

**Manchester City Council  
Report for Resolution**

**Report to:** Economy Scrutiny Committee – 17 July 2013  
**Subject:** Impact of the funding cuts to the Third Sector  
**Report of:** Deputy Chief Executive (Performance)

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**Summary**

This report provides a detailed analysis (where known) of the impact of budget reductions to third sector organisations in Manchester, covering:

- The impact within the context of both the Council's reductions in funding of organisations and funding from alternative sources;
- Feedback of organisations on the process by which the Council made the decisions on budgets;
- The wider impact on the local economy, skills and employment of these changes.

**Recommendations**

To note and comment on the report.

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**Wards Affected:**

All

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**Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

City of Manchester State of the Voluntary Sector 2013: A report on social and economic impact. Sheffield Hallam University, Centre for Regional Economic and Social Research, May 2013. (Part of Greater Manchester level research,

commissioned by a partnership of local support and development organisations, including Macc).

An ounce of prevention is worth a pound of cuts: Findings from a GMCVO survey on the impact of spending cuts on communities across Greater Manchester, October 2012

UK Giving 2012. National Council for Voluntary Organisations and Charities Aid Foundation, November 2012

Report to Employment, Economy and Skills Overview and Scrutiny 22 June 2011, Role of the Voluntary Sector in Manchester

Report to Employment, Economy and Skills Overview and Scrutiny 16 November 2011, Impact of Budget Reductions on the Third Sector

Report to Executive 13 February 2013. Revenue Budget 2013/14 and 2014/15

Report to Health and Wellbeing Overview and Scrutiny Committee 20 October 2011, Voluntary and Community Sector – Budget Proposals

## **1.0 Introduction**

- 1.1 This report responds to a request from the Committee for a detailed analysis of the impact of budget reductions to third sector organisations in Manchester. To include:
- The impact within the context of both the Council's reductions in funding of organisations and funding from alternative sources;
  - Feedback of organisations on the process by which the Council made the decisions on budgets;
  - The wider impact on the local economy, skills and employment of these changes.
- 1.2 Section 2 of the report provides some background, setting out the scale of the sector and its funding relationship with the Council and others, sections 3 and 4 are about the Council's reductions and section 5 describes some of the discussions and feedback we have had from organisations. Section 6 looks at what we know about reductions to VCS organisations in the city from other sources and sections 7 and 8 discuss the implications of funding changes for the sector.

## **2.0 Background**

- 2.1 The City of Manchester State of the Voluntary Sector 2013 survey, published in May (part of Greater Manchester level research, commissioned by a partnership of local support and development organisations, including Macc) estimates that there are 3,093 voluntary and community sector organisations in the city. The report describes 64% of these as micro in size, having annual income of less than £10,000, 17% as small (£10,000-£100,000), 13% as medium (annual income between £100,000 and £1 million) and 5% as large (annual income greater than £1 million).
- 2.2 The total income of the voluntary sector in the city is estimated by the same report at £477 million in 2011/12, with most of this income going to the large and medium sized organisations. Although small and micro organisations make up over 80% of organisations in the voluntary sector, they account for less than 10% of total income.
- 2.3 36% of those surveyed for the report say they receive funds from Manchester City Council. National government and other public sector bodies fund 8% of Manchester organisations each and the NHS Clinical Commissioning Groups, 7%. However we should be mindful that this figure is based on returns received from 315 organisations.
- 2.4 Survey respondents were asked about their sources of non-public sector funds: 29% gained income from fundraising, 24% from charitable trusts and foundations, 18% charged for goods and services and 17% gained grants from national lottery distributors.
- 2.5 The number of voluntary organisations funded by the Council changes frequently as funding streams come to an end or grant programmes are re-

allocated. Officers estimate we fund about three hundred voluntary and community sector groups through grants and contracts. This does not include small one-off payments to groups through sources such as Cash grants.

### **3.0 Funding reductions - overview**

- 3.1 As Members will be aware, local government is undergoing an unprecedented period of spending reductions. Manchester City Council has needed to save £170 million across 2011/12 and 2012/13 and £81 million across 2013/14 and 2014/15. This has necessitated the loss of many staff, the restructuring of directorates and radical redesign of services – including services that we work with the voluntary sector to deliver.
- 3.2 Other public services that provide funding to the voluntary sector, such as the NHS (which is seeking £20 billion of efficiency savings across the UK) and the police are also under great pressure to reduce spending.
- 3.3 Legal Aid cuts appear to be impacting on voluntary sector organisations. Civil Society Finance reports that nationally Citizen's Advice has seen a reduction in their legal aid funding from £22m in 2012/13 to £3m in 2013/14, that housing advice charity Shelter has announced it will be forced to close nine offices, nationally with the loss of around 100 jobs and the British Red Cross is reducing its service that reunites displaced and separated refugee families, both as a result of legal aid cuts.
- 3.4 The economic situation also seems to be contributing to a decline in charitable giving, with the total amount donated to charity in the UK dropping by 20% in real terms between 2010/11 and 2011/12, according to the UK Giving 2012 survey by the Charities Aid Foundation and the National Council for Voluntary Organisations
- 3.5 Macc, the city's third sector infrastructure provider, reports that Manchester is still a priority area for funders like the Big Lottery Fund and its various streams, but that a high volume of applications to such funds means that competition is very fierce.

### **4.0 Funding reductions – MCC**

- 4.1 The following section gives details of the main Council funding streams which flow to the voluntary sector and any information we have about the current known level of cuts. This section focuses on the current period, as earlier reductions were described in the November 2011 report to this Committee.
- 4.2 Members should be aware that this area is complex and evolving and that the information below does not present a complete picture of every area. As the integrated commissioning hub develops, so will our ability to better map spend in the voluntary sector.

### *Grants*

4.3 The Council offers a number of grants to the voluntary and community sector:

- Cash grants
- Community Association funding
- Equalities funding
- Cultural Partnership grants
- Mental Health and Wellbeing grants
- Economic development

4.4 Around £3,000,000 a year passes to the voluntary sector through grants from the Council. Most of the investment in these funding pots has remained reasonably constant since the last report to the Committee.

4.5 Each time there is a new funding round there is some change in the organisations funded – some get more, some less and some lose their funding altogether, whilst some new organisations gain funding. Community Association, Equalities and Cultural Partnership grants have all had a new funding rounds this year and grant funding agreements are for three years, meaning organisations have a secure income for this period. Applications to the Mental Health and Wellbeing grants were open until 24<sup>th</sup> June, new grants start from 1<sup>st</sup> August 2013 and run until 31<sup>st</sup> March 2015.

### *Contracts*

4.6 A report on the Impact of Budget Reductions on the Third Sector was brought to the Economy, Employment and Skills Overview and Scrutiny Committee in November 2011. The report set out known reductions in funding to the VCS planned for 2011/12 and 2012/13. The headlines were:

- Directorate of Adults savings of £2m across the 2 years, from a total of £12 million paid to the sector
- Supporting People savings of £3.6m across 2011/12 and 2012/13
- Youth service savings of £0.9m across 2010/11 and 2011/12

Appendices to this report detailed which providers would be affected and how.

4.7 The picture of the impact of cuts to contracts with the VCS in 2013/14 and beyond is currently developing. The Council has multiple contracts with the voluntary and community sector across different directorates on a variety of different timescales. Many of these are in the process of being reviewed both to achieve savings targets and to improve the services received by residents. In some cases arrangements are historic and need to be aligned better with our strategic priorities. In other cases there is a potentially a bigger role that

can be played by the voluntary and community sector, as we deliver fewer services, commission more and look to commission new services, for example to support early intervention and our troubled families programme.

4.8 One example is the work currently underway to review just over £3million of expenditure in the voluntary and community sector which currently pays for:

- Advocacy
- Carers Support Services
- Employment Support Services
- Dementia Support Services
- HIV Support Services
- Mental Health Services
- Lunch Clubs and Delivered Meals

Each of these services has been reviewed and visited and existing contracts have been extended to allow for a programme of competitive tendering and subsequent decommissioning where necessary.

4.9 Youth and Play services are also commissioned from the voluntary sector and have both seen reductions of about 10%. However at the same time substantial work has gone into ensuring that we now have a better spread of services across the city and that commissioning is done in a more transparent manner. For example on play, a total of 26 play projects covering all five SRFs have been approved and are now undergoing contract negotiation. Whereas historically, funding has gone to five VCS organisations operating play projects in just two SRF areas. The commissioning process for 2013 – 2015 was open to all VCS organisations in Manchester that had a track record of working with children and young people, and projects were assessed and scored by multi-agency SRF panels against an agreed outcomes framework

4.10 In other areas, work with the voluntary sector continues without major change, for example, Manchester Adult Education Services funds the voluntary and community sector to run neighbourhood learning projects. Funding amounts to £550,000 a year and there are currently no plans to reduce this amount

## **5.0 Feedback on process**

5.1 The complexity of the different decision making processes on different organisations at different points means there isn't a single message from organisations on the process by which the Council made the decisions on budgets. In general terms there seems to be an understanding in the voluntary sector of the financial pressure the Council is under and of the inevitability that this will in turn impact on the voluntary sector.

5.2 On 25<sup>th</sup> January 2013, a special meeting of the Partnership Working Group brought together senior representatives of third sector organisations and City Council Heads of Service to discuss budget reductions. Third sector representatives welcomed the opportunity to hear and discuss proposals

across services, whilst describing the increasing pressure many of their services are under.

## **6.0 Other Reductions**

### *Public Health*

- 6.1 The integration of public health into the local authority offers the opportunity to commission services in a more holistic way but does entail some delay whilst the move from the NHS takes place.
- 6.2 For example the planned spend on drug and alcohol services for 2013/14 and 2014/15 is £12.4m. Just over £3.2m of this goes to the statutory sector or private business with the balance (£9.2m) going to the voluntary and community sector. There are no current plans to reduce this spend, however, there are plans to review a number of services, with any money freed up through this process being re-invested in public health priorities.
- 6.3 Towards the end of the last financial year, a number of medium and large providers worked with public health to offer up efficiency savings totalling £600k (new contract values have been confirmed for 2013/14.) The majority of these savings came from the voluntary sector. There was no impact on front line service delivery with savings coming from back office functions. Prior to that, savings of £1.17m were achieved from the adult drug services tender which concluded at the end of June last year.
- 6.4 The current spend on HIV prevention and sexual health advice services in the community and voluntary sector is £748,751. The planned spend from April 2014 is £601,000 (20% saving). Public health is shortly to begin formal consultation on this proposal. There is also some small voluntary sector spend within the Food Futures and the Valuing Older People budgets.

### *Clinical Commissioning Groups*

- 6.5 Through their Citywide Commissioning team, the three Manchester Clinical Commissioning Groups are reviewing their current investment in the voluntary sector to ensure it is closely aligned to delivery of their strategic objectives. It is likely that this will lead to a change in contractual arrangements in the future. There are, however, no plans to reduce funding for the sector as a result of this review.

### *Legal Aid*

- 6.6 The Legal Service Commission withdrew their funding of 50% (£1.3m per annum) of the Community Legal Advice Service (CLAS) contract from March 2013. This meant the joint contract with the Council had to end a year early. However in response to welfare reform and the economic climate, the Council recognised the importance and need for advice services in the city. Therefore the Council has continued to support the contract with the Citizens Advice Bureau with existing levels of Council funding equating to £1.3m per annum.

## 7.0 Impact of cuts on voluntary organisations

- 7.1 Earlier this year officers spent considerable time mapping the potential impact of funding reductions and reviews on individual voluntary sector organisations. This detailed work revealed that there are a number of organisations which receive funding from two or more Council sources. Where this is the case officers from the different services involved discussed their approach. In the small number of cases where organisations receive council funding from more than two sources, officers have spent time looking at their accounts and business plans and talking directly to organisations about their other sources of funding, their reserves, their development plans and the viability of their organisation in the face of council and other spending cuts. Where relevant, these discussions have extended to the impact of funding cuts by neighbouring local authorities.
- 7.2 The State of the Sector survey estimates that the total income for Manchester voluntary organisations from all sources dropped by 2% between 2010/11 and 2011/12 and by 5% between 2009/10 and 2010/11. Although these amounts appear modest, compared with the scale of public sector reductions, this may be because these reductions have yet to feed through into the contracts and grants available to the third sector. We should also bear in mind these figures are based on those who responded to the survey, which may not have included those organisations in the most difficult financial position.
- 7.3 The State of the Sector survey also looked at the impact of the economic downturn on the financial sustainability of voluntary organisations in the city, asking respondents about changes in the past 12 months. Some key findings:
- 47% of respondents reported increasing their expenditure
  - 38% reported increasing their income
  - 26% reported increasing their reserves
  - 26% reported decreasing their expenditure
  - 38% reported a decrease in their income
  - 35% reported a decrease in their reserves
  - 30% of respondents provided an expenditure figure for 2011/12 that was greater than their income.
- 7.4 These findings are then further explored by organisation size and the evidence suggests that small organisations are most at risk. The report also looked closely at the reserves of voluntary organisations (which will help them withstand funding cuts and have resources to develop new activity) and found that 16% had reserve levels of less than one month's expenditure and a further 33% had reserves that covered less than three months expenditure. "This suggests that almost half of all organisations in the voluntary sector could be vulnerable should their funds be severely reduced or withdrawn".



7.5 Greater Manchester Centre for Voluntary Organisation conducted a survey in 2012 of the impact of spending cuts on communities in Greater Manchester. This survey used the experience of third sector organisations and found that:

- 58% of respondents have made cuts to their own services
  - Services to children and young people appear to be hardest hit
  - Less than a quarter of organisations active in providing advice, advocacy and counselling said they were able to meet demand
  - Survey respondents are witnessing stronger demand for regular help with basic needs, including but not limited to food
  - Scarce resources are being used to meet crisis needs, thereby directing resources away from preventative services.
- (This survey was conducted at the Greater Manchester level and had 336 respondents)

7.6 Macc has examined its current caseload and reports that over the last year the service has supported a number of groups with options appraisals in the light of funding cuts and that at least three long standing organisations in the city have closed. Macc are currently supporting three further groups with issues relating to closing down and have another 9 groups “on watch” which may have to scale down their activities, or close, this year.

7.7 Macc’s view is that it is the medium sized organisations in the city which are most vulnerable as they usually have a small staff team and little spare capacity, meaning they have few options to make savings or put time into generating new funds. The low level of reserves in such organisations further reduces their options.

## **8.0 Impact on the wider economy, skills and employment**

8.1 The State of the Sector report estimates there are 12,400 (full-time equivalent) staff employed by voluntary sector organisations in Manchester – 17,200 employees. The Gross Value Added (GVA) contributed by these employees to the Manchester economy is calculated at £390 million per annum. In addition the report found there are an estimated 700 FTE work placements in the sector in the city and 94,300 volunteers. The economic contribution of volunteers in city of Manchester organisations is estimated to be £331.8 million per year.

8.2 The State of the Sector survey asked organisations how their workforce has changed over the past 12 months. 60% of organisations report employing a similar number of paid employees to a year ago, 17% reported a decrease in paid staff and 23% an increase. However it is not clear whether increases are short-term and/or part-time. Again, these findings may suggest that the impact of funding reductions has yet to be fully felt by the sector.

8.3 Macc’s insight is that as funding reduces, management posts tend to be cut and working hours reduced. Skills and experience in the sector can be lost.

## **9.0 Conclusion**

- 9.1 Public services are currently subject to huge financial pressure. We have worked together with the third sector over many years to deliver services. The response of the Council and of other public service partners to spending cuts in relation to the voluntary sector has frequently been to extend contracts at their current level whilst we embark on careful review and sometimes redesign of services. The necessity to do this, whilst driven by the need to save money, has also presented opportunities to improve services to better meet the changing and diverse needs of our communities.
- 9.2 As all of these processes are not yet complete, the full impact of budget cuts on the third sector is not yet known, however new commissioning arrangements should enable us to build a much clearer picture of our spending relationships with the third sector in the future.