME is problematic due to the homogenisation of the array of non-white ethnicities present in the UK)



## External barriers (updated)

### COMMISSIONING

Three specific challenges relating to Commissioning were identified in our original report. These challenges (streamlining and scaling-up of contracts, problematic collaborations and Local Authorities drawing work in-house) are still prevalent for charities, especially smaller charities, in Wales now in 2021.

The pandemic has brought additional concerns to the fore. We have now spent over a year with large proportions of the population working and delivering services online from home. Will commissioners see remote working and service delivery as a way to save costs, possibly to the detriment of quality and beneficiaries?

There are some positives to remote delivery. In giving evidence to the Senedd's review into the impact of Covid-19 on the voluntary sector the Welsh NHS Confederation highlighted 'that digital methods have led to more people being supported over a wider geography "with none of the usual travel and transport difficulties that can be experienced in rural parts of Wales"'<sup>17</sup>. However, all commentary around improvements experienced within remote service delivery needs to be considered alongside the gaps in digital literacy and access also experienced across communities in Wales.

The cost of the pandemic to Local Authorities has created financial pressures beyond those already felt as a result of existing austerity measures. NCVO reports that in 2020 almost 60% of charities with public service contracts were using fundraising and other income generation methods to financially sustain their contracts<sup>18</sup>. This situation is unlikely to improve in the short-term.

Further uncertainty comes as Local Authorities, faced with these increased financial pressures, reassess their priorities and commission work accordingly.

## BEING AMBITIOUS

The 2019 iteration of this report talked about smaller organisations being ambitious and mechanisms allowing them to be competitive within commissioning environments. The idea of taking a more ambitious tone and taking pride in the work we achieve is of benefit in funding applications and the development of cases for support in fundraising.

We still hear from funders outside Wales that they don't get enough applications from organisation in Wales, and/or that the quality of those applications is lacking. We know that the work voluntary organisations do is innovative, meaningful, and hugely impactful, but that doesn't seem to translate onto the page of funding applications.



<sup>17</sup> Welsh Parliament Equality, Local Government and Communities Committee Impact of Covid-19 on the voluntary sector (Welsh Parliament, 2021) Page 17

<sup>18</sup> The Road Ahead (NCVO, 2021)

On a broader societal level, this is something acknowledged by First Minister Mark Drakeford MS. In the documentary following his leadership during the pandemic, Prof. Drakeford said “People in Wales are pathologically modest! On one side, we're shy, we don't speak up about things...which is a very good thing...but sometimes it turns into a lack of confidence”<sup>19</sup>.

The achievements of the voluntary sector in Wales during the pandemic have been nothing short of astounding, from feeding thousands of families to supporting the mass vaccination scheme. We know we do amazing work. But could being more explicitly ambitious, confident in our abilities and unashamed to blow our own trumpets have a positive impact on our abilities to attract income?

## BREXIT

Concerns around replacements for EU funding were particularly significant. It also noted research commissioned by WCVA and funded by the Welsh Government's EU Transition fund to explore the impact of Brexit on the sector in Wales. The report - Empowering Communities in the Context of Brexit – can be found [here](#) and executive summary available [here](#).

The UK has now left the EU, the transition period which delayed most changes has ended and the negotiated agreement – the Trade and Cooperation Agreement, has entered into force. Prior to the end of transition, the Wales Civil Society Forum on Brexit published updated guidance on [Getting Ready for the End of Transition](#). This might still be of use in identifying potential changes.

It will take some time to fully understand the scope and scale of Brexit's impact on the Welsh landscape, especially as Covid-19 diverted capacity for most of 2020 and much of 2021. There are also many decisions pertaining to the new relationship between the UK and EU that still need to be made. However, some changes have already started to emerge:

- The UK and Welsh Government have consulted on changes to procurement rules.
- The UK Government is also analysing feedback from the recent [subsidy control consultation](#).

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<sup>19</sup> Prif Weinidog mewn Pandemig (First Minister in a Pandemic) (S4C, 2021)

As previously highlighted by the **Charity Finance Group**, withdrawal from the EU also opens the possibility of reforms to domestic rules on irrecoverable VAT that could benefit the sector. However **recent discussions** have also highlighted further barriers.

- Though some EU funded projects will continue into 2023, it is no longer possible for organisations to access European and Structural funds.
- The arts and culture sector has lost access to Creative Europe and faces new acute costs and barriers due to the loss of freedom of movement.
- The UK will no longer participate in Erasmus+. This comes at an opportunity cost for young people and especially around international volunteering as this is not covered by the UK Government's replacement – the **Turing Scheme**. This successor scheme is also less accessible to people from disadvantaged backgrounds as it offers less financial support than Erasmus+ in this area. The Welsh Government is launching an additional new scheme which will run alongside Turing in the form of the **Learning Exchange Programme for Wales**.

A significant change in the funding landscape started to take shape in late 2020 with the passage of the **UK Internal Market Act**. Part 6 of this piece of legislation provides new financial assistance powers to the UK Government in areas of devolved policy competence.<sup>20</sup> In the 2021 budget the UK Government clarified that these were being used to launch and centralise the administration of a series of new funds, some of which are intended to replace EU funding.

This includes:

- **The Community Renewal Fund** – a pilot intended to pave the way for and inform the development of the much larger Shared Prosperity Fund. This is 90% revenue funding. Voluntary sector organisations will need to submit bids to their relevant local authorities who have a role in filtering bids before submitting them to the UK Government Ministry for Housing Communities and Local Government for a final decision.
- **The Levelling Up Fund** will focus on capital investments in local infrastructure.
- And the **Community Ownership Fund** will support groups to buy or take over community assets that are at risk of being lost.

<sup>20</sup> This includes but it not limited to cultural activities, sporting activities, international education and training activities and exchanges, and domestic educational and training activities and exchanges and infrastructure which is taken to include health, education, cultural and sporting facilities, as well as housing more generally.

WCVA has published a more comprehensive overview of what is currently known about these funds [here](#).

The extremely limited timeline to put together project ideas, create bids and deliver the work on the Community Renewal Fund, which vary from local authority to local authority, has been highlighted as a significant barrier. There are also wider concerns that this model is being used to inform the development of the longer-term Shared Prosperity Fund and there has been little engagement or consultation with the sector.

Finally, the underlying restructuring of how funding is being centralised and delivered suggest that the sector will need to focus on deepening and building new relationships with their local authorities, who play a key role in the governance of this funding landscape.

## External barriers <sup>(new)</sup>



### LACK OF LONG-TERM AND 'CORE' FUNDING

This is very much not a new issue for the sector but did not appear in our original report.



The lack of longer-term funding and unrestricted or 'core' funding are the most commonly quoted funding issues experienced by voluntary organisations. These were the two main issues highlighted by Community Foundation Wales' Loud and Clear report<sup>21</sup>.

As highlighted by Loud and Clear, short-term funding cycles (often 12-month grants) cause a multitude of problems for voluntary organisations, including those highlighted in this report. They include the inability to plan beyond the funding term, difficulties in recruiting qualified and experienced staff on fixed-term contracts and disruptions to service delivery as organisations struggle to align grants to avoid gaps in provision between awards. Organisations will be familiar with the balance between finding timely funding to match their project and adjusting their project to match the objectives of the funding available to them. This combined with the need to maintain vital services can also result in arguably unnecessary changes to services which are preferable to the service ending entirely.

It is not only organisations that are affected. At a time when the wellbeing of voluntary sector staff, trustees and volunteers is also a particular concern (with many experiencing 'burn out'), short-term funding adds additional stress to individuals working within the sector through lack of job security and the implications of that on other areas of life.

Core-funding is also key for organisations to be able to build their sustainability and resilience. Such funding allows organisations to cover their running costs, pay the salaries of staff not associated with projects (including senior managers and fundraisers) and invest in organisational development, be that training for staff, trialling new income generation methods or running recruitment drives for more diverse trustees. Core funding is 'rare' within the Welsh funding landscape; full cost recovery models used by many funders is welcome, but limited with its impact on the overall sustainability of the organisation due to its time-limited nature.

Of course, unrestricted income self-generated by organisations can also cover these costs. However, without core funding that would cover initial investments required for fundraising or establishing social enterprise activities, many organisations of all sizes remain trapped in a cycle of funding.

<sup>21</sup> Loud and Clear: Our big funding conversation with the third sector in Wales (Community Foundation Wales, 2020)

## COVID-19, AND THE ASSOCIATED RESTRICTIONS

The impact of Covid-19 on the voluntary sector is varied and long reaching, although many of these impacts relate to the economic fallout of the restrictions implemented by the Welsh and UK Governments to protect the population.

At the time of writing, the UK is navigating an ongoing period of significant economic uncertainty. Office for National Statistics reported that for the period October-December 2020, unemployment was at its highest rates in five years<sup>22</sup>. The end of the furlough scheme in September 2021 may see this increase further, although it is hoped that the rollout of the vaccines will mean industries start to return to normal during the Summer/Autumn.

The increased poverty caused by these levels of unemployment has far reaching impacts on the sector. Poverty is associated with many issues and inequalities addressed by the sector, including but not limited to mental and physical health and wellbeing, food provision, advice and advocacy, unemployment itself and education. Reductions in disposable (and non-disposable) income, uncertainty over the

longer-term security of household income, stay at home orders, restrictions on what businesses and venues can open and how, and the inability of organisations to carry out their usual (or perhaps newly planned) fundraising activities have negatively impacted on the ability of voluntary organisations to generate voluntary and earned income.

WCVA and other support organisations have spent years working with voluntary organisations to help them diversify their income generating activities and be less reliant on grant income. Ironically, its organisations with larger proportions of grant income who have fared better during the pandemic thanks to the flexibility and increased support offered by grant funders. However, it is important that organisations do not revert to grant reliance or become grant dependent in the long term.

Whilst the funders response to the crisis has rightly been praised, concern now turns to the 'funding cliff' edge expected as the 2020-21 financial year ends. The Welsh Government is expected to announce additional support funding for the Welsh sector in June 2021,

<sup>22</sup> Unemployment rate: How many people are out of work? (BBC, 2021)

but there has been no further indication of additional support from the UK Government. Much of the additional or emergency funding made available in 2020 will have ended with the financial year. A small number of funders (the Moondance Foundation for instance) have announced additional funding for 2021, but we are still waiting for a clear understanding of how the influx of emergency funding into the sector in 2020 will impact funders' longer-term grant making.

Another factor for some charities has been shifts in the public's preferences for which charities to support financially. There has been a perceived increase in the popularity of charities on the front line of the pandemic, to the detriment of other causes. For instance, the NHS Charities Together benefitted massively from the focus (rightly) shone on the NHS in the first months of the pandemic, for instance via the popularity of Captain Tom and his challenge to walk 100 lengths of his garden.

Not being a popular or fashionable cause is something felt by some organisations in "normal times" as well. Community Foundation Wales' Loud and Clear report notes that organisations working with ethnically diverse communities, disabled people and Welsh language communities believe their cause makes fundraising challenging<sup>23</sup>.

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<sup>23</sup> Loud and Clear: Our big funding conversation with the third sector in Wales (Community Foundation Wales, 2020)

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## Conclusion and looking ahead

As we have explored above, the Covid-19 pandemic has had an exacerbating effect on many of the barriers voluntary organisations in Wales face to attract and generate sustainable income. The inability to fundraise and open or run many income-generating activities had a negative effect on many organisations' capacity as staff were furloughed, volunteers shielded, and teams scrambled to digitise their services.

It also meant that those organisations who had reserves were required to use them to unexpected levels. The increased focus on equality, diversity and inclusion (due to both the disproportionate effect of the pandemic on those with protected characteristics and the global Black Lives Matter protests in Summer 2020) poses additional demands on voluntary organisations to ensure good practice.

Measuring impact and reporting to funders has been a challenge for many within the sector for years, and the efforts of funders to support their applicants and grantees during the pandemic showed that improvements can be made, hopefully on long term bases. We now also have a better picture of what the funding landscape looks like post-Brexit, although that also comes with challenges.

It is worth noting here that 85% of Wales' voluntary sector is small or micro-charities<sup>24</sup>, and nfpSynergy's recent summary of research into how the pandemic has affected the sector notes that small charities have been hit disproportionately hard<sup>25</sup>. We hope that the insights in this report will give voluntary organisations, funders, commissioners and the Welsh Government food for thought on how they might address these challenges as they write new strategies and plan their work for the coming months and years.

The pages above address how barriers to sustainable funding and income effect voluntary organisations in Wales. In 2019 we identified seven outcomes for the voluntary sector in Wales, along with actions to help us achieve those outcomes whilst addressing these barriers. Following this conclusion is a summary of progress made against those actions. One piece of progress is that WCVA has now commissioned a voluntary sector income survey. The survey will explore what income streams organisation in Wales are making most use of, and where the gaps are. This will help inform WCVA and other infrastructure bodies how we can best help voluntary organisations maximise their ability to generate sustainable income.

Whilst we have focused on the barriers to sustainable funding in this report, we know that the Covid-19 pandemic has also created opportunities and inspired new ways of working that have benefitted organisations, their beneficiaries and their donors/ supporters. There are opportunities on the flip side of the majority of barriers listed. Later in 2021, we will publish an accompaniment report alongside the findings of the voluntary sector income survey. We will explore the opportunities and positive changes created and implemented since March 2020, as well as potential areas for growth and income generating methods and sources that may be being under-utilised.

<sup>24</sup> Third Sector Data Hub (WCVA, 2021)

<sup>25</sup> Covinformation: summary of our report on Covid and charities research (nfpSynergy, 2021)

# Action Plan



Actions identified in 2019	Considerations and updates on progress
<b>OUTCOME 1:</b> Improve our understanding of the third sector income	
<b>1.1.</b> WCVA's Third Sector Data Hub - updated in April 2019 with Charity Commission data about income for charities in Wales.	The Data Hub was been updated in April 2021 with income data for 2017-18. The Hub will continue to be regularly updated and developed by WCVA and Data Cymru.
<b>1.2.</b> Research in progress with Community Foundation Wales in relation to trust and foundation income will contribute to our understanding.	<p>Research undertaken to date with Association Charitable Foundation members. Findings have highlighted that upwards of 90% are unable to fund groups that are not registered charities. Welsh data indicates that there is a very low number of registered charities in Wales compared with non-registered voluntary groups.</p> <p>Consideration needs to be undertaken on how the sector responds to this learning e.g. improved partnership working with a lead charity, as we cannot expect the Trusts and Foundations to change objectives to accommodate Welsh challenges.</p>
<b>1.3.</b> Welsh Government, with WCVA and the Third Sector Partnership Council, to create a more effective Funding and Compliance Sub-Committee of the Third Sector Scheme, that enables third sector organisations to raise key issues of compliance against the Code of Practice for Funding the Third Sector. This will provide more data on public funding practices that are impacting on third sector income.	The Funding and Compliance Sub-committee has been refreshed. A new workplan has been approved and links closely to the new Third Sector Partnership Council recovery plan.
<b>1.4.</b> WCVA will develop an annual Funding Trends survey.	WCVA has commissioned Income Survey to be published in September 2021. The findings will be used to update the Third Sector Data Hub.

Actions identified in 2019	Considerations and updates on progress
<p><b>1.5.</b> WCVA's longer term ambition is to work with partners to scope and develop capacity to undertake more detailed analysis of income data for third sector organisations in Wales.</p>	<p>The above survey is the first step to achieving this.</p>
<p><b>OUTCOME 2:</b> A clearer understanding of the capacity building support currently available to the sector</p>	
<p><b>2.1.1.</b> National Lottery Community Fund (NLCF) have undertaken a piece of work to map capacity building support available to third sector organisations.</p> <p><b>2.1.2.</b> WCVA is summarising the evidence on the factors contributing to organisational and financial resilience.</p>	<p><b>A thriving third sector:</b> Review of resilience support in Wales was published in 2019.</p> <p>WCVA's Sector Development team are reviewing research (including a specially commissioned piece) and evidence around how resilience is defined in the voluntary sector and will publish a definition of resilience in 2021 that will inform WCVA's work moving forwards. The Sector Development team will be refocusing their work to ensure that WCVA's activities will contribute to organisations' abilities to improve their resilience.</p>

Actions identified in 2019	Considerations and updates on progress
<p><b>2.2.</b> WCVA and NLCF will coordinate a discussion with the various support providers with a view to developing a more consistent provision for organisations across Wales.</p>	<ul style="list-style-type: none"> <li>Working with PAVO, the support organisations identified through the Fund's mapping exercise (2.1.1.) were added to InfoEngine, and a landing page was created on Funding Cymru to allow organisations looking for help to search the database of support organisations: <a href="https://funding.cymru/third-sector-funding-support">https://funding.cymru/third-sector-funding-support</a></li> <li>The Fund made it's 'strengths checker' available in Wales, a diagnostic tool that organisations can use to identify development needs and use the findings in discussions with both funders and support providers so that they can better access the support relevant to their needs: <a href="https://vcsestrengthchecker.org.uk/">https://vcsestrengthchecker.org.uk/</a></li> <li>In December 2020, NLCF amended the eligibility criteria of People and Places to include costs associated with organisational development, in addition to project costs. During the application process, applicants can now have a conversation with their funding officer about their development needs, drawing upon the findings from the 'strengths checker' exercise.</li> <li>Across the UK, NLCF is engaged in a broad conversation relating to the Future of Civil Society in the UK, with a particular focus on the support available to organisations. A number of parallel open enquiries are currently supporting this work, including 'active adaptation and resilience': <a href="https://www.tnlcommunityfund.org.uk/insights/civil-society-approach">https://www.tnlcommunityfund.org.uk/insights/civil-society-approach</a></li> <li>In Wales, the Fund is currently reviewing its funding portfolio and is exploring the added pressures created by the COVID-19 pandemic for voluntary organisations across Wales as part of its enquiries. The findings will inform the Fund's future funding priorities and its funding approach.</li> </ul>

Actions identified in 2019	Considerations and updates on progress
<b>OUTCOME 3:</b> More collaborative approaches to support organisational resilience and sustainability	
<b>3.1.</b> An exploratory conversation with key stakeholders resulting in WCVA co-ordinating a Task & Finish Group for Third Sector Sustainability to develop a shared plan.	Whilst not a specific response to this action, the Wales Funder's Forum has commissioned a piece of research to explore how they can build on the collaboration they participated in during the first 12 months of the pandemic. Improved experiences and positive impacts on applicants and grantees are key drivers for this work.
<b>OUTCOME 4:</b> Increased investment from trusts and foundations in Wales	
<b>4.1.</b> WCVA will look to convene an event in London during 2019 hosted by Association of Charitable Foundations (ACF) with Trusts and Foundation in attendance. A similar event was held last year and proved to be very popular and presents an excellent opportunity to make the case for investing in Wales.	Such an event has not yet taken place, but appetite for it remains within both WCVA and ACF.
<b>4.2.</b> Community Foundation Wales report detailing the funding trends of trusts and foundation in the Welsh context.	Community Foundation Wales published the Loud and Clear report in 2020, outlining what charities need from funders.
<b>OUTCOME 5:</b> Public sector commissioning processes are better at involving the third sector and enabling them to play a bigger part in delivering solutions	
<b>5.1.</b> To build on this work, Lloyds Bank Foundation and WCVA will jointly host a session to identify practical actions and appropriate partners to address challenges with commissioning.	See 5.3

Actions identified in 2019	Considerations and updates on progress
<p><b>5.2.</b> WCVA and NCVO will be working in partnership to deliver the Trusted Charity Mark Wales project until June 2021. A significant element of the work so far has focussed on engaging commissioners and funders to explain the benefits of the quality mark.</p>	<p>Following changes at NCVO, WCVA has commissioned a consultant to review Trusted Charity in Wales and support the development of a business case for a sustainable quality framework for voluntary organisations in Wales. This work will be completed by autumn 2021.</p>
<p><b>5.3.</b> An exploratory conversation with key stakeholders, including public sector commissioners to finding practical solutions to barriers to third sector involvement.</p>	<p>The need for improvements to commissioning and procurement practices features in 2021-22 the work plan of the Funding and Compliance Sub-committee of the TSPC.</p>
<p><b>5.4.</b> Funded pieces of work to address barriers to third sector involvement in commissioning.</p>	<p>Community Foundation Wales published the Loud and Clear report in 2020, outlining what charities need from funders.</p>
<p><b>OUTCOME 6:</b> Third sector leaders have more space and time to develop their leadership skills</p>	
<p><b>6.1.</b> WCVA is examining grant making systems and processes and looking to develop a pot to invest in some organisations with a view that this may create space for third sector leaders to lead.</p>	<p>No progress</p>

Actions identified in 2019	Considerations and updates on progress
<b>6.2.</b> Initial discussions have been held with Academi Wales and ACEVO about a leadership programme for the sector in Wales.	Clore Social Leadership, working in partnership with Wales Cooperative Centre, are developing a new leadership programme for Wales due to be launched in June 2021. Sector-wide consultation has been held to shape the programme.
<b>6.3.1.</b> To research examples of effective models for freeing up leadership capacity and develop proposals to pilot an approach.	No progress.
<b>6.3.2.</b> A report detailing models for freeing up leadership capacity with practical examples of how they might be implemented.	No progress.
<b>OUTCOME 7:</b> Third sector organisations are better able to demonstrate their impact to funders	
<b>7.1.</b> A roundtable discussion with Inspiring Impact, Alliance for Useful Evidence, Social Value Cymru, Welsh Government Statistics Department, Office for National Statistics (ONS), Royal Society of Statisticians and academics to discuss how to better to support third sector organisations to evaluate and demonstrate their impact.	No progress
<b>7.2.</b> Work with funders to ensure that their expectations in relation to impact are clear and guidance is provided.	No progress



Actions identified in 2019	Considerations and updates on progress
<b>7.3.</b> A dedicated evaluation and impact support service for third sector organisations in Wales based on models developed by Evaluation Support Scotland (ESS) and Community Evaluation Northern Ireland (CENI).	No progress.
<b>7.4.</b> An action plan for enabling third sector organisations to evaluate and demonstrate their impact.	No progress.