

# The State of the **VCFSE** Sector: lessons from the national picture

**A scoping report of the national situation and  
implications for Spark Somerset's strategy**

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## Quay Research Reports and Policy Papers 2024

### *The State of the VCFSE Sector: Lessons from the National Picture*

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# The State of the VCFSE Sector: Lessons from the National Picture

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## Executive Summary

1. This report provides an in-depth review of the national picture for voluntary, community, faith or social enterprise (VCSFE) organisations in the UK, drawing on scholarly and policy literature and state of the sector reports from other parts of the UK. It also looks ahead to trends and challenges over the next five years.
2. Public services in England are under increasing strain due to long-term austerity, funding cuts, and systemic shocks like Brexit and the COVID-19 pandemic, exacerbating structural inequalities and health disparities. In response, there has been a shift towards localism, with an emphasis on devolving responsibility and diversifying service providers to include private, voluntary, and community organisations.
3. Integrated care systems are driving collaboration between health, social care, and voluntary organisations. However, the predominance of small and micro-organisations in the voluntary sector raises challenges in their ability to participate effectively in these systems, particularly in public service contracts, which often favour larger organisations.
4. Smaller VCFSEs often struggle with complex commissioning processes, which favour larger organisations capable of navigating bureaucratic requirements and delivering services at scale.
5. Current commissioning models tends to overlook the strengths of smaller, locally embedded VCFSEs, favouring larger national providers. This can undermine local service delivery, especially in rural areas, where local organisations' deep community ties and knowledge are critical to service effectiveness.
6. The sector's funding is diverse, including grants, donations, trading, and public sector contracts. Recent data shows a decline in sector income for the first time in a decade, attributed to the COVID-19 pandemic's impact, with large organisations receiving a disproportionate share of funds compared to smaller entities.
7. The cost-of-living crisis exacerbates funding difficulties, with increased operational costs and reduced public donations. Research indicates a significant drop in charitable donations due to the crisis. In addition, the sector faces challenges in securing flexible funding to respond to sudden disruptions and local-specific needs.
8. Many VCFSE organisations are using their financial reserves to maintain operations amidst funding uncertainties. While holding reserves is common, the majority of organisations have not invested in new activities, and smaller organisations are particularly vulnerable. The reliance on reserves is seen as a short-term solution rather than a sustainable strategy.
9. A Section 114 notice poses a significant threat to VCFSE funding, with potential long-term impacts on service delivery and the relationship between voluntary organisations and local governments.
10. Since the 1980s, the voluntary sector has increasingly filled gaps left by the shrinking welfare state and public services, operating as a 'shadow state' where responsibilities and risks are delegated to non-state actors. This shift has led to VCFSEs providing services traditionally managed by the government, which is termed 'substitution,' and in some cases, being expected to operate with the same standards as public sector organisations, known as 'appropriation'.
11. Despite the significant volunteer effort, VCFSEs face substantial challenges in recruiting and retaining both paid staff and volunteers. Issues include difficulties in attracting long-term volunteers, high competition for recruitment, and problems with staff retention, exacerbated by low morale and burnout. These challenges are compounded by funding difficulties and increased demand for services.

## Introduction

This report provides an in-depth review of the national picture for VCSFEs in the UK, drawing on scholarly and policy literature and State of the Sector reports from other parts of the UK. As well as looking at the issues that affect the sector currently, it will look ahead to trends and challenges over the next five years.

This report should be read alongside two further reports:

1. *Collaboration between the VCFSE and Public Sector in Somerset: challenge or opportunity?* This report has been prepared for Somerset Council by Quay Research and Spark Somerset.
2. *Somerset State of the Sector 2024*. This report draws on data collected from VCSFEs in Somerset via a questionnaire survey and qualitative interviews.

We begin with an overview of our methods.

## Methods

An online search was conducted for reports, policy statements, position statements and other relevant outputs from national voluntary sector organisations, think tanks, and charities such as NVCA, NCVO, King's Fund, NCP, Community Foundation, the VCSE Data and Insights National Observatory, and academic papers. These were reviewed for key issues, insights and regional- and national-level data.

A complete list of all metropolitan districts, unitary authorities and counties in England, Wales, Scotland and Northern Ireland was obtained from the Office for National Statistics. There are 152 such areas in England, 32 in Scotland, 22 in Wales and 6 in Northern Ireland. A systematic desk-based search was conducted to establish whether a State of the Sector or similar report had been produced for each of these areas. Reports were found for 68 English areas, 2 Scottish areas and 6 Welsh areas. No reports were found for Northern Ireland. The earliest report found was 2013, the latest 2024.

## Sampling

A selection of reports were identified based on the date they were produced (after 2021) and geographical similarities to Somerset, e.g. reports from areas that are primarily rural in character. 26 reports from English areas were consulted, 1 from Scotland, 6 from Wales and none from Northern Ireland (Table 1), giving a total of 33.

Country	Number of metropolitan districts, boroughs, UAs, or counties	Number of State of Sector Reports	Number of reports sampled
England	152	68	26
Scotland	32	2	1
Wales	22	6	6
Northern Ireland	6	0	0

Table 1: Sampling Strategy of State of the Sector reports in the UK.

We undertook content analysis (Schreier, 2012) on the sampled reports, using inductive coding to analyse them. Inductive coding is a means of systematically analysing textual data by repeatedly refining and categorising information into themes or codes. This process is dynamic and involves moving back and forth between the data and the codes, allowing the researcher to develop a deeper understanding of the material (Elo and Kyngas, 2007).

We began with open coding, where the researcher reads through the data and identifies recurring themes. We then undertook axial coding where the researcher reviewed the codes and organised them into categories, looking for relationships between the codes and grouping similar ones together. The researcher revisits the data multiple times, adjusting and refining the codes with each iteration. This ensures that the coding accurately represents the data and that the codes are comprehensive and meaningful. Iterative coding continued until theoretical saturation was reached, meaning no new codes or themes emerged from the data. The coding framework is shown in ( ).

Primary Theme	Sub-themes	Occurrence of theme in sampled reports* - % of reports
Finances	Sustainable funding	28/33 – 84.8%
	Viability of services and/or activities	14/33 – 42.4%
	Running costs	14/33 – 42.4%
	Reserves	13/33 – 39.4%
Staff (volunteer) wellbeing	Morale	13/33 – 39.4%
	Burnout	10/33 – 30.3%
	Isolation	8/33 – 24.2%
Accessibility		13/33 – 39.4%
Covid-19 pandemic		25/33 – 75.8%
Demand	Increasing demand	20/33 – 60.6%
	Unmet demand	3/33 – 9.1%
Recruitment	Short-term versus long-term plans	21/33 – 63.6%
	New plans	11/33 – 33.3%
Collaboration		22/33 – 66.7%
Cost of Living		18/33 – 54.5%
Technology		17/33 – 51.2%
Climate Change		9/33 – 9.1%

Table 2: Topics and sub-topics in VCFSE sector reports. \*Where sub-themes exist, frequency is given in relation to the sub-theme. If sub-themes do not exist, frequency is given in relation to primary theme.

The topics and sub-topics (table 2) were checked for their veracity by the research team in relation to: i) national-level reports from NAVCA, NVCO, NPC and the King’s Fund, *inter alia*, and the academic literature; ii) a ‘first look’ at the data emerging from Somerset’s State of the Sector survey; iii) the insights gained from over 30 qualitative interviews with VCFSEs in Somerset. Consequently, it was decided to group our insights on these topics under five substantive headings:

- Commissioning
- Funding and Sustainable Investment
- Substitution and Appropriation
- Recruitment and Retention
- Sharing Data, Intelligence and Insight

This report is structured around these five headings, with the final section focused on looking ahead at the strategic challenges for Spark Somerset. We begin with an overview of the big picture nationally.

## Big Picture

The landscape of public service design and delivery in England is evolving. This is because of ever-increasing demand for stretched services, driven by over a decade of austerity, cuts to funding, and shocks to the system (Brexit, Covid 19 and cost-of-living crisis). Structural inequalities have widened and deepened, leading to areas of deprivation which exhibit chronic health inequalities, especially low levels of poor mental and physical health (Blundell et al, 2022)

At the same time, and partly in response, there has been a drive towards localism: devolving responsibility, decision-making and budgets and attempting to improve the transparency, efficiency and accountability of public services (Hucklesby and Corcoran, 2016). This response has diversified the providers of public services to include the private sector and voluntary, community, faith and social enterprise (VCFSE) organisations.

Alongside this, a new paradigm of place-based delivery has been implemented in the shape of integrated care systems.<sup>1</sup> These seek ever-closer collaborative relationships between health and social care providers, local authorities and VCFSEs to deliver public services in place. However, the degree to which integration is attentive to the diverse nature of the voluntary sector is not clear. Further, in 2020/21 (the most recently available data) the sector as a whole was dominated by micro (income <£10k) and small (income <£100k) organisations, accounting for 44.14% and 33.20% of the sector respectively (NCVO, 2023) (Table 3). This raises issues around how this 'microbiome' can participate in integrated care systems.

Income band	Name (categorisation)	Number of organisations	% of all organisations
Less than £10,000	Micro	77,295	47.14
£10,000 - £100,000	Small	54,431	33.20
£100,000 - £1m	Medium	25,569	15.59
£1m - £10m	Large	5,861	3.57
£10m - £100m	Major	743	0.45
More than £100m	Super-major	61	0.04
<b>All organisations</b>	<b>Total</b>	<b>163,959</b>	<b>100.00</b>

Table 3: Number and percentage of voluntary sector organisations by size, 2020/21 (NCVO, 2023).

The Community Foundation's (2023a) research shows that there are about 200,000 third sector organisations<sup>2</sup> with incomes below £25m in England and Wales, but they are not distributed evenly (Table 4). Excluding London, the South West has highest number of third sector organisations per 1,000 population, but only the third highest income (after the South East and the North West).

<sup>1</sup> Integrated Care Systems: Integrated care systems (ICSs) are partnerships that bring together NHS organisations, local authorities and others to take collective responsibility for planning services, improving health and reducing inequalities across geographical areas.

<sup>2</sup> Whilst we use VCFSE throughout this report, the Community Foundation use 'third sector organisation'.

Third Sector income and expenditure in England and Wales 2022				
	Number of Third Sector Organisations	Third Sector Organisations per 1000 population	Estimated Third Sector Income (£ millions)	Estimated Third Sector Expenditure (£ millions)
North East England	6,900	2.7	1,480	1,420
North West England	20,000	2.7	4,180	3,990
Yorkshire and Humber	14,600	2.6	2,710	2,590
East Midlands of England	14,500	3.0	2,150	2,050
West Midlands of England	16,800	2.8	3,360	3,220
East of England	21,600	3.4	3,870	3,710
<i>London*</i>	<i>38,500</i>	<i>4.4</i>	<i>17,080</i>	<i>16,350</i>
South East England	33,400	3.6	7,790	7,460
South West England	23,700	4.2	3,920	3,750
Wales	10,000	3.2	1,590	1,530
England and Wales	200,000	3.4	48,130	46,070

\* Organisations in London do not fit the regional analytical model as well because nearly 50% of organisations work beyond the boundaries of the capital.

Table 4: Third Sector income and expenditure in England and Wales 2022 (Community Foundation, 2023a).

In keeping with other national organisations, the Community Foundation (2023) notes that the political enthusiasm for engaging the third sector in the delivery of public service contracts is very strong. They argued that this policy drive derived from an assumption that third sector organisations could be incentivised to undertake work for government at local and national level in a 'mixed economy of welfare'. However, such opportunities attract only a small section of organisations, primarily the largest. It is to the issues around commissioning that we now turn.

## Commissioning

VCSFEs undertake contracts and commissioned activities via public sector contracts from the local authority, NHS, HM Prison Service or the Police and Crime Commissioner (NVCO, no date). DCMS (2023) estimate that, of 250,000 VCFSEs active in the UK, between 9,200 and 12,500 engage in government contracting each year (between 3% - 5% of active VCSEs). These include, but are not limited to, some statutory services (e.g. adult social care, children's services, mental health services and palliative care) and non-statutory services (e.g. community development, advice services, support for vulnerable groups). Local authorities commission a mix of statutory and non-statutory services, often through competitive tendering processes. They may use grant funding or contracts to secure these services, and they increasingly emphasise outcomes-based commissioning, where the focus is on the impact and results of the service (Davies et al, 2020). The NHS commissions VCFSEs to deliver specific health services, particularly in mental health, palliative care, and public health. Integrated Care Systems (ICSs), play a key role in this process.

There was a mixed view of commissioning in the State of the Sector reports we reviewed. Positive perspectives focused on how good relationships with statutory services have bought more opportunity for some VCFSEs. Some see this as formal recognition of the benefit that VCFSEs bring to communities. This formal recognition can bring with it increased longer-term funding (and other support mechanisms, like training provision) to make services offered by VCFSEs more sustainable (Support Cambridgeshire, 2022). However, increased opportunity for more funding through commissioning does not always equate to a positive experience for VCFSEs.

Hucklesby and Corcoran (2016: 2) highlight the risks of incorporating VCFSEs into the "pervasive managerial, audit and performance management systems that operate in the statutory sector", with



the principles of service subsumed by contract and audit culture. These processes can have significant implications for the independence, identity, and operational capacity of voluntary organisations. The increased administrative duties associated with commissioned work – such as monthly reporting or project evaluation – can spread staff and volunteer time thinly and divert capacity from the core business of helping people.

In a report on the VCFSE sector in Herefordshire, this issue was summarised as follows:

*You just think what is the point of trying to tender for a service when you know that our way of working is not going to be understood or valued. (Herefordshire Council, 2021: 41).*

Increased administrative duties put pressure on over-stretched staff, sometimes diverting them from the delivery of an organisation's services. Meanwhile, working in the VCFSE sector is not lucrative: the average salary for administrative roles in the VCFSE sector is over 50p-per-hour less than the national average (Payscale, 2024; UK Talent 2024). This issue is compounded by the value of public sector contracts, as noted in a report from Community and Voluntary Services Cheshire East (CVSCE):

*[Organisations] who did not pay their staff the Real Living Wage, all expressed a desire to do so, but consistently cited financial pressures as the key preventing factor. In some instances, respondents referenced specific funding and commissioning arrangements with public sector bodies as being a barrier to achieving this commitment (CVSCE, 2023: 1).*

The NPC national State of the Sector Report for 2024 identifies underfunded contracts held by charities as a key risk, undermining the delivery of essential public services (NPC, 2024). It is common for VCFSEs to be viewed as a resource which can provide services more cost-effectively than the statutory sector and potentially access sources of funding not available to statutory agencies (Hucklesby and Corcoran, 2016). Whilst supporters from within and beyond the voluntary sector will extol similar virtues of the sector, they also question some of the assumptions which form the basis of government policy. Primary amongst these is that the voluntary sector should not be viewed as a cheap or, in some cases, free resource. The following quote that articulates this is from an interview that was included in Herefordshire's latest state of the sector report:

*Using local organisations is not a cheap and cheerful option but it is the best option because of the intelligence and understanding and penetration into local networks which is very hard to put a financial value on but is powerful in the way it works (Herefordshire Council, 2021: 38).*

These issues are downstream of what Clifford (2021: 2062) calls 'revolutionary changes' in local authority financing in England since 2009-2010. Not only has local authority spending fallen but changes to the funding system mean that councils are more dependent on local tax revenue. As Kitson (2024) observes, local government is an important source of the charity sector's income, providing 13p in every £1 through grants and contracts. And whilst spending on statutory services has suffered the smallest cuts, discretionary spend has been reduced significantly (Kitson, 2024). The overall trajectory of reduced public spending is clearly linked to the problems associated with commissioning (e.g. Herefordshire Council, 2021; Voluntary Action Leicester, 2024).

Macmillan and Ellis-Paine (2021) note that third sector participation in public services does not occur on a level playing field. This is because the 'third sector' is not a homogenous entity but a diverse

aggregation of different kinds and sized organisations. Commissioning processes can also overlook bespoke, place-based delivery from local VCFSEs in favour of generic delivery from large national providers, as noted in a report from Herefordshire: “Of particular concern was the award of contracts to large national organisations based outside of the county in preference to those that are rooted within the communities in which they serve.” (Herefordshire Council, 2021: 38).

The Civil Society Strategy (2018) argues that the current public service delivery model favours large companies who can navigate complex commissioning systems, carry risk and bid competitively. Herefordshire Council has noted this trend:

*There is a real conflict in terms of commissioning regardless of all the social value. Things are always commissioned on the lowest cost basis and too often large organisations come in because they have the capacity to tender. (Herefordshire Council, 2021: 38).*

There are two risks with the current model. Milbourne (2009) notes that, through commissioning, smaller and more local organisations will be muscled out by larger organisations. Meanwhile, the challenges of service delivery in rural areas can be underestimated by large national providers, leading to contracts being handed back which can have a negative impact on individuals and communities.

When we consider that 80.34% of the sector is made up of micro or small organisations (NAVCA, 2021), it becomes clear that current commissioning processes and requirements are not appropriate for a large proportion of VCFSEs. As HM Government itself points out, commissioning processes can fail to ‘recognise the added value that small and local organisations can bring’ such as local knowledge and support, additional resources, flexibility and commitment (HM Government, 2018: 105-6). These smaller organisations tend to be more engrained in their local communities, providing services that are both relevant and responsive to local need. The Centre for Social Justice Foundation has found that:

*76% of UK adults agree that small, local charities understand communities better than organisations such as government or larger, national charities (Centre for Social Justice, 2024: 12).*

In summary, some VCFSEs just do not have the capacity, capability, infrastructure, expertise and willingness to deliver public services as they are currently commissioned (Hucklesby and Corcoran, 2016). Consequently, smaller organisations with embedded characteristics such as local knowledge and trust, will be lost to the service system.

## **Funding and sustainable investment**

Funding is amongst the most contentious high-stakes issue, entangled with questions about resource distribution, fairness, value for money, expectations and the protocols of quality assurance, governance and reporting. The VCFSE sector as whole is funded via a mixed portfolio of grants (e.g. the National Lottery Community Fund or trusts and foundations), individual or corporate donations and legacies, fundraising events, trading, membership fees, endowments, investments as well as contracts and commissioning via public sector contracts from the local authority, NHS, HM Prison Service or the Police and Crime Commissioner (NVCO, no date).

## **Income**

The Civil Society Almanac shows that, for the first time in a decade, overall voluntary sector income declined in 2021/22 (NVCO, 2023). Given that voluntary sector income has been increasing year-on-

year since 2012/13, NVCO attribute the fall in income to the effects of the Covid-19 pandemic. They show that, despite an increase in government income (largely as a result of furlough and emergency funding for charities), overall sector income declined by £1.8bn (3.06%).

The Community Foundation (2023a) demonstrates that income is not evenly distributed across the sector (Figure 1). Micro-organisations constitute just under 35% of the third sector, but they receive less than 1% of sector income. By contrast, the largest organisations command nearly 72% of sector income, but only constitute just over 5% of organisations (Community Foundation, 2023a).

(Third Sector Trends Register data 2022, income n=135,030, organisations n=187,270)

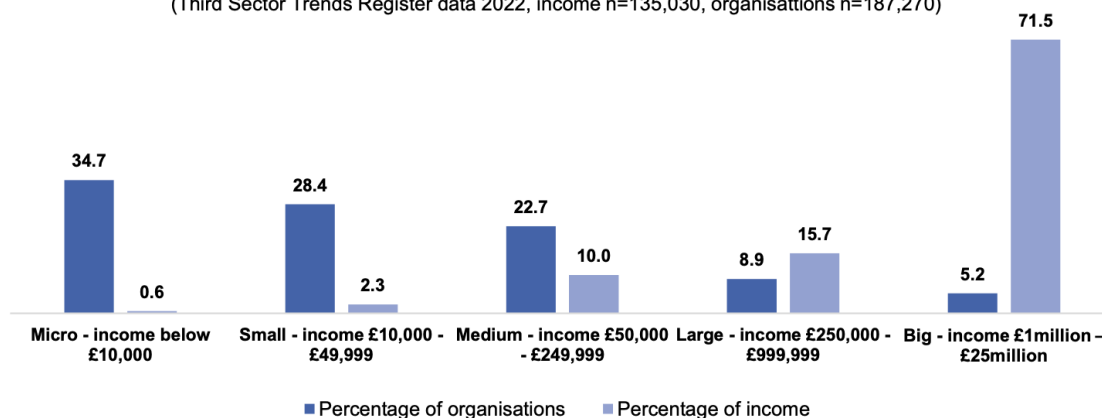


Figure 1: Distribution of organisations by distribution of third sector income (Community Foundation, 2023a).

## Long-term funding and the cost-of-living crisis

Funding and service sustainability appear as high priority areas for VCFSEs nationally. 28 out of 33 State of the Sector reports sampled mention long term funding as an issue. In some reports, up to 90% of organisations surveyed are worried about funding in the future (e.g. 3SG, 2021). As a result of these worries, VCFSEs are increasing their efforts to secure funding from diverse sources, e.g. individual donations, fundraising events, philanthropic agreements, business investment and active trading. Even though these sources can provide much needed capital injections when attracted, they are unpredictable. Significant effort goes into securing them, from outreach and campaigning to hunting down grant opportunities and making applications.

Downturns in the national economy can impact funding significantly. It is important to note that, while the quantitative effects of the current cost-of-living crisis are not yet clearly visible in published data, they are felt nonetheless. NVCO (n.d.) has identified four key financial threats to the VCFSE sector from the cost-of-living crisis:

- Increased running costs
- Increased salaries
- Increased interest rates
- Lower public donations

Research conducted by Understanding Society (a think tank) shows that donations to charities fell by half in 2022, attributed the cost-of-living crisis (Understanding Society, 2024). As in the case of commissioning, where funding must be equated exactly to what is being delivered and planned, it is difficult to secure investment for services and activities that are flexible and responsive to changes such as sudden disruptions (Herefordshire Council, 2021), Covid and its lasting impacts (3SG, 2021) or the increasing incidence of in-work poverty (The Work Foundation, 2024). While such disruptions are felt nationally, the specific challenges that they pose to communities can change from locality to

locality. As Thurrock CVS's report (2023: 16) notes, "funding is getting more challenging and time consuming. We need funding to follow the service user."

Meanwhile, eligibility criteria can be an issue in securing funding, especially where grants are concentrated on a particular issue or theme. Organisations can, therefore, struggle to attract funding and plan into the future if their services and/or activities do not align with funders' priorities. This problem was exacerbated in the aftermath of the Covid-19 pandemic. The Action Hampshire report (2021: 36) summarises this issue as follows:

*As the Covid-19-specific grants have closed, some organisations have found it much harder to access grant funding. An interviewee explained, "There is so much demand for grants. It was hard before but it's even harder now." Another reflected, "A lot of funding that we would usually apply for doesn't seem to be available or is geared towards Covid-19 rather than our usual business".*

The Institute for Voluntary Action Research (n.d.) have produced eight commitments to managing grants and relationships in a way that reflects funders' confidence in and respect for the organisations they fund (Table 5).

Commitment	Summary
Don't waste time	Explain priorities clearly; be open and transparent about requirements and exclusions.
Ask relevant questions	Collect only the information needed to make the funding decision; test application forms to remove ambiguity and overlap.
Accept risk	Review requirements for minimum reserve levels, financial projections etc; remove detailed activity plans and trust organisations make their own operational decisions.
Act with urgency	Make decisions in a timeframe that meets the needs of applicants.
Be open	Be transparent about decisions; give feedback; publish success rates and reasons for rejection.
Enable flexibility	Give unrestricted funding which allows recipients to respond to changing priorities and needs; contribute to operating costs as well as project costs.
Communicate with purpose	Be clear about time commitments; jointly agree expectations; be open to challenges in the grant relationship.
Be proportionate	Light touch, proportional, meaningful reporting;

Table 5: Eight commitments to managing grants and relationships (Institute for Voluntary Action Research, n.d.)

## Use of Reserves

The difficulties of finding and applying for appropriate funding streams creates a lack of certainty about future finances, meaning that VCFSEs - particularly micro and small ones - have to use their reserves to keep afloat (Colebrooke et al. 2023).

Research on England and Wales from the Community Foundation (2023a) shows that, in 2022, most organisations in the third sector held reserves (83%). Around 45% of them had not drawn on their reserves in the last year. A positive reading of this is that these organisations are not struggling. A less positive reading is that they are not investing in new activities. Indeed, the same research shows that only about 16% of organisations had invested reserves in new activities, while about 32% had used reserves for essential purposes such as rent or wages.

As might be expected, holding reserves is much more common amongst larger organisations: in 2022, 99% of the biggest organisations had reserves compared with around three quarters of micro-organisations. However, they are equally likely to have drawn on their reserves. Using reserves for essential costs is similar amongst micro and small organisations (25-28%). Medium-sized organisations are most vulnerable in this respect (34%). Around 30% of large and the biggest organisations have used reserves for essential costs (Table 6).

In some areas, organisations report having a few months of reserves left, using these to plug gaps in their finances to stay afloat (3SG, 2021). One state of sector put this point across starkly: “The sector is struggling financially and drawing on reserves to make ends meet. This is not sustainable!” (SAVS, 2022: 6).

The lack of sustainable funding means that the best organisations and/or groups can do is “to stay the same” (CVSCE, 2023: 41). While ensuring that an organisation and/or group can continue operating and delivering in the same way seems to be regarded as a mark of success (many organisations do get pushed over the edge and exhaust their reserves), increased demand can disrupt this fragile balance.

	<b>Micro</b> Income below £10,000	<b>Small</b> Income £10,000- £49,999	<b>Medium</b> Income £50k- £249,999	<b>Large</b> Income £250k- £999,999	<b>Big</b> Income £1m - £25m	<b>All Third Sector Orgs</b>
No, we don't have any reserves	25.8	18.7	11.6	4.6	1.4	16.4
No, we have not drawn on our reserves	43.2	44.5	45.7	48.7	49.5	45.2
Yes, we have used our reserves to invest in new activities	5.3	7.7	8.3	15.3	20.1	8.8
Yes, we have used our reserves for essential costs	20.5	22.3	27.3	23.5	16.3	22.8
Yes, we have used our reserves for both investment and essential costs	5.2	6.9	7.1	7.9	12.8	6.9
<b>N =</b>	<b>1,795</b>	<b>1,633</b>	<b>1,482</b>	<b>694</b>	<b>368</b>	<b>5,972</b>

Table 6: Ownership and use of reserves by size of organisation (England and Wales, 2022) (Community Foundation)

## Section 114 Notice

A looming threat to the finances of VCFSEs is the parlous state of local authority finances. Since 2018, eight English local authorities have issued at least one ‘section 114’ notice (House of Commons, 2024). A Section 114 notice is a formal declaration issued by a local authority in the UK when it forecasts that it will not be able to meet its financial obligations, essentially indicating that it is at risk of insolvency. Such an event has significant implications for the VCFSE sector, which go beyond the immediate risk to funding (Table 7). These impacts range from immediate financial difficulties and disruptions to service delivery, to long-term strategic challenges and changes in the relationship between voluntary organisations and local authorities, particularly impacting trust. The critical interdependence between local government and the voluntary sector in delivering essential services to communities, particularly to the most vulnerable, means that a Section 114 notice has effects far beyond the council.

Outcome of 114 notice	Summary of Impact
<b>Short-term impacts</b>	
Suspension of spending by local authority	<ul style="list-style-type: none"> <li>• Cash flow</li> <li>• Reduced service provision</li> <li>• Closure of organisation</li> </ul>
Disruption of services	<ul style="list-style-type: none"> <li>• Services are reduced or withdrawn, impacting vulnerable populations</li> <li>• Contract uncertainties (renegotiation, termination)</li> </ul>
Increased demand	<ul style="list-style-type: none"> <li>• Support is sought from a voluntary sector organisation to replace the withdrawn service</li> <li>• Downstream effects: increased demand on organisations providing advice and guidance (e.g. CAB) or mental health support</li> </ul>
<b>Long term impacts</b>	
Financial viability and sustainability	<ul style="list-style-type: none"> <li>• Impact on long term planning and strategy</li> <li>• Impact on reserves</li> <li>• Staffing reductions</li> <li>• Broader economic uncertainty dampens fundraising and donations</li> </ul>
Strategic shifts and adaptation	<ul style="list-style-type: none"> <li>• Adapt delivery – e.g. in-person to online, prioritise core functions</li> <li>• Collaboration and merger</li> </ul>
Trust and relationships	<ul style="list-style-type: none"> <li>• Trust between VCFSEs and local authority is compromised</li> <li>• Long term partnerships are jeopardised, affecting future collaboration</li> <li>• Contraction of the sector</li> </ul>

Table 7: Impact of Section 114 Notice on VCFSEs (after Kitson, 2024).

Kitson (2024) shows that, between 2009-10 and 2020-21, local authorities had already cut funding to charities by 23%. Further cuts were anticipated, with 28% of charities that work with local authorities predicting that their funding would fall over the next 12 months. Meanwhile, 53% of charities said that the financial difficulties in local authorities presented a moderate to high risk (Kitson, 2024).

Questions about commissioning, sustainable funding and the existential risk of Section 114 bleed into the issue of the role of the voluntary sector as a 'safety net' and the degree to which their functions are appropriated by the public sector, an issue to which we now turn.

## Substitution and appropriation

Power and Skinner (2019) note that, since the 1980s, the scale and scope of the voluntary sector as a vehicle for service delivery has increased in the face of a shrinking welfare state and public health and social care provision. As a result, VCFSEs have become part of what is commonly characterised, after Wolch (1990), as a 'shadow state', through which not only delivery but also risk and responsibility have been devolved to non-state actors as they fill the gaps in welfare provision. Substitution is what happens when VCFSEs step in to provide services that have traditionally been the responsibility of the government, becoming a 'safety net'. As one respondent in the Support Cambridge (2023) report observed:

*Many of our clients would slip through the net if there were not volunteer led community schemes to help them.*

Thus, substitution and appropriation refer to how the VCFSE sector is viewed and mobilised by external bodies, such as healthcare systems. The heart of the sector lies in adding value to communities via the provision of support, but shifts in this role are identifiable (see, for example, Hogg and Baines, 2011; Acheson et al. 2022). The best example of a shift in tone can be seen in UK national government documents. The view in 2011 was aligned with VCFSEs supporting public services (UK Government, 2011). More recent documents relate to the VCSFE sector as if it is an arm of public sector, aligned with models of public services design and delivery (UK Government, 2022). Alongside this rhetorical shift is an operational one: VCFSEs have stepped into provide services that were once run by public services in some areas (substitution). In some cases, VCFSEs are expected to operate like public sector organisations, a process we refer to as 'appropriation.'

Appropriation is the integration or co-opting of voluntary sector resources, methods, or roles by the public sector and with the specific result that the sector is required to perform as if it is an arm of the public sector with the same demands on quality, consistency, accountability, governance, equity and access. National government, local authorities and the NHS wish to harness the qualities of flexibility, responsiveness and innovation through joint mechanisms for commissioning, service design and delivery, and service evaluation (HM Government, 2018). However, a closer working relationship between government and the VCFSE has brought increased bureaucratisation, greater expectations over service delivery, and coverage and control over client groups (DeVerteuil et al 2020; Hucklesby and Corcoran, 2016).

Whilst there is a powerful strategic rhetoric of working in partnership between VCFSEs and public services, the power relationships are far from equal, and partnership can rapidly tip over into appropriation. VCFSEs may experience increased demand, but with little additional funding, as noted by WCAVA (2023: 62):

*In some cases, it was noted that public sector organisations are increasingly relying on VCSE organisations through formal and informal referrals, but without providing funding. Although relationships with individual officers were generally positive, several interviewees felt that there are pockets of disrespectful attitudes towards the sector.*

Carmel and Harlock (2008) refer to the shift towards appropriation as an attempt to create the third sector as a 'governable terrain' through narratives, strategies, administrative and policy changes. These define and impose a certain kind of order onto an otherwise privately organised and variably regulated group of organisations. Not only does this add a new administrative burden, but it risks damaging the impact of VCFSEs on the people and communities they seek to serve. This is because, as Dascombe (2011) argues, unlike the market and (to an extent) the public sector, the work of voluntary organisations precludes elegant (and stringent) performance measures. There are specific reasons why this is the case:

- Difficulties identifying suitable measures of success due to the long-term mission of voluntary organisations and the aspirational nature of their goals (Drucker, 1990).
- The inadequacy of financial measures in capturing the social impact of the voluntary sector (Kaplan, 2001).
- The diversity of virtues ascribed to voluntary organisations – such as democratic value, trust, and the ability to generate social capital – all raise serious challenges to performance management regimes intending to assess the voluntary sector's work (Lindgren, 2001; Kendall and Knapp, 2000).

One of the key risks to the 'safety net' is paid workforce and volunteer recruitment and retention, issues to which the next section turns.

## Recruitment and retention

Research from the Community Foundation (2023b) in England and Wales shows that the third sector employed about 1.1 million people in 2022. Around 40% of organisations are employers. Meanwhile, regular volunteers commit, on average, around 72 hours work per year or six hours a month. In 2022, there were about 4.3 million regular volunteers working for third sector organisations in England and Wales, contributing 312 million hours of work. If this work was remunerated to the equivalent of the National Living Wage, it would amount to £3billion of paid hours. At 80% of average wages, would be nearly £5billion (Community Foundation, 2023b).

Data from the Community Foundation (2023b) also shows that the South West has 487,000 regular volunteers and employees working for third sector organisations. Volunteer effort in the region amounts to the equivalent of 21,000 full time regular volunteers, whilst the estimated number of full-time volunteers is 97,700 (Community Foundation, 2023b).

Despite the impressive scale of voluntary effort, recruiting and retaining volunteers is a key challenge. In April 2024, the VCSE Barometer Survey by the VCSE Data and Insights National Observatory showed that four in ten VCFSE organisations reported lacking sufficient volunteers to meet their primary objectives (Evans, 2024). Further, organisations have cited volunteer recruitment as a top three concern in every Wave of the Barometer over the past year, with 61% of organisations finding it difficult to find the volunteers they need (Evans, 2024). Organisations cite the public's lack of time and interest as the main barrier to recruitment. The pressures of family, caring and work responsibilities as the main reasons for difficulties retaining volunteers (Evans 2024). As one respondent noted in the Support Cambridge report (2023):

*We can recruit volunteers for one-off events but finding people who are prepared to make a regular commitment (e.g. monthly meetings, decision-making roles) is proving difficult since the pandemic.*

Meanwhile, several sources point to the challenges of recruiting and retaining paid staff. The VCSE Barometer Survey found that 82% of charity employers tried to recruit paid staff in 2022/23, with 71% saying that recruitment had been difficult. More than half of charity employers (54%) reported that they had vacancies, with 83% saying those vacancies were proving hard to fill (Larkham and Mansoor, 2023). Community Foundation research shows that about a fifth of Third Sector employers report that retaining current paid staff has become 'quite a lot harder', while only 3% feel that it has become 'quite a lot easier'. Problems with recruitment are more acute: 43% of employers report difficulties with recruitment (Community Foundation, 2023b).

Burnout and low morale are a real possibility for the VCSFE workforce. However, the strong motivation to help seems to mitigate the pressures in some places. This is the case in Hertfordshire where:

*[the] VCSE workforce remains highly motivated (90% agree), and 73% agreed that staff morale was high, with nobody disagreeing. The results suggest that, although the workforce is generally happy, with so many staff working more than their contracted hours, there is a danger of long term staff disenchantment with their roles and even burnout.*

As noted in VCSA Shropshire's report (2023), there is a vicious cycle of staff working at capacity, and the organisation having a desire to grow but finding funding hard to obtain or difficult to apply for.



## Conclusions

*The workings of the Third Sector might not be neat, but it knows what it is good at  
(Community Foundation, 2023b)*

This conclusion looks ahead to challenges that might arise from the issues outlined in this report.

## Commissioning

The creation of the ICS represents a once-in-a-generation opportunity to transform commissioning if the will exists to do so. Models which favour those organisations which have the capacity to engage the process will continue to provide the comfort of familiarity unless some effort is made to embrace other, more collaborative models. Looking ahead, pushing for a change in the culture, let alone the practice, of commissioning will largely fall to those VCFSEs with a voice in the system – principally Spark Somerset – who can represent the experiences of the VCFSEs who feel excluded. One mechanism for doing this is through the Health Determinants Research Collaboration, which may provide a useful space of innovation for new models of commissioning to be tested.

## Funding

NVCO's Civil Society Almanac (2023) suggest that the VCFSE sector will continue to face challenges from cost-of-living pressures. Changes to the winter fuel payment, for example, will squeeze some household incomes, with an increase in demand and potential reduction in income (either via donations or trading) possible as a result.

Meanwhile, the looming threat of a Section 114 notice for Somerset presents a significant risk to the VCFSE sector, not only because funding may be cut, but demand might rise as some council-provided services are withdrawn. NAVCA are currently working on a project supporting charities to navigate the circumstances when a Section 114 notice is declared in their local area. It will be useful to keep a look out for their findings and resources towards the end of 2024.

## Substitution and Appropriation

It does not seem likely that the hollowing out of the public sector and its services will cease or be reversed in the near future. This has two implications for Spark Somerset. First, how to support existing VCFSEs – this might include mentoring, providing funding advice, coordinating peer support, or coordinating shared services (HR, payroll etc). Second, how to energise community capacity in the shape of new community groups, with support on getting set up, governance and managing finance, *inter alia*. And third, how to negotiate the role of the sector in the ICS. As the work of integration continues, the risks of appropriation must be identified and avoided or mitigated. In the near future, it will be necessary to think through how integration works for different sizes of organisation in the VCFSE sector.

## Recruitment and Retention

NAVCA (2023) note that volunteering numbers are yet to recover to pre-pandemic levels, with implications not only for the delivery of current services but also for managing increased demand. The VCSE Barometer also suggests that volunteer recruitment and retention will continue to be an issue (Evans, 2024; Larkham and Mansoor, 2023).

However, beyond question of whether individual organisations can recruit and retain volunteers, is a wider question: how can a whole cohort of organisations be nurtured? The 'microbiome' - those organisations which fall into the smallest two categories of VCFSEs by income, but which make up 50% of the sector in Somerset – are at risk in several ways. First - and this is not an issue exclusive to Somerset - they are more-or-less invisible to local infrastructure organisations, like Spark Somerset. Survey tools can only record those who respond. Other mechanisms are being explored for census methods that might make this group more visible, drawing on a suite of methods to identify and record community groups. Second, these groups rely on donations, small grants and the availability of discretionary funds. Discretionary funds from the local authority are at risk, and cost-of-living is impacting direct donations and those to grant-giving bodies like Community Foundations. Third, as noted above, as integration is operationalised, what is the role of the microbiome, and how can they be helped to flourish in the integrated care system?

### Place-based learning

On a final note, a prominent feature of undertaking this review is the lack of critical research that has been undertaken in relation to the VCFSE sector in particular localities of the United Kingdom. This is an important gap, as place-based issues must be understood *in-place* and reflected upon with all actors who experience such issues (i.e. communities as a whole) (The King's Fund, 2022). Without this level of place-based insight, it becomes difficult to create strategies and/or make recommendations beyond general experiences (Esmene et al 2024). Therefore, as well as the establishment of networks to better support VCFSEs in terms of their operations, local collectives of researchers, policymakers, healthcare bodies (e.g. Integrated Care Boards and the National Health Service), infrastructure organisations (i.e. Spark Somerset) and VCFSEs could come together to reflect upon place-based issues and participate in service design and delivery.

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