

# Welsh voluntary sector funding in the post-2010 austerity period

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## Abstract

The paper examines the funding of Welsh voluntary sector organisations (VSOs), in terms of income source and type, in the aftermath of the 2007-08 global economic crisis, seeking to explore marketisation trends. A detailed examination of voluntary sector income from 2010-11, at the beginning of the austerity period, to 2016-17, the financial year with the latest available figures, provides valuable insights to both academic and policy inquiry about VSOs and their financial resilience. Several works have examined the voluntary sector funding in the aftermath of the 2007-08 economic crisis (Osborne, 2012; Clifford, 2017). Osborne (2012) indicated that Scottish charities reacted positively to the effects of the recession, with Scottish Government funding increases compensating for the decline in voluntary donations. Clifford (2017) showed that English and Welsh charities' income had significantly declined from 2008 to 2014. This paper provides some insights into how VSOs might respond to the current economic conditions affecting the Welsh economy.

## Introduction: The marketisation of the third sector

VSOs are 'formal organisations having an institutionalised character, constitutionally independent of the State which are self-governing; non-profit distributing, and involve some degree of voluntarism' (Kendall, 2003: 21). The voluntary sector has seen a significant shift in many Western economies during recent decades, related to marketisation of charities, adopting funding means and practices of the private sector (McKay et al., 2015). Marketisation is the process of becoming 'more market driven, client driven, self-sufficient, commercial or business like' (Dart, 2004: 414).

Charities' marketisation has been accompanied by three significant changes. First, VSO reliance on commercial revenue has increased, including fees or contracts for services, sales of products, and income from products' endorsement (Dart, 2004). This

change is important since it could imply changes in the services provided by charities (Clifford and Mohan, 2016). The marketisation thesis refers to the substitution of grants and donations by commercial income, although in many countries, including the UK, this has been limited in the 2000s (McKay et al., 2015). Second, the marketisation of charities was accompanied by a shift from grant to contract funding in terms of government finance (Morison, 2000). This 'contract culture' could change the operation of those VSOs strongly dependent on government funding, with the State designing services and VSOs delivering them (McKay et al. 2015). Efforts to win contracts might imply a transition to semi-market organisations with business relationships for several charities. Third, the delivery of public services by the voluntary sector has significantly increased since the 1990s, in the wider context of the market-

orientated strategy in welfare provision (MacMillan, 2011).

The paper studies these marketisation trends through the lens of the Welsh voluntary sector. The paper first examines whether commercial revenue has increased, with substitution of grants and donations by commercial income. Second, it reveals to what extent state funding has shifted from grant to contract finance. Third, the paper investigates whether the provision of public services by VSOs has recently increased.

### **The Welsh voluntary sector**

The voluntary sector has an important position in socio-economic development and delivery of public services in Wales (Chaney, 2002). It has strong historical roots in the development of miners' welfare societies, chapel-based activities, and local medical aid societies, all operating based on volunteerism (Chaney, 2002).

The role of voluntary sector in Wales was enhanced in the aftermath of recent constitutional reform in the late-1990s. Margaret Thatcher's legacy of free markets initiated the privatisation of public services, with the subsequent decline of the Welfare State. Since the late-1990s, the New Labour Government continued these neo-liberal policies. As a result, commercial revenue became more important for the Welsh voluntary sector (NCVO, 2012). New Labour sought to strengthen the relations between the State and voluntary sector, reflecting a shift in the government approach towards the civil society (Chaney, 2002), and with the UK Government investing considerable financial resources to support the sector (Kendall, 2003). This policy change coincided with the devolution processes in Wales.

The Welsh Government has sought to deepen the interlinkages between the voluntary sector and the State in a partnership approach that is unique among the UK devolved areas and European countries (Chaney, 2002). Indeed, it is argued that UK VSOs seem to stand between the 'corporatist non-profit' mode found in continental Europe countries and the

'liberal non-profit' type in the USA (Clifford and Mohan, 2016). The partnership between the Welsh Government and VSOs was based on innovative arrangements linking the National Assembly and the voluntary sector on the grounds of 'inclusiveness' (a fundamental concept for the Welsh devolved administration) that empowered people to access power through pluralistic politics (Davies, 1999). Wales was the first UK devolved administration with a legislative framework for the voluntary sector (Chaney and Fevre, 2001). Under these terms the marketisation of the Welsh voluntary sector has been limited with VSOs being strongly dependent on public sector funding (Johnes and Lloyd-Jones, 2014). This evolving stronger partnership has raised concerns about the sector's independence from the State (Chaney and Fevre, 2001).

### **This study**

This paper examines general charities. These charities exclude specific types of VSOs that are not included in the voluntary sector, according to the National Council for Voluntary Organisations (NCVO) (Clifford and Mohan, 2016). General charities exclude faith groups, housing associations, trade associations, and independent schools. The paper uses aggregate data from the Wales Council for Voluntary Action (WCVA) Data Hub (WCVA, 2021) covering Welsh voluntary sector income from 2010-11 to 2016-17. WCVA provides data only for VSOs with income higher than £0.5 million per annum (WCVA, 2021), since only these charities officially provide details on their funding sources (Clifford and Mohan, 2016).

Income sources included: Welsh Government and local authorities (grants and contracts), legacies, National Lottery, private Sector, public giving, investment, voluntary sector. Income types involved:

- commercial revenue earned from charitable activities and generating funds: fees from services and products that charities sell, contracts from the Government.

- voluntary income: grants from the Government, donations, legacies, trusts, foundations.
- Investment: funds stemming from dividends and interest on deposits.

The growth of income, by type and source, from 2010-11 to 2016-17 was estimated, after adjusting the data for inflation. Moreover, using figures compiled by Data Unit Wales (2021), it was possible to explore the change in Welsh voluntary sector funding by each council, from 2009-10 to 2013-14, the latest available financial year data.

It is important to recognise that these figures cannot capture a detailed picture of Welsh VSOs' finances, as many organisations are micro and small. Moreover, aggregate numbers about Welsh voluntary sector funding may include data for national/international organisations which have operations in Wales (the 'headquarters effect').

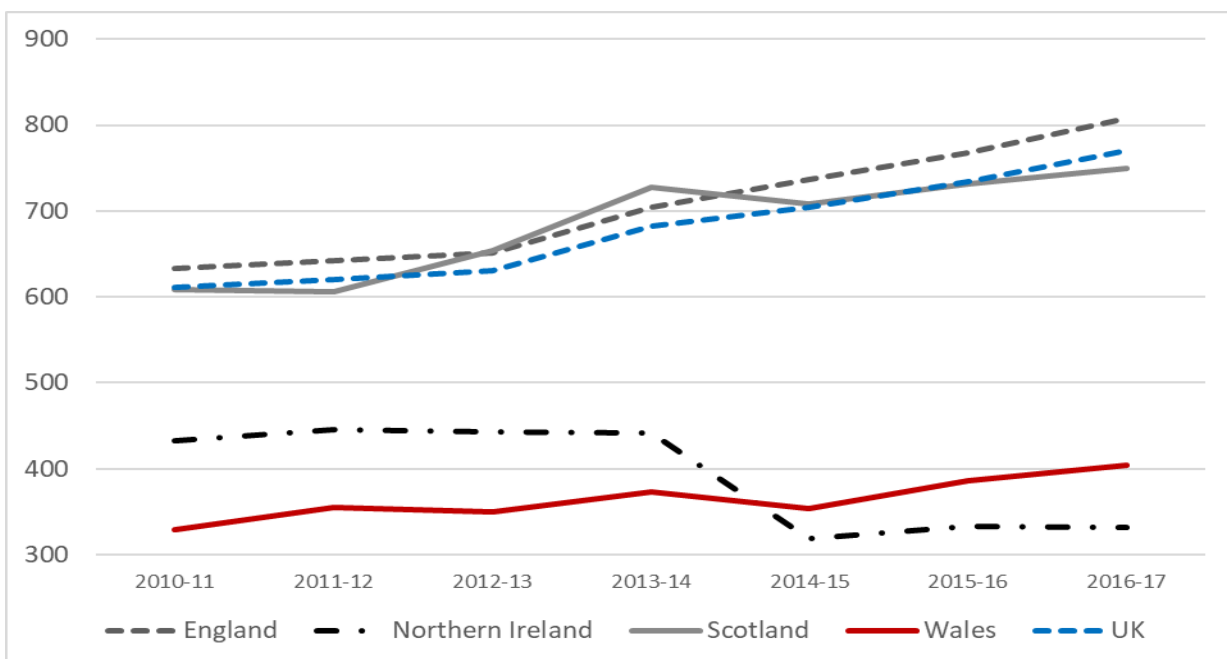
**Finance of the voluntary sector in Wales in the context of austerity**

The Welsh voluntary sector has been historically lacking in sufficient financial resources through which to increase its

capacity to support socio-economic development in Wales (Chaney and Fevre, 2001). Wales recorded the lowest levels of voluntary sector income per capita, in real terms, from 2010-11 to 2013-14 in the UK (Figure 1). Between 2014-15 and 2016-17, Northern Ireland had lower income per capita than in Wales. The Scottish voluntary sector had about twice the average income per person than the Welsh sector, even though the number of VSOs per capita in Wales is 30% higher (Johnes and Lloyd-Jones, 2014). Figure 1 could reflect the 'headquarters effect', where large charities have their main office in England (mainly London) or Scotland (mainly Edinburgh) and operate in Wales through branches.

A feature of the Welsh voluntary sector is that many VSOs are funded mainly by their members and donators since they offer local services (Johnes and Lloyd-Jones, 2014). Many Welsh VSOs operate at the local and neighbourhood level, employ few workers and volunteers, and offer services to a small number of people (WCVA, 2011). The small size of Welsh VSOs makes them vulnerable in times of crisis, due to their limited financial resources (Kapitsinis, 2017). The Welsh voluntary sector was made up of some 32,500 VSOs in June 2018 and is estimated to

**Figure 1: Income of the voluntary sector per head of population (£, real terms)**



Source: WCVA (2021)

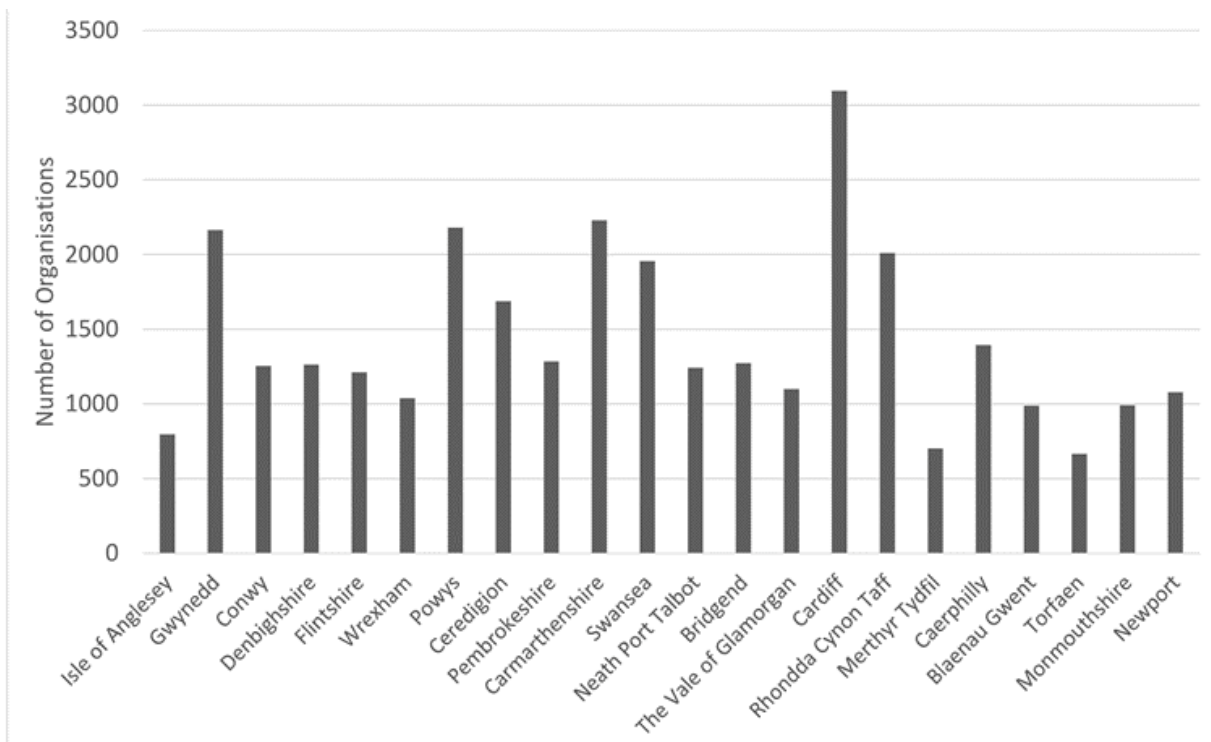
account for 7-8% of Welsh employment (WCVA, 2021).

Most VSOs are active in sport and recreation, community, religion, health and social care (WCVA, 2021). By contrast, activities such as community justice, employment, and volunteering have the smallest number of organisations. Therefore, Welsh VSOs are less likely to deal with poverty issues (Johnes and Lloyd-Jones, 2014). With regards to geography most VSOs are located in the most populated areas i.e. Cardiff, Rhondda Cynon Taff, and Swansea (Figure 2). However, the five councils with the highest number of VSOs per capita include some of the least populated more rural areas, such as Powys, Ceredigion, Gwynedd, Monmouthshire, and Anglesey. Johnes and Lloyd-Jones (2014) have indicated that the poorest and most urbanised areas in Wales record the lowest number of VSOs per capita.

Voluntary Sector were the only income sources that declined, in real terms, from 2010-11 to 2016-17, with all the other sources increasing.

Wales has in the past recorded higher public expenditure per person for the voluntary sector than the UK average (Mocroft, 2011). Among the devolved areas, only Northern Ireland had higher statutory funding (Alcock, 2012). Figure 3 shows the high contribution of state funding to Welsh voluntary income. Welsh Government and local authorities contributed together to 55% of VSO total income in 2010-11. Important for this, was the support of the voluntary sector funding by the New Labour government (Alcock, 2012). The high level of government funding in Wales has left charities more vulnerable to any changes in the Welsh Government budget.

**Figure 2: Welsh VSOs by Office Location, 2016**



Source: WCVA (2021)

Finance from the Welsh Government and public giving have been the main VSO finance sources from 2010-11 to 2016-17 (Table 1). Funding from the Welsh Government and

In this respect more austere policies have led to the decline in public sector services' provision, thus mounting pressure on VSOs to satisfy the increasing needs of communities.

**Table 1: Welsh voluntary sector revenue from each income source, £ million**

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Growth from 2010-11 to 2016-17 (%)
<b>Welsh Government</b>	611	603	549.2	576.2	553	577.7	500	-18.2
<b>Legacies</b>	12.4	11.3	14	23	27	23.3	47.9	287.5
<b>National Lottery</b>	28.5	22.7	21.6	28.9	27	39.4	35.3	23.8
<b>Private Sector</b>	11.2	26.3	21	29	18.2	31.1	17.5	56.5
<b>Public Giving</b>	324.7	421	408.9	415.4	393.5	424	521.5	60.6
<b>Investment</b>	42	35.7	47.3	45	50.8	63.9	67.5	60.6
<b>Voluntary Sector</b>	73.3	60.4	79.6	82.2	55	72.3	68	-7.2
<b>Total</b>	1103.2	1180.4	1141.5	1199.6	1124.6	1231.2	1258.3	14.1

Source: WCVA (2021), and author's analysis

Moreover, the transfer of services from the Welsh Government and the local authorities to the voluntary sector has increased, thus putting higher demand on Welsh VSOs (Wales Audit Office, 2017).

For example, VSO funding from Welsh Government dropped by 18.2%, in real terms, falling from £611m in 2010-11 to £500m in 2016-17. Welsh Government's contribution to voluntary sector's income fell from 55% in 2010-11 to 40% in 2016-17. Despite the decline, this figure is higher than the UK average, where the government funding share in total voluntary income was 32% in 2016-17 (WCVA, 2021). A corollary here is that government funding declines could disrupt the provision of public services by charities.

Regarding local government funding, analysis of figures compiled by Data Unit Wales (2021) indicates that 20 of the 22 councils increased the funding to the voluntary sector from 2009-10 to 2013-14. Monmouthshire, Torfaen, and Carmarthenshire recorded the greatest growth. Seven out of the ten councils with the largest growth in voluntary sector funding are in South Wales, the wealthiest region in the country (Kapitsinis, 2019), since the effects of austerity on voluntary funding have been stronger in poor areas (Clifford, 2017).

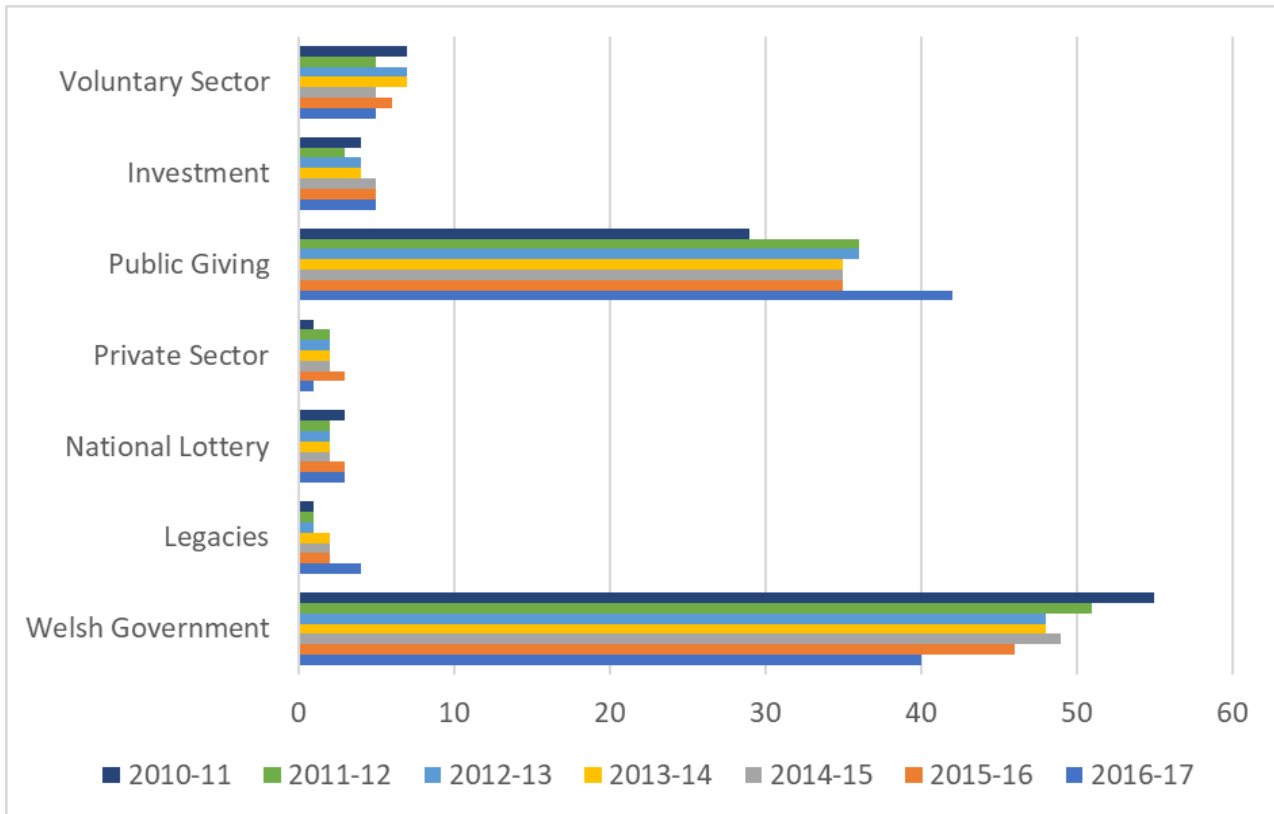
The contribution to total income made from funding from legacies and donations rose from 30% in 2010-11 to 46% in 2016-17. Public giving was the second greatest income source in 2010-11 but ranked first in 2016-17, rising

by 60%, from £324m in 2010-11 to £521m in 2016-17. By contrast, Jones et al. (2016) showed that donations from the public had declined since 2010 for the English voluntary sector.

Other income sources recorded significant changes, reflecting the important impact of the crisis on the voluntary sector funding (Clifford, 2017). Revenue from the voluntary sector, the third most important income source, declined by 7.2% between 2010-11 and 2016-17. Revenues stemming from investment rose by 60% from £42 million in 2010-11 to £67 million in 2016-17. This could be a signal of more marketised charities, with an increasing focus on rents and dividends. However, the contribution of investment to total income has been relatively low, ranging from 3% to 5% (see Figure 3).

In terms of income type, Figure 4 illustrates the significant increase of voluntary revenue, including government grants, donations and legacies. Specifically, voluntary revenue increased by £196m, rising from £310m in 2010-11 to £506m in 2016-17. Its share in the total income of the Welsh VSOs rose from 26% to 40%. The great rise of voluntary income is attributed to the significant increase in public giving. Considering that Welsh Government funding declined due to fiscal austerity and budget cuts, many Welsh VSOs sought to diversify their income sources and increase finance from donations and public giving (Wales Audit Office, 2017). Commercial revenue remains the main income type,

**Figure 3: Contribution (%) of each income source to total income of the Welsh voluntary sector**



Source: WCVA (2021), and author’s analysis

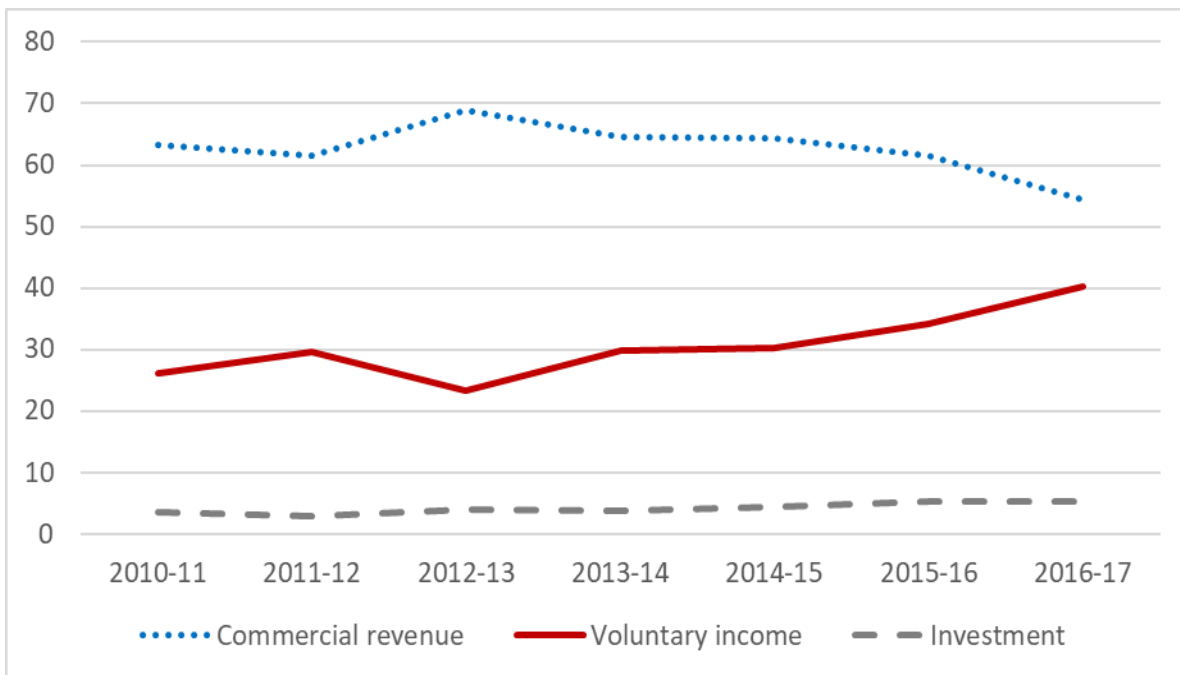
having increased for charities in Wales since the 1980s (McKay et al., 2015). However, it declined by 9% in real terms from 2010-11 to 2016-17. Although commercial revenue fell, the total income of the Welsh VSOs increased in the period after the ‘Credit Crunch’ crisis due to the growth of voluntary revenue. Therefore, the Welsh case does not confirm the first marketisation thesis, according to which voluntary revenue would be replaced by commercial income (Dart, 2004). The substitution of grants by commercial income proved to be weak, confirming the pre-crisis evidence related to the English and Welsh VSOs (McKay et al., 2015).

Welsh Government funding of VSOs has revealed a partial shift from grants to contracts (Wales Audit Office, 2017). Contract funding fell in all the financial years, apart from 2013-14, while voluntary revenue from the Welsh Government has been increasing since 2013-14. In the period between 2010-11 and 2016-17, grants have increased by 48%, with

contracts falling by 38% (WCVA, 2021). Consequently, the Welsh case would not seem to comply with the second marketisation thesis, according to which government finance has significantly shifted from grant to contract funding (Morison, 2000).

In this context, the UK Government coalition outsourced the provisions of public services after 2010 in efforts to resolve some of the implications of the 2007-08 economic crisis (Johnes and Lloyd-Jones, 2014). The pressures on resources have increased, due to the reduced government funding, and have been accompanied by the rising demand for services in the voluntary sector (WCVA, 2016). The needs that VSOs had to address have increased due to the privatisation of public services and the transfer of liabilities from the Welsh Government and local authorities to the voluntary sector (Wales Audit Office, 2017). Therefore, confirming the third thesis of marketisation (MacMillan, 2011), the delivery of public services by the

Figure 4: Income of Welsh VSOs by type (£ million)



Source: Author’s calculations

Welsh voluntary sector has increased. The underlying reasons for the transfer of public services’ delivery from the State to the voluntary sector include the VSOs’ ability to innovate and their flexibility to respond to the diverse needs of local communities (Brandsen and Pestoff, 2006).

**Conclusions**

This paper has examined the impact of the 2007-08 global economic crisis and the subsequent austerity on the finances of the Welsh voluntary sector, analysing its income, by type and source, between 2010-11 and 2016-17. The types and sources of Welsh VSO income have not necessarily changed in the way the literature suggested. The paper shows that despite the cuts in government funding and the impact of austerity, the Welsh voluntary sector was more financially resilient than might have been expected. Then marketisation trends remain ambiguous, despite the strong claims for the marketisation of the voluntary sector (Dart, 2004; Morison, 2000).

The findings of this paper regarding marketisation trends of the voluntary sector in

Wales could have wider implications for the way that VSOs respond to austerity. The key point, illustrated by Wales, is that the regional context and policy significantly affect the way the ‘marketisation’ trends develop. Particularly, the voluntary sector holds a significant position in socio-economic development in Wales, with strong historical roots in the Welsh society that has a great tradition in volunteering. In policy terms, the Welsh Government has encouraged a strong relationship with the voluntary sector, in a partnership approach that is unique across the UK devolved areas and European countries (Chaney, 2002).

The study of voluntary sector income is timely, as the UK and Welsh economies continue to be severely impacted by the Covid-19 pandemic. The role of the voluntary sector is likely to become more important in responding to the pandemic, considering that the latter has a disproportionate impact on vulnerable groups in different geographical areas (Kapitsinis, 2020). Despite the financial hardship, the third sector could provide valuable support to the neediest people, given that the pandemic-driven higher poverty rates

are expected to entail increasing need for assistance (WCVA, 2020). The demand for services has already increased due to the pandemic, while VSOs are likely to lose an important proportion of their commercial income, due to, for example, charity

shop closures and fundraising event cancellations (UK Parliament, 2020). The conditions in the Welsh voluntary sector in the pre-pandemic period could be crucial for its capacity to respond to the greater needs for support.

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