Navigating budget cuts: the role of the third sector as key partners

A paper for the Minister for Health and Social Services from the Voluntary Sector Health, Social Care and Wellbeing Planning Group – 23 October 2023.

Summary of recommendations

We call upon the Minister and Deputy Ministers to:

- Use the powers they have to ensure that officials from across Welsh Government and the wider public service are adhering to the Code of Practice for Funding the Third Sector. This is not consistently happening at present.
- Ask public bodies to report on how they have adhered to the principles listed in Part One: Welsh Government Funding Principles (p25 of the Third Sector Scheme) when budget decisions are outlined. This includes requiring public bodies to demonstrate how they have meaningfully engaged with the third sector in considering and agreeing how cuts can be made to minimise impact on the public.
- Provide instructions or 'red lines' to public bodies on what should not be cut (i.e. services that prevent or reduce demand on statutory health and care services or that will lead to an increase in health inequalities, child poverty, etc). We ask that a whole-system approach to reviewing and deciding cuts is undertaken, not just finding isolated 'quick and easy wins'.
- Require public bodies to publish an impact assessment of budget cuts, including the intended and likely unintended consequences , particularly where decisions are likely to increase demand on other parts of the health and social care system; reduce quality of service or increase inequalities.
- Require RPBs to collect and publish data on all Regional Integration Fund (RIF) funding decisions. This should include data and evidence on investment and disinvestment in third sector services and how successful pilots or programmes will be made sustainable through core funding or mainstreaming into statutory provision.
- Clearly outline what criteria and mechanisms will be used to analyse and challenge decisions where local authorities, health boards and RPBs have not followed robust processes for deciding the cuts.
- Reduce the administrative burden on local authorities and provide more flexibility. The Minister for Finance and Local Government has said she is working on this. We would like Welsh Government to insist that local authorities, health boards and RPBs adopt the same approach with the third sector.

1. Introduction

1.1. It is understood that Welsh Government needs to find unplanned budget cuts for 2023-24 as well as planned budget cuts for 2024-25 and this will mean very difficult decisions will have to be made. The third sector expects there to be a negative impact on its funding from Welsh Government, local authorities, health boards and other public bodies – compounding the already significant impact the cost-of-living crisis is having on reduced income from public donations and increased competition for funding from trusts and foundations.

1.2. WCVA, its members and networks recognise the desire to protect frontline public services and the achievement of key national targets but is pleased the Welsh Government has outlined in the *Written Statement: Update about budget 2023/24* on 23 August that it still wants to ensure support is targeted at those most in need.

1.3. We understand the challenges facing all public bodies, particularly knowing the decisions that need to be made will undoubtedly affect people jobs and lives.

1.4. When public sector cuts need to be made, many organisations often prioritise short-term outputs over long-term outcomes (i.e. managing the crisis and not trying to stop or reduce the cause of demand through prevention and early intervention).

There is often rationalisation (cutting back services) rather than evolution (looking at the whole system and making broad sustainable changes); and the third sector is often the first to take the brunt of cuts because:

a) It's seen as a simpler, quicker and lower reputational risk process to stop a grant or contract to a third party than it is to make internal budget reductions, particularly when that relates to redundancies;

b) Many third sector services provide prevention and early intervention outcomes, which are sometimes seen as 'nice to have' but not critical to, or measured by, short-term statutory targets.

1.5. The third sector is under huge pressure, with higher running costs and many reporting a reduction in income from statutory, grant and public donations. It is struggling to cope with existing demand and cannot plug the gaps made by further cuts by using its own income or relying on increased use of volunteers.

1.6. The Social Services and Wellbeing Act and the Wellbeing of Future Generations Act are clear that prevention, partnership, people having an equal say in the support they receive, and thinking about the long-term impact of decisions are fundamental principles for the Welsh Government and the public sector.

1.7. The third sector has a strong footprint in the delivery of prevention and early intervention services that enable people to better look after themselves. Significant cuts to funding in this space now will not only have a serious immediate impact to people's health and wellbeing but will also widen health and care inequalities and

store-up deeper and more costly problems for the future – and store up problems for acute services in due course.

1.8. A reduction of third sector services would be counter-productive to the Welsh Government's '*Building Capacity through Community Care – Further Faster*' statement of intent and the Minister's statement on 10 October 2023, which outlines the need to rebalance the system towards prevention, early intervention and community-based health and social care.

1.9. But it isn't just in prevention and early intervention that the third sector plays a significant role. Many people use and rely on the third sector because they are not getting the support they need from statutory health and social care services, either because it is not available or accessible to them.

1.10. Around 10% of the Welsh working population is employed by the third sector and nearly half of those contribute to health and social care.[1]With over 58,000 paid third sector staff, we are part of the 'system' and share a mutual interest with statutory partners to finding solutions that ensure the health and care needs of our population can continue to be met.

1.11. There are multiple benefits to ensuring that the third sector are genuinely equal partners in developing collaborative approaches to reviewing how services can be delivered differently and more cost-effectively. The sector's requirement to constantly react and evolve to maximise sustainability and outcomes for the public, particularly those most in need of care and support, mean it is well-placed to provide solutions to the extremely difficult changes that need to be made now and into the future. Innovations and different ways of working don't always mean new money, as budget re-allocations and reduction of waste can be used in invest to save principles.

1.12. We acknowledge the actions Welsh Government have already taken to steer public bodies away from making cuts to the third sector as an easy option, including the message that RIF is partnership investment and not at the discretion of health boards to cut or use as part of their core budget. However, third sector organisations are reporting to us that RIF cuts *are* happening, often at short notice, and that the services delivered with the funding are generally not being mainstreamed or picked up by local authorities and health boards. (Please see the **Age Connects Morgannwg case study** in the Appendices to this document.)

1.13. We would welcome a continuing messaging from the Minister and Deputy Ministers that reinforces the requirement to not only protect those most in need by working with the third sector but to ensure the Code of Practice for Funding the Third Sector is followed by all public bodies. Early and continuous dialogue, flexibility, appropriate funding and valuing outcomes are the best ways to bring about the changes that are needed now and into the future.

2. Sector concerns

[1] WCVA's Voluntary Sector Data Hub: https://wcva.cymru/the-voluntary-sector-in-wales/

2.1. **Wider financial pressures:** Many third sector organisations working in health and/or social care say they are facing increasing demand, rising costs and continuing funding cuts, as well as a drop in income from European funding, trust and foundation funding and reduced public donations due to the cost-of-living crisis. NCVO's UK Civil Society Almanac 2023[2] shows a drop in the UK's charity sector income of 14% in public giving, with an overall decrease of 3% in 2020-21, We have seen high profile charities in Wales and England announce closures and we sadly expect others could follow in the forthcoming climate of cuts.

2.2. **Increasing demand and complexity:** Third Sector Support Wales partners, WCVA and the 19 County Voluntary Councils (CVCs), are experiencing a considerable increase in requests for support services from charity and voluntary organisations relating to governance, volunteering, sustainable funding, influencing and engagement. WCVA's time spent on advice and support services has gone up by 22% in the last year, showing the complexity of challenges the sector is experiencing.

2.3. **Public benefit:** The third sector provides value for money and significant public benefit in the health and social care field, reducing costs and demand on statutory services and improving people's health, wellbeing, resilience and sense of purpose. It would be a false economy for local authorities, health boards and RPBs to cut what is often a relatively small investment in charity and voluntary organisations and would inevitably increase costs in other part of health and social care.

2.4. **Prevention is not a project!** Whilst the third sector is an essential partner in providing health and social care services, it is often considered a 'nice to have', providing added value projects rather than statutory or essential services. Prevention and early intervention services are also seen as providing *future* benefit when they are already significantly reducing the demand and cost of statutory services *today*.

2.5. **Rising health inequalities**: Local, regional and national third sector organisations build close relationships with those most vulnerable; budget cuts reducing their ability to work with the groups who experience barriers to accessing public services will make it more difficult for local authorities, health boards and the third sector to work together to better enable people to manage their own health and wellbeing and live independently.

2.6. **An easy target**: Local authorities and health boards will often cut funding to charity and voluntary sector organisations first, rather than looking at their own resources or how they can use resources differently. We have evidence of this being done at short notice, without consultation, discussion or impact assessments - leaving charities with cashflow challenges and needing to make speedy job cuts (see **Age Connects Morgannwg** case study in the appendices).

[2] NCVO UK Civil Society Almanac 2023: https://www.ncvo.org.uk/news-and-insights/news-index/uk-civil-society-almanac-2023/#/

2.7. **Unsustainable funding relationships:** Third sector services funded by public bodies often only have annual funding awards, rather than longer term agreements, even though they have frequently become part of core, statutory service provision around which other services are built. This was evidenced recently in a WCVA workshop on hospital to home services, where some organisations said they have been funded on an annual basis for over 10 years but have little security. This leads some organisations to not even consider bidding for commissioned contracts. As an example, **Versus Arthritis** have said: *"We took the strategic decision a few years back not to apply for commissioning contracts due the lack of stability and short-term nature of them. It was putting our services in a precarious situation with a risk of loss of continuity of care and support for our beneficiaries. It is a similar situation with other short term funding opportunities from other bodies, RPBs, RIF, etc. We are looking to develop a mixed economy funding model now, but that will be time and resource intensive and will mean rebuilding relationships with Commissioners – and it is now proving hard to get into the door again!"*

2.8. **Evidencing impact and value:** This short-term funding approach makes it more difficult to innovate, demonstrate the true value of outcomes over the long-term, to retain and develop staff and volunteers, and to evidence they are essential services. It also makes the sector more susceptible to cuts at short notice, even when impact is proven to be high and is proven to reduce demand and cost. There are two case studies in the appendices that give examples of these issues and their impact.

3. Asks for the Minister:

3.1. The current Code of Practice for Funding the Third Sector applies to Welsh Government and public bodies, including health boards and local authorities, in respect of hypothecated or framework funding. **We would call on the Minister and Deputy Ministers to ensure that officials from across Welsh Government and public bodies are using the Code and report on how they have adhered to the principles listed in Part One.**

In negotiations with health boards, local authorities and RPBs on in year budget cuts for 2023/24 and the preparation of budgets for 2024/25, we ask the Minister and Deputy Ministers to particularly remind public bodies of the following principles, in line with the Code of Practice:

Short term 2023/24

3.2. **We ask the Minister to require public bodies to demonstrate how they have meaningfully engaged with the third sector regarding budget cuts.** See **PAVO case study** in the Appendices of this document for an example of how this has been done well. The challenges we face are shared and decisions that are co-produced will realise the greatest benefits. We appreciate time is tight for making the unplanned 2023-24 budget cuts, but this is a longer-term challenge, where regular dialogue must continue to ensure that decisions made now will have a positive impact on how people live their lives in future.

If regular and meaningful dialogue does not occur and the third sector bears the brunt of upcoming cuts, it is certain that health inequalities will grow – as will the demand for and cost of statutory services. The sector often provides an invaluable interface with marginalised and disadvantaged communities, ensuring that protected characteristics and inequalities are considered and addressed by service providers. The sector is also vital to ensure the meaningful achievement of the Welsh Government's ambitions within the Social Services and Well-being Act, Well-being of Future Generations Act and a Healthier Wales. It is also critical in goals such as reducing health inequalities and child poverty.

3.3. **We ask Government to protect investment in prevention and early intervention services, as well as third sector services that provide essential support to those most in need and that reduce demand in current statutory health and care duties.** Third sector organisations funded directly by Government departments outside the Minister's responsibility also have significant impact on health, wellbeing, prosperity, for example housing, homelessness, substance misuse, environment, arts and culture etc. We know the Minister will consider with Cabinet colleagues the wider implications and interrelationships that budget decisions could have on protecting those most in need, and we offer to support that in whatever way the Minister deems appropriate. Prevention and early intervention should not be viewed as a project or a choice, nor as the 'easy cut' when budgeting decisions are made. Services that stop people needing health and/or social care services, or reduce the level of support required are already saving money, are essential in reducing demand and costs now and in the future and the third sector play a critical role in providing prevention and early intervention services as well as crisis and emergency support.

3.4. **We ask that the Minister provides instructions or 'red lines' to public bodies on what should not be cut (ie. services that prevent or reduce demand on statutory health and care services or that will lead to an increase in health inequalities, child poverty, etc) and that a whole-system approach to reviewing and deciding cuts is undertaken, not just finding 'quick/easy wins'.** Budget decisions must be evidence-based, consider the 'whole system' and the impact on citizens, and be transparently communicated.

3.5. We call on the Minister to clearly outline what criteria and mechanisms will be used to analyse and challenge decisions where local authorities, health boards and RPBs have not followed robust processes for deciding the cuts. Public bodies should be required to publish a description of the processes they have taken to review the whole system and provide information on what the intended and likely unintended consequences are, particularly where decisions are likely to increase demand on other parts of the health and social care pathway.

For example, if funding for a community transport service is cut, what additional costs will that have on the Welsh Ambulance Service? If a service that supports people with hospital discharge or support at home following discharge is cut, then is that likely to increase costs of homecare or hospital readmission rates? With both examples, these types of decisions will not support the local, regional and national

savings that are required and could lead to an overall increase in costs of dealing with the consequences.

3.6. **We ask the Minister to ensure statutory bodies do not use ring-fenced RIF funding to cover their core costs:** Data on all Regional Integration Fund (RIF) investment must be collected and published by RPBs to ensure transparency in ensuring that valuable services are being mainstreamed into core budgets over the longer term, and that a minimum of 20% of budgets are being invested in social value. RPBS should show and explain investment and disinvestment in third sector services and how successful pilots or programmes will be made sustainable.

For 2024/25

3.7. **We ask the Minister to require public bodies to demonstrate that they have considered the impact of financial decisions across the wider health and care system, including the third sector market.** Disinvesting in the third sector should not be seen as the easy or quick solution. Investment is relatively low and saves money by reducing overall demand. This should include discussion with the third sector about what other budget cuts they are facing and what the likely effect of multiple cuts will have, including in the area of value-based and prudent healthcare.

3.8. **We ask Welsh Government to inform public bodies that they must produce and share more open-source data on annual funding decisions** to increase the transparency of analysis, decision-making and enable challenge where required. Decisions on cuts should be publicly shared with an explanation of how and why decisions have been made. This should include details on the impact assessment processes undertaken and of any planned mitigating actions.

It is vital that Health Boards and RPBs engage in dialogue with the third sector and consider third sector service data. Cuts to preventative services where this has not taken place will likely lead to a destabilising impact on people, communities and families across Wales, as services that people rely on are reduced or ended entirely.

3.9. **The Minister for Finance and Local Government has said she is working to reduce the administrative burden on local authorities and provide more flexibility. We ask Welsh Government to insist that local authorities, health boards and RPBs undertake the same approach with the third sector.** This should include allowing budget carry-over from financial years, moving from one year to at least three-year funding agreements and simplified application/tendering and monitoring processes.

The Voluntary Sector Health and Social Care Planning Group
October 2023.

APPENDICES

Case studies as referenced in section 2.7.

CASE STUDY: CARE AND REPAIR CYMRU – HOSPITAL TO A HEALTHIER HOME

"Hospital to a Healthier Home began as a Welsh Government pilot between January – March 2019. This service was then funded nationally across six LHBs until April 2022. During this time we were strategically linked to the National Programme for Unscheduled Care (NPUC), participating in the NPUC Delivery Group for monitoring purposes, gaining endorsement from the NPUC Board, and gaining close support from Welsh Government officers. The strategy was to embed the service and then mainstream it through LHB funding.

"The service is targeted towards clinically optimised older people who cannot go home due to a housing or environmental issue, providing fast track housing adaptations and home repairs to enable safe discharge. The service improves patient flow by speeding up safe hospital discharge and reducing readmissions. We work on a six day stay reduction and our readmission rate is around 5.5%, compared to a national average of between 12-15%.

"The service is now currently funded across five LHBs through a mix of LHB and RIF funding, employing 14 caseworkers across 16 principal hospitals. From April 2019 – March 2023, the service received over 18,000 referrals, directly supporting over 14,300 patients to leave hospital more quickly, saving the Welsh NHS more than 88,500 bed days. We bring the capital to this project, having completed more than £5.5m worth of housing improvement works to facilitate safe discharge.

"Despite operating since 2019 and being a highly regarded, well-used and impactful service, we are still operating on an annual funding model. We continually have difficulty receiving timely decision-making on the continuation of this service. At the beginning of March 2023 we had still not received confirmation in three of the five Health Boards the service operates in. These came through on the 14, 17 and 27 March respectively. This makes it incredibly difficult to plan, retain specialist staff, and maintain relationships with clinical staff. In BCUHB, the Health Board were unable to confirm a year's funding. We initially received a six-month extension, and in late September received another three-month extension. Funding uncertainty makes for a very challenging environment, despite strong operational and strategic evidence for the continuation of the service over the past four years."

CASE STUDY: POWYS ASSOCATION OF VOLUNTARY ORGANISATIONS (PAVO)
"PAVO have held meetings with Powys Teaching Health Boards' commissioning officers regarding the impacts of inflationary pressures on third sector organisations. Thus led to a 'Meet the Commissioners' event for the sector, allowing organisations to air their concerns to Commissioners and for the Health Board to share information on their fiscal challenges. A further two meetings then focused on future commissioning and the development of a Third Sector Commissioning Framework for Powys.

This framework will (and has already begun to in some cases) further increase the understanding of the services of the third sector and understanding of PTHB's commissioning intentions; increase understanding of the importance of monitoring and evaluations; provide a conduit for coproduction of services; improve relationships between commissioners and third sector providers; and enable ongoing and effective dialogue based on the principles of fairness, equality, trust and honesty."

CASE STUDY: AGE CONNECTS MORGANNWG
"Age Connects Morgannwg were commissioned to deliver a hospital discharge service and Better @ Home service, with the aims of reducing admissions onto wards from A&E, speeding up discharge and reducing readmission for those over 50. Their Hospital Discharge Support Service was funded on an annual, non-recurring basis for over 20 years. However, in January 2022, three months' notice was given to end the contract without warning. In addition to having to make nine people redundant, referral rates for their wider service have reduced from over 2,000 in a typical year to under 340 the year following the cut, as there are no longer Age Connects Morgannwg staff in the hospital liaising with discharge planning teams.

"Feedback from NHS staff highlighted the benefit of the service to patient flow and speeding up discharge, as well as increasing ambulance capacity. However, the impact of the service being decommissioned was not discussed with operational teams at the hospitals or Age Connects Morgannwg before the decision was made."