

Perfect Storms

An analysis of the operating conditions for the children,
young people and families voluntary sector

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Introduction

In nature, a perfect storm is a meteorological event where a number of separate weather-related phenomena combine to create a storm of unusual magnitude. We suggest that two such 'storms' are currently engulfing the children, young people and families voluntary and community sector. In each case, individual factors, occurring simultaneously are leading to outcomes that are often worse than the sum of their parts. This paper analyses each of the storms in turn, highlighting their key features and internal dynamics before illustrating with case studies.

The report is based on in depth interviews with over 50 voluntary and community sector leaders and staff from local authority children's services departments as well as feedback from the wider sector through Children England's regional and national networks. It is not a representative survey or study of the health of the voluntary and community sector or of the welfare of children, young people and families in austerity Britain – it presents no new statistical data, but draws extensively on research evidence and statistics gathered by a wide range of colleagues, as well as the qualitative reports and case studies gathered from our contributors. Our aim is to portray the multi-dimensional and ever-moving nature of the challenging conditions in which many charities, public sector staff and service users find themselves. The report sets out two kinds of storm, one relating to the pressures on the internal business models of the voluntary and community sector as individual organisations, and the other examines the turbulences surrounding the interdependence of statutory and voluntary agencies at a local level. While not every charity or area will experience these storms exactly as set out, they are all subject to the same pressures and demands, albeit in different combinations and with varying intensity.

Perfect Storms is primarily focussed on organisations rather than individuals, analysing intra- and inter-agency dynamics instead of social outcomes. In part this is a natural result of Children England's role as a membership body seeking to represent the work and experiences of the voluntary sector serving children, young people and families. However, the principal motivation for orientating the report in this way is that these important perspectives have been left largely untouched by the wealth of recent research and literature on the financial crisis, charities and the population. This is not to say that the changing lives of children, young people and families are unimportant in this study; they are at the heart of every charity still working so hard to navigate the current storms. Rather, we believe that it is only through a holistic analysis that it is possible to truly understand the current situation for statutory and voluntary service providers and community groups. Without such an understanding, proposed policy solutions are likely to at best treat the symptoms and at worst could aggravate their causes. As such, although children, young people and families may not always appear to be central to Perfect Storms, they have been at the forefront of Children England's mind, and those of our interviewees, throughout this piece of work.

In producing this picture-building analysis we hope to enable all those who share an interest in the value and survival of the voluntary sector's work with children, young people and families, whatever their current role, position or sector, to come to a more nuanced and shared understanding of the distinctive nature of the sector's sub-economy as well as the challenges it faces in 2012 and for the foreseeable future. By facing up to the sometimes frightening, true nature of the current prevailing storms, our belief is that we will be able to work better together across sectors; to discern that which is inevitable about our current conditions, and must simply be weathered or adapted to, from that which could be open to change by focussed attention, policy intervention or pragmatic effort.

Business Storm

Understanding the Storm

On the most recent official figures available (2009/10), there were 64,000 charities (half of all charities) in England that focus on children, young people and/or families as their main beneficiaries, and a further 21,000 'civil society' organisations (eg voluntary associations and social enterprises, not constituted as charities). The breadth and diversity of specialism and scale within the sector is particularly striking. While some more well-known charities are regional or national in their reach, with multi-million pound turnovers and a range of different service specialisms, 96% operate only in their locality, 56% employ no paid staff, and 53% have an annual turnover of less than £10,000¹.

Voluntary and community sector organisations are businesses. They may not be private companies or make a profit for shareholders but, just like any other business, they need to balance the books at the end of the year (or at least have sufficient reserves to cover any short term losses). They have certain basic required inputs and processes in order to be able to do what they do, not all of which cost money – time, skills, enthusiasm, cooperation and generosity are just as important to how voluntary organisations achieve their impact - but very few operate without any cashflow at all. They too need to be 'entrepreneurial' - to be ingenious and creative in making as much as they can from whatever they have - especially in the face of adverse and unpredictable conditions, and the changing lives and needs among their beneficiaries. Like any business, income from statutory bodies, trusts and foundations, social enterprise, individual giving and investments must broadly match staff costs, volunteer expenses, activity costs, rent, utility bills and professional fees. If one income stream reduces then another must increase to fill the gap or the organisation will have to reduce the service it delivers. Similarly, if an outgoing rises then the charity will either need to reduce other expenses or lift one of its income sources. In favourable economic conditions, voluntary and community groups may have to manage significant changes to a handful, at most, of their inputs and outgoings simultaneously. Unfortunately, the United Kingdom is, by some measures, experiencing the worst economic crisis of the last hundred years. This financial tsunami can potentially affect every single one of an organisation's incomes and expenditure streams concurrently, making navigation to calmer waters a much more challenging task.

The voluntary and community sector business model can be imagined as comprising of four quadrants - see Figure 1 below. Horizontally, the diagram is split with capital on the left hand and revenue and expenses on the right hand side. Capital represents the core strength of an organisation, that on which it must rely, to be able to go out and offer its services at all, and ranges from its premises and any investments, to its volunteer trustees. Revenue and expenses consist of the cash (or cash equivalent) income that an organisation requires to run its projects through any given period. Vertically, the diagram is split with

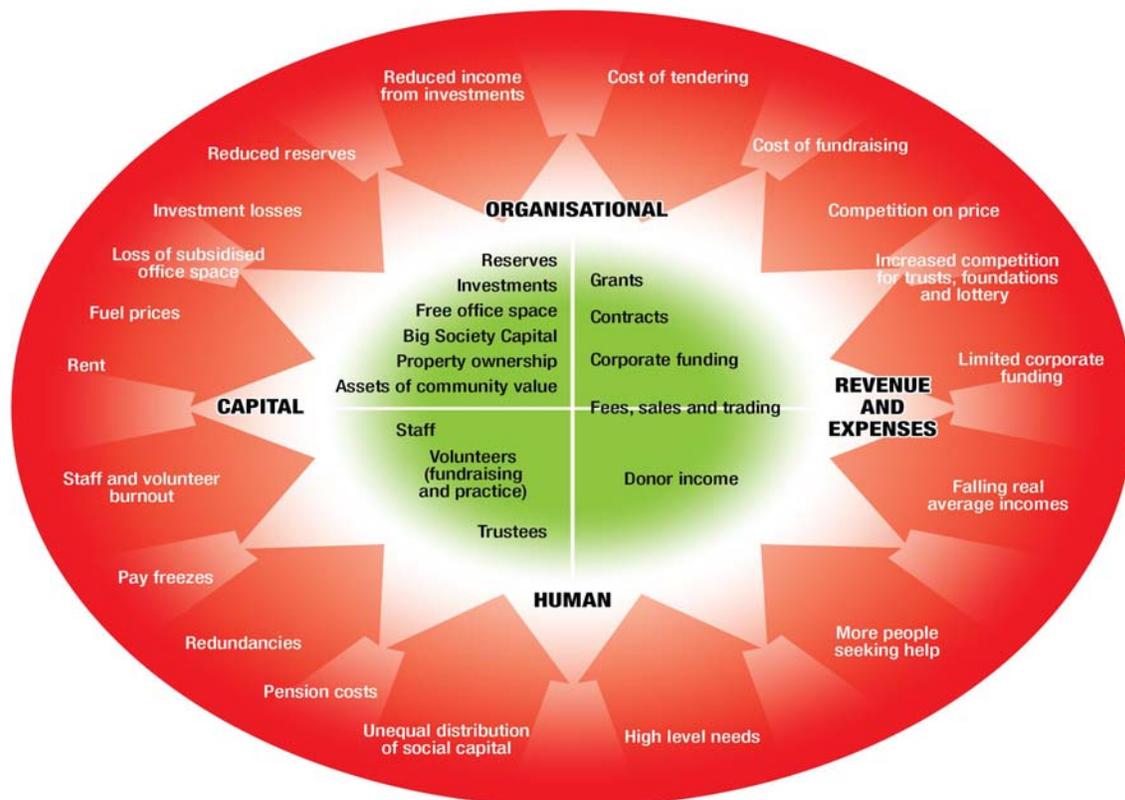
¹ NCB, *Beyond the Cuts*

organisational issues at the top and human dimensions at the bottom. Each quadrant (organisational capital, organisational revenue and expenses, human revenue and expenses, human capital) of the voluntary sector business model contains factors that can single-handedly strengthen or weaken an organisation. Our interviews across the sector have found that the economic crisis and resulting austerity measures have generally reduced those elements that bolster charities, whilst increasing those that buffet them, creating a business storm.

The voluntary sector is, of course, enormously diverse, and each organisation will have its own balance of the factors detailed in this business model. For example some may have high volunteer reliance to deliver their practice, low cashflow, own no property and rely on donor income; others may be quite the inverse, relying heavily on contracts and high levels of paid staffing, and many more will represent a wide mixture in between. While not all organisations will be affected by every wind, rain or blizzard, each will, in some way, be feeling the impact of the severe weather and seeking shelter from the storm.

In the remainder of this chapter, we look at the evolving picture for each quadrant of the VCS business model, combining research and statistics from a wide range of recent published sources with evidence gathered from our interviews.

Figure 1:



Organisational Revenue and Expenses

Voluntary and community sector revenue from statutory sources, national lottery distributors, trusts, foundations and the private sector equalled around £20bn in 2009/10², almost 55% of the sector's total income. However, the flow from each of these income streams has slowed since the global financial crisis began in 2007, with many looking likely to stay stagnant or reduce further in the medium term.

The financial crisis greatly expanded the size of the UK's budget deficit. Central to the Coalition's purpose is George Osborne's plan to eliminate this deficit by 2015/16. The Government has decided that spending reductions rather than tax rises should be the principal method through which the deficit is tamed, necessitating deep cuts throughout the public sector. Unfortunately, the children, young people and families voluntary sector has been more reliant on statutory funding than the charitable sector as a whole, receiving an additional 14% of its income from such sources (52% for the children sector, compared with 38% of all VCS organisations overall)³.

It has been cautiously estimated that the children, young people and families voluntary and community sector will lose a total of almost £405m in statutory funding between 2011/12 and 2015/16. The lion's share of this cut, £324m, will come from local government, upon whom children's charitable organisations are more reliant than the wider sector (they receive 70% compared to 55% of their total statutory funding from local sources)⁴. Local government also faces a significantly tighter funding squeeze than central government over the coming years, with real income dropping by 25% between 2011/12 and 2014/15. This additional reliance on statutory funding likely explains why local infrastructure organisations consistently report children and young people's charities as being hit hardest by cuts⁵.

Although children's charitable organisations receive proportionally less from trusts, foundations, the private sector and social enterprise than the wider voluntary and community sector, reductions in these sources cannot be lightly dismissed. The grants from trusts and foundations to the charitable sector totalled around £2.1bn in 2009/10. Although this is an increase on the previous few years, it is still £250m below the amount provided in 2005/06. Similarly, voluntary income from the private sector dropped by over £500m between 2007/08 and 2009/10, while earned income from this source reduced by over £50m in the same period and by almost £350m since 06/07 (though income from the corporate sector constituted only 1% of the children's charity sector's total turnover in 2009/10). Finally, earned income through charities' trading subsidiaries has also seen a precipitous drop, falling by around £1.9bn or 77% since 2003/04.⁶

² NCVO, *The UK Civil Society Almanac 2012*

³ NCVO and the Charity Commission

⁴ NCB, *Beyond the Cuts*

⁵ <http://www.navca.org.uk/news/view-article/navca-publishes-local-funding-report>

⁶ NCVO, *The UK Civil Society Almanac 2012*

While revenues have decreased, it appears that the costs of generating revenue have increased; children's charities must now *pay* more to get less. As bureaucracy and competition for securing most sources of revenue funding have noticeably increased, the expense borne by organisations of applying for, winning and then delivering contracts and grants has gradually built. Nowhere is this more apparent than in public sector commissioning where the cost of competition, principally in staff time, is crippling some organisations, particularly those too small to employ dedicated bid writing teams or contract managers, where senior service managers and project supervisors are being pulled away from focussing on front line delivery to meet funder demands. More complicated contracts or those with large TUPE transfer responsibilities may also require charities to spend dwindling reserves on legal and actuarial advice.

The bureaucratic burden of commissioning and procurement is compounded by the increasing variety of commissioning processes, funding mechanisms and lengths of contract. The lack of standardisation across and within authorities, even at the PQQ stage, means that charities must usually rewrite basic information about their organisation every time they bid. Similarly, with contracts usually a maximum of three years in length, though often only one, charities must regularly rebid for work they are already delivering, and manage complex interactions and timelines between multiple different contracts and income sources. As a business, it is almost impossible to recover service investments in such short periods. The development of new contract models further increases the risk that organisations may not recoup the time and money invested in bidding for contracts, even if they are successful. This has occurred under both the prime contractor model of the Work Programme (where the limited number of referrals to sub-contractors has been well documented⁷) and the framework contract model. In both cases, successful organisations are added to the list of potential providers, and commit to their availability for work if it comes their way, but get no guarantee of funding. This places enormous pressure on both their organisational and human capital.

In addition to the cost of competing in the commissioning process itself, voluntary and community sector organisations are increasingly being asked by public authorities to subsidise services they are being contracted for. This move away from the full cost recovery model poses significant challenges for the voluntary and community sector. Firstly, it is likely to further disadvantage smaller charities with weaker balance sheets. Secondly, there is an ethical question about whether charities should be asked to subsidise public services. Indeed, some organisations will be explicitly prohibited from doing so by their governing documents. Thirdly, such a prohibition applies to many trusts and foundations, making it very difficult for voluntary and community groups to secure match funding from other

⁷See these two articles for examples <http://www.thirdsector.co.uk/Finance/article/1129261/charity-Work-Programme-subcontractors-have-no-client-referrals> and http://www.thirdsector.co.uk/bulletin/third_sector_daily_bulletin/article/1132472/action-blind-people-spent-73000-staff-time-work-programme/?DCMP=EMC-CONThirdSectorDaily

sources. The seemingly widespread abandonment of full cost recovery is symptomatic of the broad pressure exerted by competitive tendering to drive down prices. A combination of financial desperation and serious worries about rising need across their beneficiary group is leading charities to take on these contracts even when they are unsustainable for them on the contract value alone, in the hope that they will be able find additional funding elsewhere to balance the books.

In fact, securing any funding from other sources appears to be increasingly difficult. This is not just the product of a reduction in the amount available but also of significantly increased competition for these limited resources. As many organisations' existing funding streams have dried up, voluntary and community groups have looked for alternative sources. More applications mean more time and money spent applying, as well as often re-orientating their actual work to meet the interests and priorities of new funders. Whereas in the past a charity might have been content to survive on a historically stable local authority grant, impending statutory cuts necessitate applying to other funders such as trusts, foundations and the national lottery. Indeed, the example of the Big Lottery Fund (BLF) is instructive. Whereas in 2009/10 the Fund received 28,000 applications, requesting £1bn in total, in 2010/11 they received 31,000 applications for nearly £3bn. Of these, only 14,296 awards worth £374m were made⁸. Given that deep local authority cuts only began in April 2011, it is likely the figures for 2011/12 will show another upsurge in applications.

Anecdotal evidence suggests that the experience of the BLF is shared by many trusts and foundations. Some have been forced to tell those that they already support that their funding will not be renewed due to the flood of applications, whilst others have narrowed their target audience or will now only support projects with outcomes that can be easily and reliably measured. This greater emphasis on monitoring and measurement, which can be seen from all funders, is another additional expense and demand for human skills and capacity that community groups are struggling to afford and one which is rarely invested in specifically by the funders demanding it.

Human Revenue and Expenses

Voluntary and community sector revenue from individual donors, including legacies income, totalled £14.35bn in 2009/10. This is broadly flat since 2006/07 when aggregate income from individuals was £14.02bn⁹. It is unclear yet what the trend has been in the last two years though given the stubbornly high unemployment figures and the fall in real average incomes (to their lowest since 2005¹⁰) due to high inflation and low wage growth, it seems

⁸ Big Lottery Fund, *Annual Report 2010/11*

⁹ NCVO, *Civil Society Almanac 2012*

¹⁰ http://www.ons.gov.uk/ons/dcp171766_274507.pdf

unlikely that funding from individuals will have risen sufficiently to fill the gaps left by other sources. Indeed, it is just as probable that it reduced.

Additional fundraising problems face particular voluntary and community groups. Most of the sector focuses its resources on the poorest areas and those in the greatest need. For small, local groups, without a regional or national fundraising base that extends beyond these deprived areas, it can be extremely difficult to secure income from the people in their community who are most likely to know and support their work. Such areas are likely to be experiencing the highest levels of unemployment, the greatest impact of the benefit cuts and therefore the most dramatic reductions in living standards and disposable cash. For those charities who already charge fees for some or all of their services (which may range from nominal weekly contributions to participate in a sports team or youth activity for example, to graded charging structures that subsidise free services for the poorest), even a small price increase might have a negative effect on total fee income, and risk driving away the very people that the organisation aims to support.

While the revenue challenges in this aspect of the business model are undoubtedly significant, far more problematic are the pressures on expenditure. For most commercial businesses a growth in demand for their product is generally a welcome thing, both as a reflection of the reputation and worth placed on it by customers, and as a basis for being able to grow supply, and potentially to secure economies of scale that can increase profit margins. While there can of course be practical challenges for some commercial businesses expanding their capacity to meet increased demand, new custom *automatically* brings with it additional sales and increased income that can be garnered (and carefully projected) to cover the costs of expanding operations. The children, young people and families charitable sector's client group, however, are very rarely paying customers, and generally access services for free or at substantially reduced prices from that which a commercial pricing model would require. Increased service demand may firstly be something about which to be genuinely concerned (both as a society and as a business manager), rather than to celebrate, as it may be less a positive reflection on the quality and value of what the agency has to offer, and more an indication of increased problems being experienced by children and families who want some kind of help. Meeting increased demand for what a charity has to offer, at the same quality of service that has been offered to date, will require higher revenue, additional staff (as well as team restructuring to manage expanded staffing and service caseloads safely) and may also require larger or additional premises. But in the voluntary and community sector business model none of these can be planned and calculated on the basis of there being any increased income at all flowing from increased service user demand.

As many voluntary sector organisations who have gone down the road of considering loan finance know already, attempts at projecting any future income-generating benefits that might be gained from investing in the expansion of capacity in the present is very far from being a straightforward calculation. More commonly, the phenomenon of increased demand

means facing the dilemmas of turning away some people in need, creating waiting lists, or stretching and squeezing existing capacity more thinly for all. For the majority of organisations we interviewed, this presents one of the most ethically fraught business dilemmas for them at the current time.

Increased demand, both in numbers and higher levels of need, for the services of the children, young people and families voluntary and community sector has indeed been a widely reported feature of the economic downturn. As the economy moved into recession, many parents lost their jobs and a variety of familial and social problems, such as family debt and child poverty, homelessness, domestic violence, neglect and substance misuse have become an even more acute concern for more families. This direct additional demand for help has also been exacerbated, for those voluntary sector organisations still left operating in a community, by the 'transfer effect' caused by the withdrawal of some statutory services and the closure of other local charitable projects, as their previous service users look for somewhere else they can receive some equivalent kind of support. Children's charities are also being asked by commissioners to do more for less, for example, extending the numbers and age range of those that they work with on the same or reduced value contracts. This interagency pressure cycle is covered in more detail in the Locality Storm chapter.

Human Capital

In many ways the human capital of any organisation in any sector is its most important asset. In the voluntary sector it undoubtedly is. Staff and volunteers are the brain, soul and face of a charity; setting its strategic direction, managing budgets, raising money and creating the essential human relationships through which they support their service users. The sector is perhaps at its most distinctive from all other types of organisations in the fact that every one, however big its turnover or how 'commercially businesslike' it may appear in its operations, must be led and governed by trustees - volunteers to whom the charity's assets and future are entrusted. Trustees must by law have no paid role or other personal financial interest in the charity, and they sign up to a binding personal responsibility to ensure that its work and resources will be focussed on achieving its mission. At a practice level, in many cases service users are more likely to know that they are supported by 'Rebecca' or 'Max' than by charity A or voluntary group B. Yet, the very same qualities that draw people towards the charitable sector in the first place – humanity, social mission, dedication, passion and a 'can-do' attitude whatever the circumstances - can also disguise the strain that is being placed on staff and volunteers. The voluntary and community sector relies on a substantial and sustained, but nonetheless finite amount of human capital, built up over many years. The current pressures risk, quite literally, exhausting this supply.

The loss of human capital can be seen most clearly in the charitable sector's staffing numbers. In the third quarter of 2011, the UK voluntary sector employed 723,000 people, a fall of 70,000 or 8.7% compared to the third quarter of 2010. Given that the first deep cuts in

statutory funding occurred in April 2011 this is not wholly surprising. What is perhaps surprising is that over the same period public sector employment only fell by 4.3% whilst private sector employment actually rose by 1.5%¹¹. Since then the voluntary sector has recovered somewhat and now employs 779,000 people, a fall of 2% since Q3 2010¹².

It is a similar story regarding pay. Whilst median gross hourly pay in the voluntary sector dropped by almost 3% between Q3 2010 and Q3 2011, both the private and public sectors saw pay increases over this period¹³. Even the most dedicated staff will find it hard to stay in post if their wages are falling while inflation is high.

While wages may be falling, other staff costs remain extremely high, particularly pensions. In 2009/10 the voluntary and community sector made contributions worth £570.5m towards staff pensions¹⁴. However, these costs are set to rise. From October 2012, the provisions of the Pensions Act 2008 will begin to come into force. This created a new private pensions system under which employers will have a duty to automatically enrol eligible workers between the ages of 22 and State Pension Age into a qualifying workplace pension scheme. These schemes must have a minimum contribution rate of 8% of qualifying earnings, of which the employer is required to contribute 3%. All employers will be required to have such a scheme in place by October 2018. With the majority of larger charities already making pension contributions of 3% or more, the greatest financial impact (including both the contribution and associated administrative costs) will be felt by the thousands of smaller voluntary and community groups that currently provide no pension to their staff.

For those organisations contracted to deliver local statutory services, TUPE obligations can also entail significant additional pension costs, particularly when taking on local government staff. In such cases, TUPE requires the new charity employers to either become an admitted body in the Local Government Pension Scheme (LGPS) or give transferred staff access to a broadly comparable scheme. As the LGPS is a generous, defined benefit scheme, employers must contribute an average of 13.6%; almost double the UK employer average of 7.7%¹⁵. This can represent a considerable financial burden for voluntary and community sector organisations, very few of which offer such generous terms.

This strain can also be seen in volunteering figures. Whilst levels of formal volunteering roles have remained virtually unchanged over the last decade, informal volunteering appears to have been hit by the financial crisis. Levels that had remained steady since 2003 dropped significantly between 2008/09 and 2009/10 with 13% less people volunteering at least once a year and 5% less people volunteering at least once a month¹⁶. These figures also mask the

¹¹ <http://www.ncvo-vol.org.uk/news/people-hr-employment/charity-workforce-shrinks-nearly-9>

¹² <http://www.ncvo-vol.org.uk/news/people-hr-employment/tentative-rise-voluntary-sector-employment>

¹³ <http://www.ncvo-vol.org.uk/news/people-hr-employment/charity-workforce-shrinks-nearly-9>

¹⁴ NCVO, *Civil Society Almanac 2012*

¹⁵ <http://www.ft.com/cms/s/0/3fdc1d76-2746-11e1-b7ec-00144feabdc0.html#axzz21Xnyu0d3>

¹⁶ http://www.ncvo-vol.org.uk/sites/default/files/participation_trends_facts_figures.pdf

fact that social capital is not evenly spread throughout communities. Those living in the disadvantaged areas in which charities focus their resources are less likely to have the capacity, access or time to volunteer than those living in wealthier areas. Combined with the policies of localism and fiscal retrenchment, this represents a serious threat to the Government's Big Society vision¹⁷.

Those staff and volunteers who have remained engaged with their organisations are now under more pressure with less support. As noted above, both the number and needs of those seeking help have increased since the financial crisis began. Staff and even volunteers whose focus has traditionally been on early intervention are being asked to run targeted and crisis services, often without the training and support to respond confidently to more serious problems. Making staff and volunteers carry out tasks that they are not properly trained for will inevitably lead to increased stress, reduced confidence and a further erosion of human capital. The demands of an increased workload and reduced staff numbers have been exacerbated by the paucity of workforce development funding. Local authorities and infrastructure bodies have both had to cancel training sessions or raise their fees, pushing the costs of training onto frontline organisations already struggling financially (45% of local infrastructure bodies have reported making their development worker redundant¹⁸). It is therefore not surprising that morale in voluntary sector organisations is falling. Whereas in 2011, 43% of staff reported that morale at their charity was high, by 2012 this had fallen to just 29%¹⁹.

Burnout and recruitment and retention problems have also been reported amongst trustees, with the economic pressure of the last few years taking its toll. The responsibility of steering any charity through such difficult times is undoubtedly taken very seriously – so seriously that many fear they do not, or no longer, have adequate skills or time to do it well. It appears from many contributors to our research that it is becoming increasingly difficult to replace skilled trustees, particularly those with specialist finance skills. The loss of board expertise will weaken voluntary and community sector organisations' strategic planning processes and their ability to weather the continuing business storm.

Organisational Capital

The value of the voluntary and community sector's net total assets dropped by over £20bn between 07/08 and 08/09. This includes a 23% fall in the value of the sector's investments, the majority of which are held in equities, with sizeable amounts also in trusts and investment funds, securities and property. Although some of these losses have been reversed as the economy has recovered, charities are still significantly poorer than before

¹⁷ nef, *Cutting It: Big Society and the New Austerity*

¹⁸ <http://www.navca.org.uk/news/view-article/navca-publishes-local-funding-report>

¹⁹ <http://www.thirdsector.co.uk/news/1138900/Charity-Pulse-Mood-sector-hits-new-low-workforce-survey-finds/>

the crash. This includes the value of the sector's reserves which fell by £12.7bn between 07/08 and 08/09 from £50.1bn to £37.4bn.

As the value of capital dropped, so did the income that the sector received from it. Income from dividends fell by almost £900m between 2007/08 and 2009/10, around 40%. Similarly, interest on deposits plummeted by more than 50% between 2008/09 and 2009/10²⁰ as the Bank of England base rate fell from a high of 5.75% in July 2007 to hit a record low of only 0.5% in March 2009. With the economy still in the doldrums and inflation starting to fall, it seems unlikely that the base rate will be upped significantly in the short to medium term.

Those not owning their own property have generally fared better in the rental market. Although London has seen rental increases over the past few years, the economic downturn has generally depressed commercial rental costs, at least for those not trapped in long term contracts²¹. The news has been less promising for those organisations that pay peppercorn or reduced rents. Local authority landlords in particular have sought to raise the income from their voluntary and community sector tenants as part of public sector austerity measures. Others have even been evicted as councils either redesignate the offices for other purposes (in one case a building was taken over by a new Free School) or sell them off in advance of the Assets of Community Value provisions coming into force.

This power, created by the Localism and Decentralisation Act, will become enforceable after the passing of secondary legislation this summer. However, even once assets are added to the lists, there are serious questions about the capacity of the voluntary and community sector, particularly small, local groups, to take advantage of it. As noted above, the assets and reserves of the sector have been severely depleted by the financial crisis and many organisations are struggling just to stay afloat, never mind purchase new buildings. Where charities do not have sufficient money on hand to buy, it is unclear whether the six month window will provide enough fundraising time.

For both renters and owners alike, the costs of heating, lighting and powering premises has risen relentlessly over the past few years. The combination of increased global demand, declining UK output and reliance on international suppliers, political instability in energy-producing regions and UK and EU policies to curb carbon emissions mean that voluntary and community sector organisations, like the rest of the country, will continue to face higher monthly bills for the foreseeable future. Many charities are also now also being hit with new local business rate bills. Although there is a mandatory national business rate relief of 80% for voluntary and community groups, local authorities have discretion over a further 20% reduction. It appears that many councils are now reviewing this additional relief, given their own income generation drivers, with some scrapping it altogether.

²⁰ NCVO, *Civil Society Almanac 2012*

²¹ http://www.rics.org/site/download_feed.aspx?fileID=11118&fileExtension=PDF

The Timing Squall

Further complicating the business storm is a timing squall consisting of the variety of funding cycles and their timings. For voluntary and community sector organisations there are a dizzying number of funding streams relevant to the work they do. In addition to thousands of grant making trusts and foundations, all with their own timescales for application periods and lengths of funding deals offered, dozens of government departments, scores of local authorities and PCTs (though soon these will be replaced by even more clinical commissioning groups), and hundreds of schools also offer grants and tender for contracts, each on entirely their own timescales and terms again. Whereas some funders may only require an application letter, others will embark on commissioning rounds that can take months or even years. Similarly, some grants and contracts will last only a few months, whereas others can run for five or more years.

The difficulty of managing such overlapping schedules is made even more challenging by the short notice that is often given by funders, particularly those from the statutory sector. Organisations must give staff a minimum of three months redundancy notice, but many voluntary and community organisations are not finding out if funding will be renewed until weeks before the end of their contracts. In some cases, charities are being awarded several months' extensions in order to give the commissioning authorities sufficient time to make a long term decision. Many voluntary sector staff have found themselves effectively under permanent risk of redundancy notices for a year or longer. This constant cycle of short term contracts and even shorter extensions can make it very hard to retain talented staff. For any organisation with multiple existing or potential future funders, and a high quality service to offer, there can be a genuine risk that they may find themselves unable to keep their doors open, not because no-one *would* fund them, but because the funding cycles and opportunities don't come at the right time to meet their cashflow demands, or because key staff cannot take the personal risk of waiting, leaving vacancies that cannot be re-filled without future funding certainty.

Case Studies

Case Study One

This medium sized national charity provides advocacy, legal representation, information and advice to vulnerable children, young people and adults using both paid staff and volunteers. Local authorities have a statutory duty to provide advocacy services for children and young people and as such around 99% of this charity's funding comes from statutory sources; roughly 75% from local government and 25% from central government. However, despite this statutory duty, the charity has seen the allocation for core funding reduced in all of their contracts (which also include no inflationary uplifts and often ask for added value). Between 2010/11 and 2011/12 funding from local government was reduced by 23% with funding

from national government reducing by 4%; an overall cut of 19% in revenue from statutory sources.

As a result of these cuts they have lost 15 paid staff (more than 10% of their January 2010 staff total) and 19 volunteer posts (over 5% of their January 2010 volunteer total). Other cost saving measures include reducing the salaries of their advocates and providing less money for activities with children and young people.

Commissioning has placed an additional pressure on staff time. Previously, the assistant chief executive was responsible for writing bids. However, the increased paperwork and competition for statutory contracts has forced the charity to employ three fulltime fundraisers. In total, around 12 members of staff now spend over 900 working days a year on applications. The money spent on this cannot be recovered through the contracts such efforts secure.

Despite the overall funding reduction of 19% the charity has actually seen an identically large increase in the number of service users seeking support or being referred to it; 3482 in 2010 and 4135 in 2011. A number of trends have stood out. A significant proportion of the increase has come from children and young people who are in need seeking advocacy, children and young people raising safeguarding concerns, and homeless young people whose local authorities are ignoring the Southwark Judgement (a ruling that obliges children's services to provide accommodation and support to homeless 16- and 17-year-olds). All such needs fall squarely within the statutory rights that the agency is contracted to meet but their resources to meet them are substantially reduced.

Case Study Two

This medium sized local youth charity operates in an urban area providing direct services to young people and infrastructure support to other voluntary and community sector groups. Their services include both universal provision such as sports, art and health as well as more targeted projects dealing with mental health issues, disabilities and those not in education, employment or training (NEETs).

In 2009/10 the organisation had an income of over £3m. By 2011/12, their income had dropped by more than £1m, mostly due to cuts to local authority contracts and grants. Further funding reductions have come as a result of increased competition. The charity previously received funding from the Skills Funding Agency to deliver a project for NEETS. All of the project's targets were met with three months to spare. However, when they reapplied for the money, they were beaten by their local council. The authority had not previously applied to this funding stream but had experienced deep cuts to its central government funding settlement. Despite previous success, four applications to the Big Lottery Fund were also turned down.

As a result of the funding squeeze the charity has lost more than 30 staff and is now supporting 2,500 less young people. At the same time, demand for their services is increasing, not least due to the withdrawal of some statutory youth services and young people looking to them instead.

Locality Storm

Understanding the Storm

The business storm in the previous chapter is principally focussed on looking at what it takes for individual organisations to operate successfully in the current economic environment, and the challenges faced in doing so. In the children and young people's sector, however, no voluntary sector organisation succeeds or fails in its objectives on its own, however healthy its business operations. Meeting the needs of vulnerable children, young people and families requires the effective operation and coordination of many different organisations across all sectors. The charity offering home support to a family where a parent is seriously ill, for example, cannot achieve real, improved outcomes for them without the vital health services provided to address the illness or a cooperative and understanding school. While public bodies and the voluntary and community sector can spend substantial amounts of time interacting as funders, contractors, partners and competitors, their principal link is the people they support. Changes in one part of the system will be felt by other providers through the effects that they have on these service users.

This chapter looks at the systemic storms across interdependent services within localities – their staffing and employment, their service availability and capacity, referrals and thresholds – and their impacts on, and changes in, service user needs and outcomes. The big storm is made up of a number of smaller 'swirling' storms, each one like a vortex, spinning separately but feeding into each other, increasing the intensity of the storm with each rotation.

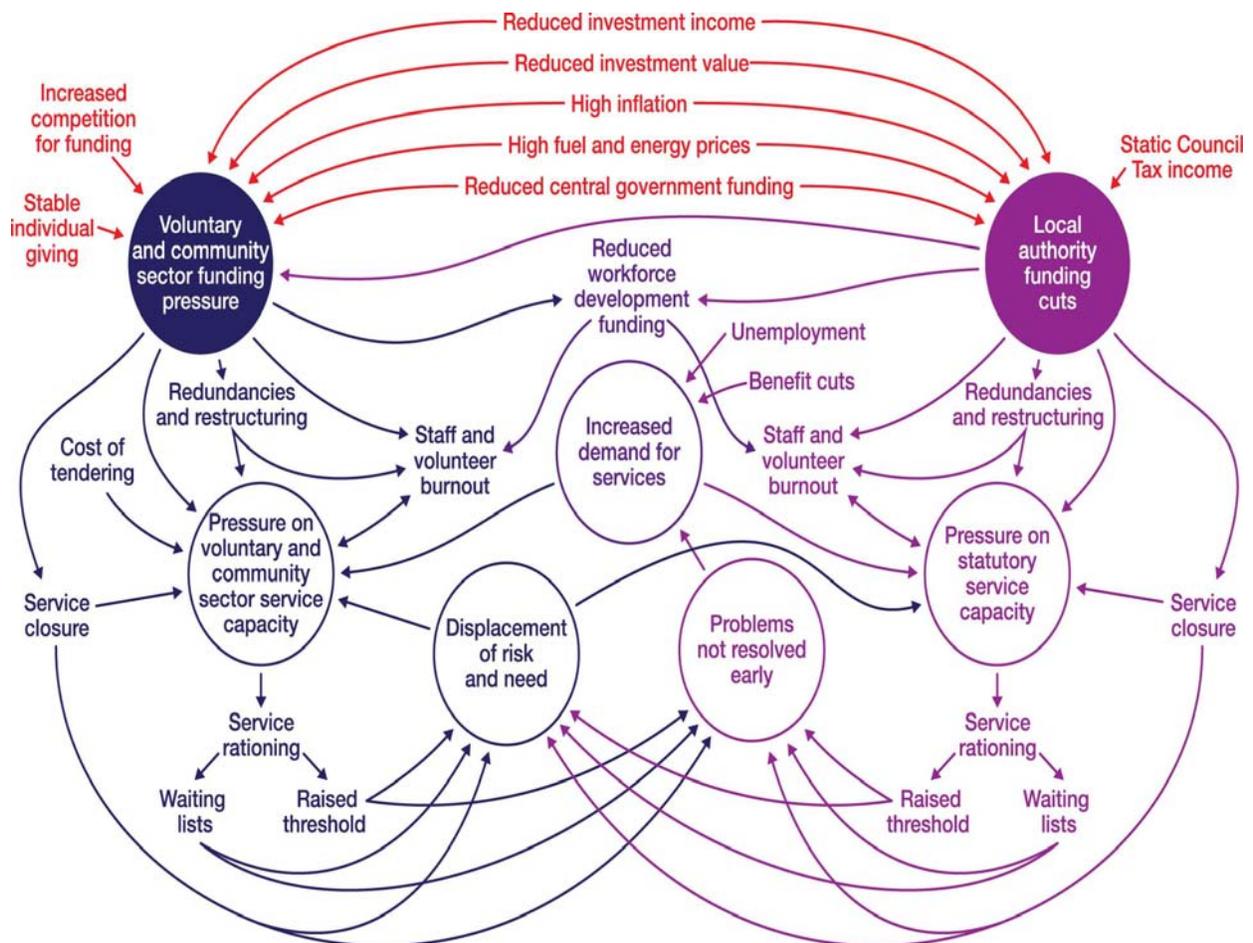
As this chapter is focussing on the delivery of social care services to children, young people and families, a role dominated by the public and charitable sectors, the private sector has not been included in our diagram. However, this is not to deny its influence in the wider storm. At a national and international level, a major collapse within the banking sector was the precursor to the sovereign debt crisis and the subsequent need for cuts. The direct cost of bailing out banks added to the indirect cost of unemployment benefits and reduced income from taxes exacerbated the UK's budget deficit, exploded our national debt and heralded a decade of austerity. The private sector also plays a major direct role in families lives, from the products, services and utilities they buy and prices they must pay, to the livelihoods of so many millions of families that rely on private sector employment and growth. In this way, the distinctive challenges and storms facing the private sector economy feed profoundly into the conditions affecting families, increased demand for VCS services and the reduced budgets of charity and statutory providers.

It is also true that private sector providers play an important role in the delivery of some services for children, young people and families, particularly in sectors such as childcare and children's residential care. Insofar as they are often commercial competitors for the same public sector contracts as those being sought from within the voluntary sector, the challenges facing them in that public sector marketplace are very similar (although their

individual business models may look very different), and many share with charities the pressures to ‘do more for less’ with reduced income from the state, upward cost and downward pricing pressures, displaced risk and demand from wider agency impacts, and limited capacity to be able to deliver early support.

Just as the local private and voluntary sectors’ storms are similar, so too is the statutory sector vortex. As the diagram shows, the two storm patterns largely mirror each other, and feed into each other. Each, on its own, will ratchet up the human costs of the ‘loop’; adding expense, reducing provision and worsening outcomes. Together, they combine to hasten the process, speeding each other up. As such, they are best considered together, starting with the key financial drivers in the storm (in red), moving onto the pressure points and consequential service adjustments, before finishing on the outcomes and the dynamic relationship between the two.

Figure 2:



Storm Inputs

The contributory factors to the voluntary and community sector funding squeeze were set out in detail in the Business Storm chapter. Whilst individual giving has remained static, the financial crisis reduced returns from investments, social enterprise income has fallen and the public sector funding cuts have increased competition for the grants made by trusts, foundations and the national lottery. At the same time, inflation has remained stubbornly high and utility bills have skyrocketed.

As noted above, the principal drivers for public sector austerity are the drop in tax receipts, rise in unemployment benefits and the need to re-capitalise large swathes of the UK finance industry. UK Government revenue from tax and national insurance fell from £516bn in 2007/08 to £478bn in 2009/10, a fall of 7% (though it has since recovered)²². Over the same period, public expenditure on social security benefits and tax credits increased from £160bn to £192bn, a rise of 20%²³. Whereas in 2007/08, social protection expenditure accounted for 13.2% of GDP, by 2009/10 this had risen to 16%²⁴. During this time, UK Government support for the banks peaked at £1,162bn and stood at £456bn or 31% of GDP as of March 2011. Of this, £124bn was in the form of share purchases or loans, which required a cash transfer from the Government to the banks²⁵.

At a more local level, the Spending Review stated that the central government grant to councils would be reduced by 25% in real terms by 2014/15. However, research suggests that the real scale of the cut will depend on the locality, with the most deprived authorities seeing far deeper funding reductions due to the axe falling most heavily on previous funding streams that focussed support on the poorest. For example, whilst Liverpool, which is ranked first on the Index of Multiple Deprivation (IMD), saw an 11.34% decrease in spending power in-year to 2011/12, Wokingham, which is ranked 353, only saw a decrease of 0.65%²⁶.

Other local statutory providers have been spared the worst of cuts. Schools funding will increase in cash terms (a small real terms reduction), while the spending review set out a real terms increase for the NHS. However, these provisional budgets have both been adversely affected by higher than forecast inflation. They, like local authorities, have also been hit by increased costs, specifically due to issues such as rising pupil numbers (which are projected to increase from 6.95m in 2010 to 7.45m in 2018²⁷) and an ageing population, but more generally due to the price of utilities and petrol. For those located in large, old buildings or with sizeable transport requirements, these cost pressures are proving to be quite considerable.

²² http://www.hm-treasury.gov.uk/psf_statistics.htm

²³ http://www.hm-treasury.gov.uk/d/budgeting_tables_april2012.xls

²⁴ http://www.hm-treasury.gov.uk/d/expenditure_services_tables_april2012.xls

²⁵ http://www.nao.org.uk/publications/1012/hmt_accounts_2010-2011.aspx

²⁶ Joseph Rowntree Foundation, *Serving deprived communities in a recession*

²⁷ <http://media.education.gov.uk/assets/files/xls/osr152010txls.xls>

Pressurised Services

There are common factors pressurising both statutory and voluntary and community sector services, the most important of which is funding reductions. As noted above, local authorities have been asked to make significantly deeper cuts than central government. However, at a local level, it appears that services for children, young people and families have been asked to bear a disproportionately high share of this burden. Whereas funding for adult social care was projected to fall by less than 2% in 2011/12 and overall local government spending fell by around 10% in the same period, spending on children's social care may have dropped by around a quarter²⁸. While savings needn't automatically translate to frontline service reductions, the scale of the cuts that local authorities and charities have to implement and the short time scale in which they have to do so limits the proportion of the reductions that can be met through efficiency savings. Restructuring services and departments can reduce costs in the medium to long term but usually entails an upfront cost of managing the change process. As such, cuts to frontline services have had to be made through redundancies, changes to service scope or both.

Redundancies have hit local government particularly hard. Between Q4 of 2010 and Q1 of 2012 (the last quarter for which figures are available), local government lost 240,000 employees or over 8% of its workforce. By contrast, central government lost around 1%. Indeed, between Q3 of 2011 and Q1 of 2012 central government actually gained 2,000 staff²⁹. The loss of some staff will also increase the pressure on those who remain in post, leading to increased workloads and longer hours. The potential for staff exhaustion has been added to further by the fall in funding available for staff training. The latest report from the Chartered Institute of Personnel and Development found that between 2011 and 2012 the median training budget for 'non-profit' sector organisations fell from £349 per employee to £298 whilst funding in the public sector almost halved, dropping from £311 per employee to £167³⁰. Some of this cut has been passed on to the voluntary and community sector in the form of reduced access to local authorities' free or subsidised training.

In addition to managing reduced budgets, remaining services will be put under further pressure by the withdrawal of other services altogether, transferring financial responsibility and/or demand. As an example of the first instance, a council decision to scrap parent involvement/support staff may force each local school to employ their own or lead to an increased workload for social work teams. In the second case, the closure of one youth club is likely to increase the demand for any other similar projects still operating in the area and for community policing as groups of young people become more visible on the street.

Indeed, increased demand plays a crucial role in this storm. In the first cycle of the tempests, additional need for services was largely a product of the economic climate. Unemployment

²⁸ http://www.nspcc.org.uk/Inform/research/findings/smart_cuts_pdf_wdf85752.pdf

²⁹ <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-248981>

³⁰ <http://www.cipd.co.uk/binaries/5688%20LTD%20SR%20report%20WEB.pdf>

rose, initially due to redundancies in the private sector but augmented more recently by layoffs from the public and charitable sectors. Between December 2007, when 1.61m people in the UK were unemployed, and February 2012, more than one million additional people lost their jobs, a 65% increase³¹. Given that many of those who lost their jobs had no savings or were in debt, it is not surprising that an increasing number turned to charities and the state for support. The NSPCC has reported that calls to its neglect helpline doubled between 2009/10 and 2011/12³² and there has been a marked increase in the number of children in need, rising from 694,000 in 2009/10 to 736,400 in 2010/11. There has also been a 1.5% rise in the number of referrals to children's social care services and an 8% increase in the number of children subject to a child protection plan over the same period³³. Similarly, the number of looked after children grew by 2% over 2010/11, rising by 9% since 2007³⁴.

While simplistic assumptions of causality should certainly not be ascribed to the drivers for these increases in demand for statutory children's services, these issues are likely to be exacerbated by the continued austerity programme, particularly as it appears that the most vulnerable individuals are likely to see the biggest fall in their living standards. In 2007, the Cabinet Office used the Families and Children Study dataset to identify families at risk. Those who met five or more out of seven vulnerability measures³⁵ were considered to be at risk. A recent analysis³⁶ of the tax, benefit and spending changes, 2010-2015, has found that cuts will fall disproportionately on the most vulnerable. Whereas those exhibiting none of the vulnerabilities will lose around 4% of their income due to tax and benefit reforms, those with five or more of the vulnerabilities will see their income drop by 8%. Similarly, these families also face 'in-kind' public service cuts worth between £1,000 and £2,400 on average per year by 2015. As a result, it is predicted that the number of children living in families with five or more vulnerabilities will increase from 311,000 to 365,000 by 2015, a rise of 17%. More widely, by 2015 there will be:

- More than 115,000 more children living in families with four or more vulnerabilities
- 120,000 more workless families
- 25,000 more families with a mother suffering from depression
- 100,000 more families living on a low income (below 60% median income)

³¹ <http://www.bbc.co.uk/news/10604117>

³² http://www.nspcc.org.uk/news-and-views/media-centre/press-releases/2012/12-06-11-neglect-theme-launch/child-neglect-crisis_wdn89914.html

³³ <http://www.education.gov.uk/rsgateway/DB/STR/d001025/osr18-2011.pdf>

³⁴ <http://www.education.gov.uk/rsgateway/DB/SFR/s001026/sfr21-2011.pdf>

³⁵ 1) Worklessness – no parent in the family is in work; 2) Housing – the family lives in poor quality/or overcrowded housing; 3) Qualifications – no parent in the family has any academic or vocational qualifications; 4) Mental health – the mother has mental health problems; 5) Illness/disability – at least one parent has a limiting long-standing illness, disability or infirmity; 6) Low income – the family has low income (below 60% of the median); 7) Material deprivation – the family cannot afford a number of food and clothing items.

³⁶ Action for Children, The Children's Society and NSPCC, *In the eye of the storm: Britain's forgotten children and families*

- 25,000 more families in material deprivation
- 40,000 more families living in poor quality or overcrowded housing

With reduced funding and additional demands, service providers are left with limited options. In the short term, staff and volunteers may be able to work additional hours and days, filling the gap created by redundancies and demand. In the medium term, both statutory and voluntary and community sector organisations will need to start or increase the rationing of their services through raised thresholds, longer waiting lists or both. Although all charities focus their efforts on particular client groups or areas, this is the first time that many have had to turn away those in need. Waiting lists in particular are not traditionally widespread across the sector.

Service Outcomes

As noted in the introduction to this chapter, the principal links between public bodies and the voluntary and community sector are the people they support. As such, the services that children, young people and families receive or do not receive from one provider will indirectly impact on the requirements placed on other providers. It is therefore in the central section of the multi-system diagram where the two tempests come together.

The rationing and withdrawal of services by both the statutory and voluntary and community sectors has two key effects: risk and need are displaced to other parts of the system and services focus more on targeted and crisis support at the expense of early intervention.

When projects are closed and the services that remain open are inaccessible on demand due to raised thresholds or long waiting lists, the individuals who would otherwise have used them do not disappear. Rather, they are directed or find their own way to other parts of the system. The increased numbers of those seeking support flow through the system, starting at the top but eventually reaching everything downstream, overwhelming those parts that do not have the capacity to manage the deluge. If the strongest dams at the top of the system, those designed to deal with the most severe problems, are lowered or removed then need will pour towards structures and services not designed to manage such intensity of caseloads. In this way, our stakeholders are widely reporting that children, young people and families with high level needs are being referred to statutory or voluntary and community sector services that traditionally have only provided level one and two support and referral, further pressurising them and increasing the need for rationing.

Such rationing, by reducing the time and money spent on early intervention services, may be storing up further trouble for the future. Local authorities in particular have limited room for manoeuvre. Whilst most recognise the long term cost efficiency of early intervention services, the weight of statutory duties forces them to spend a greater proportion of reduced budgets on crisis support, which is usually more expensive per person, and for

which demand is increasing. And although they receive the Early Intervention Grant, it is an unringfenced funding stream that is worth considerably less than the combined total of the various funding streams that it replaced. As a result, non-statutory services such as children's centres, play, youth clubs and community-based CAMHS, all of which can be highly effective in identifying and resolving problems before they escalate, have been cut deeply or even completely in some areas. While the voluntary and community sector is free of comparable legal duties to prioritise those in crisis, most charities will still generally consider themselves to have a moral duty to support those who present to them in the greatest need. Many interviewees for this report told us that they are now significantly constrained, if not completely unable, to offer what they would consider preventative support from their services any more.

Some of the 'low level' issues that statutory and charitable services are now less able to support people to deal with will nonetheless resolve themselves as the family's life circumstances change, and often with support from their personal networks of family and friends, while others will stay fairly constant, and become 'endured'. The problem, both in terms of human experience and systemically, is that for many families these needs for a little help will escalate. What might have been resolved with a weekly visit from a volunteer for a few months, may, if left without any intervention at all, eventually result in a serious family crisis requiring input from multiple agencies over many years. It has been estimated that a 10% increase in the number of children on the threshold of being in need will lead to an additional 22,500 children in need, 4,500 looked after children and £258m of protection service costs³⁷. And so the storm grows, each vortex feeding itself and its neighbour with no natural valve in place to reduce the intensity.

Case Studies

Case Study Three

This former district council became a unitary authority as part of wider reforms. Although its Early Intervention Grant actually increased between 2011/12 and 2012/13, the council is implementing significant cuts to early intervention services over the next few years. These funding reductions have had a significant impact on voluntary and community groups providing preventative services.

Charity A is a local family support services provider which delivers the majority of its support through volunteers. This organisation had an excellent relationship with the old county council and has received local statutory funding for a number of years. Traditionally working with those aged 0-5, the charity was asked by the local authority to also work with those

³⁷ http://www.nspcc.org.uk/Inform/research/findings/smart_cuts_pdf_wdf85752.pdf

aged 6-19 for the 2011/12 financial year but with no additional resources. This funding was reduced by 20% for 2012/13 while funding for 2013/14 is currently uncertain but unlikely.

Charity B supports 200 young people a year through 14 volunteer counsellors that each work for two hours per week. Historically they have received around 50% of their funding from the local authority but their last contract finished at the end of March 2011. They submitted over 30 applications to trusts and foundations but were unable to secure support. The charity was kept afloat by a small contract with a local GP commissioning group, though their capacity has been reduced.

Charity C is the local branch of a national charity and works with around 160 local childminders. They monitor, support and train childminders in the area, making sure that they meet the standard for the EYFS. Although the standard of childminding in the area is currently very high, and none are rated as inadequate, the charity has been told that from April 2013 its funding will be cut by either 55% or 100%. In either case, the charity will not be able to support its activities and will have to close its project in this area. Without infrastructure support, the quality of childminding in the area will inevitably fall (as has happened in other local authority areas where the charity no longer has a project), with knock on impacts on local children, parents, and other services.

Charity D was a small local family support organisation that previously had an annual turnover of over £1m. This comprised three roughly equal contracts with the local authority; one to provide children's centre services, one to run hostel services and one to deliver intensive family support. Ahead of the 2011/12 financial year, the charity successfully bid for the intensive family support services (as a subcontracted partner of a two organisation consortia) and children centre contracts, but lost its hostel services funding to a large national charity. The implementation of the new funding for intensive family support services was delayed due to a challenge made by a private sector organisation from whom the local authority had previously spot purchased such services. The organisation argued that this arrangement represented a regular contract and requested that some of its staff be TUPE'd to the new partnership. As a result, the local authority temporarily rolled over the previous contract (which was worth considerably more than the new contract) but had still not resolved the situation by the end of the first quarter of the new contract. At this point, the local authority's finance department declared that rolling over the contract in this way had led to too high a spend, relative to the value of the new contract. Deeming this an unsustainable position from which to deliver the remainder of year one it issued the charity with a 28 day notice to cancel the new contract. Having lost two contracts and over two thirds of its funding, the charity made a decision to cease activities and move towards closure, transferring its children's centre contract to another provider.

Similarly, other key voluntary and community sector early intervention services in the authority area, including those dealing with substance misuse and providing specialist services to schools have seen their funding significantly reduced.

While services have been cut, demand has started to increase. Local charities report rising levels of family stress, depression, homelessness, domestic violence and substance misuse. The local authority's intensive family care services are at maximum capacity and it has been forced to raise thresholds for support. At the same time, dedicated charitable sector support for children, young people and families with higher level needs was lost with the cancellation of Charity D's contract. As a result voluntary and community groups, including those run principally by volunteers, have to deal with increasingly serious cases whose needs are no longer able to be met by the reduced specialist capacity. The manager of Charity A stated that they "are no longer a preventative service".

Similarly, the restriction of some voluntary and community sector services is placing additional demand on others. Charity B has seen a surge in both the needs and numbers of those seeking its support. In part, this is because it is one of only two free counselling services for young people in the area. Before receiving a limited amount of funding, the other provider had implemented charges of nearly £40 an hour due to funding cuts, this led those who could not afford it to present to Charity B for help.

Local charities report being extremely thinly spread in meeting the needs of their caseloads. Management capacity in particular is overstretched due to the time required to complete funding applications to trusts and foundations. Some frontline staff have also reported that they are increasingly under skilled for the kinds and complexity of needs they are encountering. As noted above, service users with progressively higher needs are being referred to the voluntary and community sector yet workforce development training in the area has been cut heavily. Although there has been a surge in the number of those seeking volunteering opportunities, including large numbers of people who are unemployed, there is very limited staff capacity to capitalise on this enthusiasm safely, by inducting, training and supporting them to help.

A breakdown in communication appears central to the cycle of decline that this local authority finds itself in. Redundancies and restructuring within the local authority have created uncertainty about who holds responsibility for engaging with the voluntary and community sector and has led to key strategic partnerships meetings being cancelled. Some of those that do take place no longer have a representative of the sector in attendance. In part this is due to the local authority's decision to cut by half the funding it provided to the local children, young people and families voluntary and community sector coordinator.

A number of local charities commented that the reduction in the coordinator's capacity had significantly reduced communication between the local authority and voluntary and community sector, making it far harder for the council to cut strategically and with care. Without input from local charities to help determine need and local capacity, cuts to key services have been made at extremely short notice and with limited performance data or risk assessment. Charity B was told that its funding would be cut completely less than three months before the end of its contract while Charity A found out that it was in line to be cut

by reading the local newspaper. In both cases, the local authority had failed to carry out a review of the services or assess the impact of reducing funding.

The depth of the cuts and also the manner in which they have been implemented have created a huge amount of mistrust between the voluntary and community sector and the local authority. Respondents were uniformly pessimistic about the future of both their organisations and the children, young people and families that they support.

Case Study Four

This rural county council is jointly run by two political parties, both of which have placed the voluntary and community sector at the heart of their plans for children's services. In advance of making any cuts, the local authority carried out an extensive consultation process with local residents. The local public called for support for the most vulnerable to be protected and council spending now reflects this. The local authority has also given voluntary and community sector leaders in the area the chance to comment on budget proposals at an early stage. However, despite this engagement and the principled decision to cut its own services more deeply than those of voluntary and community groups, the local authority has still had to reduce funding for the sector.

Charity A is the local branch of a large national children's charity which runs 11 children's centres in the area. Up until April 2011 they also had a £150,000 a year Family Intervention Project (FIP) that worked with those aged 0-19. When the local authority cut the funding for the FIP, they also asked Charity A to extend the age range of its children's centres from 0-5 to 0-19, though funding for these was also reduced. As a result, they receive significant numbers of new referrals for those aged 6-19 but without additional resources to support them. In total, including the closure of a disability programme, the local authority has cut Charity A's funding by around £300,000 a year.

Charity B is also a large national charity. It runs 14 children's centres in the county as well as services such as childcare, breakfast clubs and parenting classes. Like Charity A, they have lost funding for FIPs and short breaks, while their children's centres now support those aged 0-19. Overall, their funding has been cut by around 10% by the council and they are now required to deliver more.

Charity C is a medium sized local charity. It has a contract with the local authority to run four children's centres, which account for around two thirds of its income. As with Charities A and B, it has had to expand the age range that it works with. However, its funding has stayed roughly flat, principally because the children's centres that it runs are in some of the most deprived areas of the county where the local authority has sought to limit the impact of cuts.

Charity D is medium sized local youth charity. As part of a consortium of 32 organisations it is in a management partnership to hold the contract for delivering all youth services in the area. This contract, which started in April 2012, combines previously separate contracts for general youth work, PAYP and specialist services such as drug, alcohol and sexual health support, though is worth around £0.5m less overall than the total value of all previously separate contracts rolled into it. This reduction is on top of in-contract cuts of over 25% that this charity had to make in the last 18 months of its previous three year contract (also as part of a consortium). The local authority only issued one youth contract and only deals with the lead partner so as to reduce its commissioning management costs. However, many of the considerable costs associated with managing and monitoring such a large consortium have been passed onto the consortium itself. Although some money in the contract was set aside for this, it is not sufficient, reducing the money available for frontline projects.

These cuts have had a knock on impact on other, smaller, non-commissioned voluntary and community groups in the area. Charity B had a service level agreement with a local family support charity that was cancelled due to funding reductions. The assistant director of Charity B made the point that if he has a choice about whether to use £100,000 to retain four of his staff in post or to make them redundant and sub-contract out £100,000 worth of services to another organisation then it's a "no brainer". Charity A has also had to reduce the number of crèche places that it buys from a local charitable childcare provider due to the cuts, impacting in turn on that charity's sustainability.

In this authority too, cuts to statutory services have led to increased demand for those provided by the voluntary and community sector. The loss of education welfare officers has been particularly keenly felt. These staff worked to resolve issues of poor attendance, liaising with schools, pupils, parents, social services, connexions and health professionals to provide family support. Many of these families are now being referred to the children's centres instead although some (but not all) schools have employed their own education welfare officers. Reduced capacity in schools and social services has also led to an increase in the number of referrals that Charity D receives from school nurses, particularly for those with issues related to mental health and self-harming.

Welfare reforms have also taken their toll on the area. Charity C is the strategic lead for child poverty across the county. In the last six months they have seen a big increase in the number of families under financial pressure, often due to benefit cuts, suspensions or changes in eligibility. Many children, young people and families are going hungry with demand on local foodbanks reported as going up 'exponentially'.

Additional demand has come as a result of the council's social services raising their child protection referral thresholds. Due to its reduced budget, Charity A has also been forced to raise its thresholds. As a result, they are no longer able to focus on early intervention, with an increasing proportion of their resources being directed towards crisis support. Charity C has also prioritised those with higher tariff cases. It is still able to support those with lower level needs but is taking much longer to reach them and is considering introducing waiting

lists. Similarly, Charity B has been forced to introduce waiting lists for the first time. The assistant director of the charity highlighted the difficulty of meeting the demands of both the local authority and Ofsted. While the local authority (principally its operational managers rather than its commissioners) are asking for a greater focus on targeted support, Ofsted is still basing its judgement of their service on the delivery of the full range of Sure Start services universally. This has led to a slight dip in inspection results, though this has been manageable due to the good relationship that the charity has with the local authority, and their understanding of the pressures faced.

Voluntary and community sector groups in the area have sought creative ways to manage the cuts by exploring more integrated working with other local providers. Charity C has taken over the staff and work of a smaller charity that it had hosted in one of its buildings, with the chair of the smaller charity joining Charity C's board. Families from Charity A are also bussed to one of the children's centres run by Charity C for parenting programmes. However, the rurality of the area means that transporting people in this way can be relatively expensive. More generally, the cost of transport means that Charity A can't use a hub and spoke model or focus specific resources and support in certain children's centres, as such a model would make it impossible for some eligible families to access them.

Local authority redundancies have also had an impact on voluntary and community sector monitoring as there are no longer sufficient staff to manage a comprehensive regime. Whilst on the one hand this is a welcome lifting of the reporting burden on charities, over time it could lead to a reduction in service quality, or at least in the evidence gathering to show value and impact for their spending decisions.

Given these significant challenges, these charities were relatively sanguine about the future and were noticeably far better positioned to work together to find the best feasible ways forward through adversity than those in the previous case study area. In particular, the three charities running children's centres felt that they knew they had political support for their work, understood the rationale and basis for the decision-making that the authority had been through, had good relationships with local authority officers and that the council's community hub strategy was the right one.

The similarities and differences between these two case studies illustrate some of the limits on the power of policy makers to positively intervene to resolve problems for the voluntary and community sector and the children, young people and families that they support. Even in areas with well run, engaged local authorities, funding pressures are inevitable and charities cannot be completely protected from damaging cuts. Yet, within these constraints, there is still considerable space for constructive action, particularly with regard to budgeting and commissioning processes. The final chapter looks at these in more detail.

Conclusions

The voluntary and community sector business and locality storms are part of the wider economic and societal disturbance in this extremely tempestuous time. Charities must operate in an environment heavily determined by local and national government bodies who themselves are at the mercy of global forces. When a Greek exit from the Eurozone or a change of the US President could dramatically alter the UK economy in highly unpredictable ways it is difficult to say with certainty that singular, isolated policy suggestions will categorically help calm the storms for the voluntary and community sector or children, young people and families.

Throughout our interviews with voluntary and community sector and statutory bodies, it should be emphasised that there was a high degree of realism and honesty in acknowledging that some of the challenges they face currently are:

- a) *Inevitable*. In the sense of the sector sharing in society's wider economic impacts, and suffering from factors beyond any pinpointed policy control at local level, some globally rooted and beyond even national policy control (e.g. asset value losses)
- b) *Unintentional*. There was little sense that participants in our interviews believed that public authorities were acting wilfully or recklessly to pass their pressures onto the sector. Indeed many of our public sector interviewees expressed serious concern about the plight of their local voluntary sector, and their frustrations and sense of powerlessness to ameliorate the risks and pressures on them through the tools available. It is in the nature of these storms that impacts from any single point of decision-making in the system will then combine with forces beyond their immediate 'line of sight', direct responsibility or awareness, to create unintended and exponential impact on frontline organisations, sometimes several stages along the 'food chain'
- c) *Deep-rooted and pre-dating the economic downturn*. The general trend of decline in public authority grant-giving and the increasing costs and bureaucracy for organisations to compete in commissioning and procurement have been emerging and well-documented phenomena in the children and young people's charity sector for over a decade. The financial austerity and increased emphasis on even greater levels of public sector commissioning have served only to heighten and sharpen the pressures that were already there. Similarly, there are areas of child and family services, and challenges in interagency working, where all sectors involved would willingly acknowledge long term failures to deliver the highest quality services and outcomes for children, even in times of relatively high investment – such as looked after children and residential care

Children England is quite aware that the scale and complexity of the storms described in this report raise some intimidating realities and dilemmas, but we certainly do not present them deliberately to generate either panic or gloom. On the contrary, we believe that there is currently a vital window of opportunity to stimulate honest dialogue across the voluntary, private and public sectors, aimed at stimulating the kind of paradigm shifts in thinking about re-shaping the service sector for children, young people and families; about the distinct economic value of the voluntary and community sector; and to discern those factors which genuinely constitute inevitable pressures at this time – for which protective or adaptive strategies and contingency plans might be developed but which cannot be prevented – and those factors and pressure points which may be genuinely amenable to change by direct policy intervention, procedural changes or funding interventions. Indeed this will be a potentially vital exercise in collectively focussing our human and financial resources where they can have a real impact.

At a time when everyone, in all sectors of the economy, feels so hurried, stretched and pressurised just to keep delivering on ‘the day job’, it is perhaps even more vital that we stop to reflect on the big picture and seek, in the famous words of St Francis of Assisi: *‘to find the courage to change the things we can change, the grace to accept the things we can’t change, and the wisdom to know the difference’*. We want this report to be the beginning, and the stimulus, of that frank, creative, cross-sector dialogue.

With so many contributory factors, there is no neat list of solutions that can be quickly implemented to resolve these issues. However, while some of the fundamentals may be realistically beyond the control of our sector leaders, civil servants and politicians, much can be done domestically and practically to mitigate the organisational and human toll of these storms. As noted in the introduction, we believe that systemic failures account for many of the difficulties currently faced by children, young people and families. Systemic problems require systemic solutions. Therefore, rather than focussing on individual policy areas, the following sections are overarching ‘zones’ for inquiry. They are by no means comprehensive and are offered as the start of a dialogue rather than the end of the conversation. We present them briefly here as questions, but hope to engage in more detailed dialogue and policy development with stakeholders and decision-makers over coming months.

All thoughts, comments, criticisms and suggestions are very welcome and should be sent to nick@childrenengland.org.uk.

Children and Families’ Needs and Vulnerabilities

The impact of the recession and subsequent austerity measures on children, young people and families play a central role in the issues described in this report. First and foremost, the human cost has been severe. Whether through work or personal acquaintance, all those working in the children, young people and families voluntary sector will know of individuals whose quality of life has deteriorated significantly over the last few years. Unfortunately,

with the UK in the worst double-dip recession of the last 50 years³⁸ and the Office of Budget Responsibility suggesting that the country may be facing decades of austerity³⁹, the situation is likely to get worse, at least in the short to medium term. Secondly, as needs change and vulnerabilities worsen, demand for support will inevitably increase. As shown in the Locality Storm chapter, this increased demand pressurises voluntary and statutory services and can lead to service rationing, the displacement of risk and a reduction of early intervention services.

Questions:

- Is this a fair representation of the issue? Does it chime with your experience?
- Can this issue be solved? If so, how? If not, how can it be better weathered?
- Do you have examples of attempts to solve these problems? Were they successful? How could they be improved?
- How can the voluntary and community sector ensure that the safeguarding needs of vulnerable children, young people and families are met?

The Role of the Voluntary and Community Sector

Perfect Storms looks in some detail at the contribution made by public sector contracts to the voluntary and community sector business model, some of the problems associated with commissioning and the interaction between local charitable and statutory sector services. However, implicit in this report (and discussed explicitly across civil society and amongst policy makers) is the question of whether such a close relationship is necessarily a good thing.

It is clearly important that voluntary and statutory sectors work closely together to improve commissioning, if they are to deliver greater efficiency in spending scarcer public resources. It is not enough, however, to focus exclusively on the challenges of public sector contracts. Although charities have been providing vital help for people in need for millennia, public sector contracting of the voluntary and community organisations only started to become mainstream in the mid-1980s. Indeed, it is only in the last ten years that the value of statutory contracts won by the sector has really boomed, growing from £4.3bn in 2000/01 to £10.9bn in 2009/10, a rise of 157%⁴⁰. For many VCS organisations, whether publicly contracted or not, the sector has become consumed in the drive towards, and pressures of, the competitive tendering marketplace.

But perhaps *the* most distinctive social and economic contribution that the VCS can offer in these difficult times is that of the more 'traditional' independent charitable model - acting as

³⁸ <http://www.guardian.co.uk/business/2012/jul/25/gdp-figures-recession-50-years>

³⁹ <http://cdn.budgetresponsibility.independent.gov.uk/FSR2012WEB.pdf>

⁴⁰ NCVO, *Civil Society Almanac 2012*

independent voices and representatives of the most vulnerable in their communities, and operating independently from the state, generating income, jobs and capacity through fundraising, volunteering, gifts and trading. In other words, the sector's unique capacity to complement, rather than compete for, public services.

Questions:

- What is unique about the voluntary and community sector?
- How is it different from the public and private sectors?
- What are the conditions needed for the charitable business model to thrive?
- In what ways should the voluntary and community sector seek to learn from, and become more like other sectors?
- Does voluntary and community sector reliance on statutory funds limit their independent voice?

Finance and Risk

The Business Storm analysis shows the combined impact of the volume, types and methods of funding and other financial pressures on voluntary and community sector organisations. Right across the public sector a plethora of old, new and highly experimental ways of public funds potentially reaching the voluntary and community sector are being liberally deployed (e.g. personal budgets, vouchers, framework contracts, payment-by-results, 'social' loan finance, 'Merlin' supply chains), alongside a general increased preference for competitive tendering and decreased appetite for grant-making. Each of these different 'models' or mechanisms for channelling public money into the sector effectively casts the role of public spending, and particularly of local authorities, at completely different 'points' and functions within the cycles of business and market development. In some cases these roles are contradictory at worst, confusing at best – for example, in the combining of PBR projects and personalised budgets for family services in the same local area. The marketplace is clearly here to stay, but we need a frank and clear discussion about whether (and when) the state is most appropriately a customer, shopper, wholesaler, broker or investor, in those marketplaces.

There is also a question about the impact of contracted statutory funding of any sort on the ability of voluntary and community sector organisations to secure additional funds. As noted in the Business Storm chapter, trusts and foundations are often reluctant to subsidise statutory services through the provision of match funding.

Risk was a term widely raised as not just a practical but very strategic concern in the current storms. Whether it is in the bearing of financial and organisational risks of 'failure' (e.g. in PBR and Work Programme contracting), the transferring of liabilities and costs (e.g. in TUPE calculations and organisational training costs) or the rapidly shifting responsibilities for managing and meeting needs and risks among vulnerable children for many voluntary and

community sector organisations, there was a clear sense that a much more systemic view was required. It is recognised and welcomed, across the sector, that the Government has identified risk aversion and over-controlling bureaucracy as major blockages, as well as wastes of resources. We need to have a frank discussion, wider than that heralded by the Munro Review (and greatly welcomed), about what it means across all services, sectors and types of funding relationships, to acknowledge the impossibility of eradicating all risk, and the appropriate agreement and sharing of risks.

Questions:

- Is this a fair representation of the issues? Does it chime with your experience?
- Can the public sector market place be rationalised? If so, how? If not, how can it be better weathered?
- Do you have examples of attempts to solve this problem? Were they successful? How could they be improved?
- Is it acceptable for statutory contracts to require match funding?
- Should the voluntary and community sector be subsidising public services?
- How can risk be shared more proportionately between voluntary and statutory sector partners
- Do you have examples of attempts to solve this problem? Were they successful? How could they be improved?

Reconfiguration and Localisation of Public Services

As noted in the Timing Squall, the plethora of public bodies can make the task of managing statutory contracts rather challenging. Similarly, coordinating charity and statutory service delivery is complicated by disconnected public sector budgets, teams and agencies. In a country as large, complex and developed as the England it is to a certain extent inevitable that the arms of the state will be extremely numerous. However, the Coalition's public service reforms have actually further fragmented an already disjointed system.

Whether as a result of coalition politics or merely the difficulty of coordinating government action over such a wide range of policy areas, recent public service reforms have been quite inconsistent. In particular, the Coalition has failed to develop or implement a consistent logical framework regarding which powers should be exercised at which level. Local authorities in particular have been both empowered and emasculated depending on the policy area, e.g. trusted to run public health services but seen as an impediment to school improvement. Similarly, it is unclear why citizens should directly elect Police and Crime Commissioners but not Health and Wellbeing Commissioners or Education and Learning Commissioners.

With such a confusing patchwork of elected officials and public agencies at various levels with overlapping constituencies, mandates and responsibilities, determining accountability and ensuring effective communication will be difficult, particularly in the transition period.

Questions:

- Is this a fair representation of the issues?
- How would you seek to rationalise public service planning, delivery and decision making?
- On the basis that rationalisation will take a number of years, how can this situation be better weathered in the meantime?

Workforce

Both in terms of the number of redundancies and pay levels the voluntary and community sector workforce is currently suffering more than those in the public and private sectors. At the same time, training budgets have been cut, demand is up and talented staff can be difficult to retain due to short term funding. Human capital, whether paid or unpaid, is fundamental to the success of charities but there is a risk that the finite supply of this vital resource will be exhausted by the challenges of the current environment.

Questions:

- Is this a fair representation of the issues? Does it chime with your experience?
- How can voluntary and community sector redundancies be minimised?
- How can the voluntary community sector better protect training budgets?
- How can the voluntary and community sector better retain key staff?
- Do you have examples of attempts to solve these problems? Were they successful? How could they be improved?

Appendix – Potential Policy Recommendations

The list of potential policy recommendations below includes Children England’s thoughts and suggestions as well as those of individuals spoken to in the course of interviewees and roundtable discussions about this report. It is included in the hope that the ideas contained will stimulate readers and start a conversation about how best to overcome some of the difficult issues raised in Perfect Storms.

Income

The Government, working closely with the voluntary and community sector, should take further steps to modernise, simplify and encourage take up of Gift Aid.

The Government should give statutory force to the expectations contained within its Best Value Statutory Guidance.

Public authorities should view grants as an important and creative investment mechanism for maximising the resources, capacity and added value that the voluntary and community sector can bring to the table.

The Government, business leaders and voluntary and community sector should work together to encourage and incentivise greater levels of voluntary giving, in cash and in kind, between companies and the not-for-profit sector.

Expenditure

Public authorities, charitable funders and social finance providers should ensure investment in workforce development is included as a quality indicator in the allocation of grant, investment and contract funding.

The Government should endorse and promote the LGA’s procurement pledge. The LGA should specify that local authority commissioners should, where possible issue three year contracts as a minimum and five year where possible with appropriate reviews built in; avoid framework contracts; and, only offer contracts on a full cost recovery basis - commissioners seeking match funding from providers should offer grants in such circumstances, rather than competitive contracts.

Voluntary and community sector organisations should adopt a more rigorous approach to choosing which commissioning opportunities to apply for, thinking carefully about which contracts they are most suited to and have the best opportunity of winning.

Timing

Central government should endeavour to finalise the local government finance settlement earlier in the year.

Early Intervention

The Government should seriously consider ringfencing the Early Intervention Grant at the earliest opportunity.

Central Government should develop an assessed view (perhaps most appropriately in partnership with the planned Early Intervention Foundation) of the optimum balance between public spending on universal and preventative services for children, young people and families on the one hand, and targeted/crisis interventions on the other, and create incentives for authorities to move towards achieving this.

Children England is the leading membership organisation for the children, young people and families' voluntary sector and the Department for Education's overarching strategic partner. With member organisations working in all parts of the country ranging from small local groups to the largest household names in children's charities, Children England is in a unique position to use the collective voice of the voluntary sector to achieve positive change for children. Children England provides capacity building, support and information to its members and the wide range of voluntary sector organisations working with children, young people and families. It does this by building active networks, promoting good practice, stimulating policy debate and ensuring that the issues that matter most to its members are taken up with decision makers.

Children England is committed to working alongside its members in the creation of a society where children and young people are valued, protected and listened to, their rights are realised and their families supported.

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