The impact of the recession on Compact implementation

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The aim of this think piece is to inform policy-making and inform the wider debate about the impact of the recession on Compact implementation. It has used secondary evidence and made assumptions based on that. The ideas presented in this paper do not represent Commission for the Compact or Government policy.
The UK is currently in a recession\(^1\), which is going to have a significant impact on both third sector organisations (TSOs) and the government. This paper reviews some changes that are expected to take place due to the recession, and discusses the potential impact on the relationship between the two sectors and implementation of the Compact.

The paper is structured around eight key changes that have taken place (or are likely to take place) as a result of the recession. These are:

1. Reduced income for TSOs
2. Increased demand for services provided by TSOs
3. Increase in volunteering
4. Increased staff turnover in TSOs
5. Increased risks with funding linked to outcomes in the employment/skills sector
6. Real Help for Communities: Volunteers, Charities and Social Enterprises
7. Potential for new partnership working
8. Commitment to Local Compacts.

\(^1\) guardian.co.uk (Friday 23 January 2009) ‘Recession Britain: It’s official’
The impact of the recession on Compact implementation

Reduced income for TSOs

What changes can we expect?

TSOs are already experiencing drops in income, with 30 per cent of charities surveyed by Carol Goldstone Associates (CGA) in 2009 reporting this\(^2\). Causes include: a reduction in personal and corporate donations, a drop in the value of investments and property, less available match funding, an increase in costs to deliver services, funds lost in the Icelandic banking collapse, a reduction of available government funding to apply for, and cuts in existing government funding. The funding cuts are of particular interest here as there have already been occurrences of local authorities cutting existing funding to TSOs. One example of this is Forest of Dean District Council, which plans to cut its budget to the third sector by 10 per cent. It is likely that this is taking place in other areas, as nearly 80 per cent of respondents to a recent local authority survey reported that their authority has had to revise its overall budget position since the start of year planning\(^3\).

What are the potential effects on the Compact?

- There is a risk that local authorities and other parts of the government may disproportionately cut funding to TSOs before other services. This risk is discussed in a 2004 report which found that “central government departments appear to treat this kind of funding [to TSOs] as a more flexible or discretionary element, to be increased or decreased in response to economic exigencies…”\(^4\) The risk is an important one as 35 per cent of the sector’s income comes from statutory sources\(^5\).

- In the longer term, there may unfortunately be an increase in TSOs folding and leaving unfulfilled contracts with the government. Resulting problems are likely to be contractual rather than Compact issues, but an increase in enquiries Compact partners may occur. The need for the Compact principles of dialogue and discussion will become all the more important to implement.

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\(^3\) LGA (March 2009) Council leader survey on the impact of the economic downturn on local authorities’


\(^5\) NCVO, 2008 ‘The Credit Crunch and Civil Society Organisations – an NCVO briefing’
• There may be a risk in the supply chain for smaller TSOs (for example, if suppliers file for bankruptcy) which would make TSOs vulnerable when delivering public sector contracts.

• There is a risk that the government and/or local authorities may not meet Compact undertakings around funding as effectively during the recession, due to increased pressures of urgency. For example, Tonbridge and Malling Borough Council recently closed their £60,000 voluntary and community sector grant scheme after charities had begun applying and proposed cuts to local voluntary organisations in Birmingham were recently cancelled as a result of a successful challenge on procedural grounds. Beyond individual examples, there is no widespread evidence that this will happen more frequently. However the voluntary sector does seem to believe it is at risk.

• It is likely that there will be more mergers between TSOs: three per cent of respondents to the Charity Commission survey in 2009 said they have considered collaborating with another charity and three per cent have considered merging. The creation of newly merged TSOs could change established relationships between the government and the sector, particularly around how the sector responds to government consultations. For example, 11 social care groups have already joined forces to form the Care Providers Alliance, as a partnership specifically for lobbying purposes.

• Increased competition for government funding may have a negative effect on the independence of TSOs. One risk is that TSOs may feel less comfortable challenging government, for fear they may be less likely to receive much-needed government funding. Another risk is that with pressure to remain afloat, some TSOs may apply funding that is not relevant to their missions.

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6 Thirdsector.co.uk (12/02/09) ‘Local funding threatened as councils slash budgets
7 Thirdsector.co.uk (25/02/2009) ‘Editorial: Councils should think twice about the easy targets’
9 Thirdsector.co.uk (13/03/09) ‘Social care groups join forces’
Increased demand for services provided by TSOs

What changes can we expect?

A large number of TSOs are likely to see increased demand; 72 per cent of ACEVO members said in 2008 that they were already facing increased demands on their services\(^{10}\) and 80 per cent of voluntary and community groups in London\(^{11}\) have reported an inability to meet the demand for their services during the recession.

In addition, certain services are likely to be more in demand than others during a recession, including financial services, credit unions, Community Development Finance Institutions, housing, debt counselling, and employability or work related training services. There is also a changing demographic as to who is accessing services, with the Citizens Advice Bureaux reporting a surge in ‘white collar’ service users. An LGA survey of council leaders\(^{12}\) shows increases in demand for debt and welfare advice services, social housing and services for the unemployed or those at risk of unemployment.

What are the potential effects on the Compact?

- Increased demand is likely to lead to a squeeze on income for TSOs, and therefore the Compact issues here are similar to some of those described above in the reduced income section.

- Additionally, it is important to note that TSOs may not be affected uniformly by the recession, and therefore any issues in Compact implementation may become more common in certain subdivisions of the third sector where demand for services increases.

- The government may decide to increase funding to TSOs providing services that are in demand. Already one in ten local authority Chief Executives report being asked to give emergency grants to the sector\(^{13}\). In addition, funding local TSOs to provide services that are in demand could prove more popular in a recession, as it keep public funds invested within a local area in the form of local employment and investment\(^{14}\). However, time pressures may increase the risk that these funding relationships do not follow the Compact, although there is no evidence that this will be the case.

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\(^{10}\) ACEVO/CAF (14th September 2008) Survey to ACEVO members on the state of the economy and its effects on their organisation over the last twelve months

\(^{11}\) Thirdsector.co.uk 12/02/09 ‘London groups fear they cannot meet demand’

\(^{12}\) LGA (March 2009) ‘Council leader survey on the impact of the economic downturn on local authorities’

\(^{13}\) LGA Survey January 2009 cited in thirdsector.co.uk 12/02/09 ‘Local funding threatened as councils slash budgets’

\(^{14}\) London Voluntary Service Council (March 2009) ‘Big Squeeze Report’
Increase in volunteering

What changes can we expect?

TSOs are expecting more volunteers to come forward due to higher unemployment and an increase in a trend for employee volunteering\textsuperscript{15}. Organisations may also find managing volunteers more expensive due to increased costs for expenditure such as travel expenses and training. At the same time, the government and volunteering infrastructure organisations are promoting volunteering as a route to employment and a way to build social capital in communities. For example, the British Trust for Conservation Volunteers (BTCV) aims to help 50,000 people into employment over the next four years through volunteering and back to work programmes\textsuperscript{16} and the Department for Work and Pensions (DWP) recently announced a fund of £6.5m to provide volunteering opportunities for the long-term unemployed\textsuperscript{17}.

What are the potential effects on the Compact?

- Increased numbers of volunteers will be really positive for the Compact, which recognises and promotes the importance of volunteering.

- TSOs will need increased capacity to take on and manage higher numbers of volunteers\textsuperscript{18}, as volunteering is not cost free. This may put pressure on the government’s ability to meet its Compact commitment of ensuring funding is available to support volunteering through volunteering infrastructure and elements of funding bids.

- The Volunteering Code sets out four key principles of volunteering: choice (time freely given by an individual), diversity, mutual benefit and recognition. There are potential issues with the ‘choice’ element of volunteering as a result of proposals for linking volunteering to receipts of benefits and for ‘national service style’ volunteering. In addition, the recently announced proposals for youth aged 14-19 to commit to 50 hours of ‘compulsory volunteering’ would also appear to be at odds with the Compact.

\textsuperscript{15} NCVO, 2008 ‘Economic downturn and the voluntary and community sector: a short review of the evidence’

\textsuperscript{16} Thirdsector.co.uk 01/04/09 BCTV unveils back to work volunteering plans

\textsuperscript{17} Thirdsector.co.uk 09/04/09 Volunteering charities share £6.5m

\textsuperscript{18} NCVO, 2008 ‘Economic downturn and the voluntary and community sector: a short review of the evidence’
Increased staff turnover in TSOs

What changes can we expect?

It is expected that TSOs will be forced to make staff redundant due to lower levels of income. Nearly a third of respondents to an ACEVO/CAF\textsuperscript{19} survey in 2008 reported making staff redundancies, with over half (56 per cent) limiting staff pay increases.

What are the potential effects on the Compact?

- Staff turnover could lead to TSOs struggling to maintain their previous levels of quality. As the Compact undertakings for TSOs are focused around quality, it could be that implementation of these commitments falls.

- As the pool of labour increases due to unemployment, third sector organisations may find that salary costs are lower and there is more opportunity of recruiting higher skilled employees\textsuperscript{20}. This might improve quality and implementation of the Compact.

\textsuperscript{19} ACEVO/CAF (14th September 2008) Survey to ACEVO members on the state of the economy and its effects on their organisation over the last twelve months

\textsuperscript{20} NCVO, 2008 ‘The Credit Crunch and Civil Society Organisations – an NCVO briefing
Increased risks with funding linked to outcomes in the employment/skills sector

**What changes can we expect?**

Many TSOs are currently delivering public sector contracts in the employment and skills sector, where payments are linked to the achievement of outcome targets. An example outcome target would be the number of people who received training support and then secured a job. Research recently conducted for the Commission for the Compact\(^{21}\) found that some TSOs delivering contracts in this sector are worried about this. They feel there is a risk that they will not be able to meet employment related outcome targets in a climate where unemployment is rising, and that consequently they will not receive the originally anticipated payment for their provision.

**What are the potential effects on the Compact?**

This is a very complex issue for the Compact, as the Compact recommends outcome-focused funding as good practice, but also call for risks to be managed fairly. Implementing the Compact principles of dialogue and discussion is a potential way of addressing this problem; TSOs and government funders may be able to negotiate changes to outcome targets and payment terms.

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\(^{21}\) In Auriga Consultants (2009, not yet published). ‘The Compact and the Administration of European Structural Funds’
Real Help for Communities: Volunteers, Charities and Social Enterprises

What changes can we expect?

The Office of the Third Sector (OTS) has announced an action plan including £42.5 million of support for the third sector in the difficult economic climate\(^\text{22}\). This funding is to be disseminated from April 2009.

What are the potential effects on the Compact?

- The availability of this funding is an excellent example of partnership working between government and the third sector, in line with Compact principles.

- The dissemination of these funds must follow Compact principles. Due to the likely high demand for the funding, there is a risk that there may be difficulties ensuring the funding goes where it is needed and is allocated fairly.
Potential for new partnership working

What changes can we expect?

Some commentators have suggested that the recession is an opportunity for innovation in the third sector. Stephen Bubb, CEO of ACEVO,\textsuperscript{23} argues that partnerships between TSOs and government will be the key to moving from recession into recovery, and London Voluntary Service Council (LVSC) argue that in a recession there is “tremendous potential for constructive partnership work between the VCS and statutory partners”\textsuperscript{24}.

What are the potential effects on the Compact?

There is no evidence about this at present, but if it happened, such new forms of partnership working between the sectors would be fulfilling the Compact’s core principles of working together for mutual advantage and community gain. In fact, the Compact might be able to play a role in promoting and encouraging the development of such partnerships.

\textsuperscript{23} Stephen Bubb (2009). ‘At Tipping Point: the third sector leading from recession to recovery’

\textsuperscript{24} London Voluntary Service Council (March 2009) ‘Big Squeeze Report’
Commitment to Local Compacts

There is currently no published evidence about the effects of the recession on Local Compacts. This lack of direct evidence is not itself an issue as, in most cases, Local Compacts are not resourced, do not have dedicated staff or give grants to other organisations.

The effect on Local Compacts is instead likely to be under the radar such as a loss of a member of a Compact panel or implementation group due to other commitments, a loss of the availability of a resource or room for hire due to the need to make that room financially viable. These impacts are likely to go unreported to both Compact Voice and indeed the Commission for the Compact, with larger issues such as funding losses being at the forefront of organisational minds. However, the more specific effects on Local Compacts could be further researched using either a case study mechanism or web survey to elicit responses.