

# the State of the Sector

Summer 2012



**Three times over the last 18 months Clinks has surveyed Voluntary and Community Sector (VCS) organisations working within the Criminal Justice System. This has been to review how government funding cuts, changes in commissioning practices and the economic recession are impacting services. The surveys were carried out at the beginning and end of 2011 and again in July 2012.**

The July 2012 survey gives a picture of a Sector that has continued to erode and that is feeling 'pushed from above' and 'pulled from below'. Many organisations are struggling to balance the demands of government strategy and the economic recession with delivering services to an increased number of service users.

The July 2012 survey ascertained that 73% of responding VCS organisations have been affected by the economic downturn and changes to the policy and commissioning environment. Over 92% of the organisations believe they have or will imminently be affected by the changes; there is a deepening sense of concern amongst many organisations about their future.

There has continued to be an eroding of income for most VCS organisations with an overall loss of income of 6% over the last two years in those responding. Organisations employing 11-50 staff have been the hardest hit. Some are holding income levels steady or even increasing them. Anecdotal evidence suggests that organisations who have resisted the effect of the economic downturn are those with the resources to fundraise, or which have merged (so the combined income of the merged organisations may actually have decreased). This will be examined in the next survey.

Not only is there a lack of funding for most VCS organisations, but the type of funding continues to be a major concern (*the total income for the year 2010-2011 has been used as a baseline, 100%*):

- ✦ Earned income is decreasing – to 66% over the last year and anticipated to further reduce to an estimated 56% for 2012-13.
- ✦ Grant income has remained much the same (dropping from 22% to 21%). However, organisations expect this to reduce to 15% in 2012-2013 as a result of the continuing economic recession and shrinkage of available grant funding.

- ✦ Fundraising from the public slightly increased in 2011-2012 but is expected to be minimal in 2012-2013.

The statutory sector remains a key source of funding for VCS organisations working with offenders, mainly because fundraising from the public is more difficult for this area, as evidenced in the Third Sector Research Centre report, *Scoping the involvement of third sector organisations in the seven resettlement pathways for offenders (paper 57)*.

The findings show there has been a shift from large and long-term contracts to 'one-off pieces of work' for many VCS organisations. Although this has meant that income levels for some organisations have been relatively stable, full cost recovery is becoming problematic for many. Short contracts do not cover any of the 'back office' costs that would normally be part of larger contracts. In addition, both operational and volunteer costs have risen sharply over the last year.

***98% of organisations are also reporting that, compared with 18 months ago, it is costing them more to get less – they are spending increased time and resources on fundraising with lower returns.***

This is taking time away from delivering services and their core aims.

To compensate for the disparity between income and expenditure, the majority of organisations (67% of the 84 that responded) have used and are using their financial reserves. As reserves are depleted, so the interest generated on savings is reduced, thereby further reducing income levels.

The hardest hit organisations are those with less than 50 employees; some organisations are being forced to close down and others are very concerned about future funding opportunities. There is also a sense in the Sector that most organisations have restructured and consolidated over the last 18 months; there is very little flexibility left to make further economies. Now even small charges and rising costs make organisations vulnerable. This is alongside a growing demand for their services, and greater and more complex needs of their users.

Redundancies have continued and are continuing across the Sector. The July 2012 survey revealed that

40% of organisations had made staff redundant since 2010 and organisations putting redundancy measures in place had lost an average of 7 (14%) members of staff per organisation. It appears to be the smaller organisations (0-10 employees) which have suffered most, losing almost a quarter (22%) of their staff since late 2010. This is significantly higher than the percentage level of redundancies in the statutory sector. More redundancies are expected – 36 surveyed organisations reported they expect to make a further 310 staff redundant; some posts will depend on successfully securing (or otherwise) new contracts.

In an effort to cut costs, many organisations have reduced staff contracted working hours. To keep delivering services, however, many employees are working unpaid hours. This is not sustainable and employee morale is low in many organisations. There is a sense of deep weariness and anxiety about the future.

VCS organisations are being impacted on a wider front by the funding cuts experienced within the statutory sector. Not only have there been a large number of redundancies in the statutory sector but there have also been programme cuts. The impact of changes in statutory services on the VCS has been considerable. Some organisations have experienced large increases in demand, both in terms of quantity and severity of need as local statutory services close, or are reduced. The ramifications of this impact are only just starting to be seen.

Volunteers continue to be a crucial element in the Sector. For example, the organisations which responded to the July 2012 survey rely on 6,200 volunteers (an average of 48 volunteers per organisation). Volunteer management has not become easier over the past 18 months; significant time and resources continue to be spent on recruiting, managing and training volunteers.

Only 15% of respondents are currently delivering contracts under the Payment by Results (PbR) model. The majority of these VCS organisations have more than 50 employees, which is a result of the size of the contracts being awarded. Smaller organisations do not have the capacity to bid. Fifty-five per cent of the organisations who are not delivering PbR contracts say they will consider doing so as this is the preferred

government contract system. There is, however, unease about the high level of financial risk for small organisations and that the projects are too large for most VCS organisations. There is also continuing concern over the measurement of 'success' and attribution of impact between different interventions. This is particularly relevant given the nature of the clients served by VCS organisations looking to reduce reoffending and to address community safety.

Organisations reported that they believe only clients with easy-to-address issues are being supported. Those people needing more extreme support are being excluded as achieving success (and, therefore, payment) will be more problematic. Some organisations also reported that they are being used as 'bid candy' by national organisations tendering for local projects. There is also a belief that many of these contract winning national and private companies do not have sufficient local knowledge to be truly (and cost-effectively) successful.

None of the organisations are accessing loans to run their PbR programmes. Eighty-three per cent of organisations surveyed reported that they are using financial reserves (compared to 59% in the previous survey). Thirty-three per cent of organisations are receiving some upfront payment.

There continue to be some positive effects of the current economic situation and as a response to government strategies. Although working collaboratively always has been widespread in the Sector, more organisations are now seeking potential partners to work with. This is, in part, due to the size of contracts and the broader commissioning agenda, which means VCS organisations have little choice but to collaborate. As yet, there is very little partnership with the private sector (14% of organisations surveyed). There is, however, growing interest in this.

Twenty-seven per cent of organisations have also implemented diversification of their income streams and others believe they are working more efficiently than before.

The July 2012 survey, however, also found that 78% of responding organisations served the same number, if not more, clients than in the previous year. This is with less financial and human resources. Referrals to organisations have increased from both statutory and other VCS organisations who are failing to meet the demand:

***One organisation reported a 400% rise in referrals. As a result, service users are being impacted, despite VCS organisations' best efforts.***

The effect of the economic climate and government strategy is having an impact not only on VCS organisations but on service users. Almost half of the organisations surveyed (55%) reported that the needs of those seeking support have increased in severity and complexity.

***Organisations reported increased levels of deprivation, poverty and marginalisation amongst their service users, as well as a Sector that is becoming more 'industrialised' and less person-centred. There is also concern that there is a move away from preventative work.***

The current economic situation and government strategy is, therefore, compromising two of the traditional strengths of the Sector: its ability to work with the more marginalised and the flexibility to adapt to changing need.

The current survey shows a Sector that is struggling but will survive if circumstances improve in the near future. The indicators, however, suggest that worse is to come before there is an improvement. There is realism in the Sector that a number of VCS organisations will not survive, that there will be more redundancies and a further restructuring required. This is despite growing numbers of service users with increased and more complex needs.

Indeed within the first two weeks of August 2012, after our survey had closed, four organisations announced they were closing down, at least two of which had won substantial contracts.

Contrasting with this pessimism, the very nature of the VCS and its staff means that they continue to put their service users first, giving them the best service that they can.

**Clinks supports the Voluntary and Community Sector working with offenders in England and Wales. Our aim is to ensure the Sector and all those with whom it works, are informed and engaged in order to transform the lives of offenders and their communities.**

Clinks:

- ✦ Provides representation and voice
- ✦ Promotes the Sector
- ✦ Influences policy and campaigning
- ✦ Provides information and support
- ✦ Undertakes research and development.

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