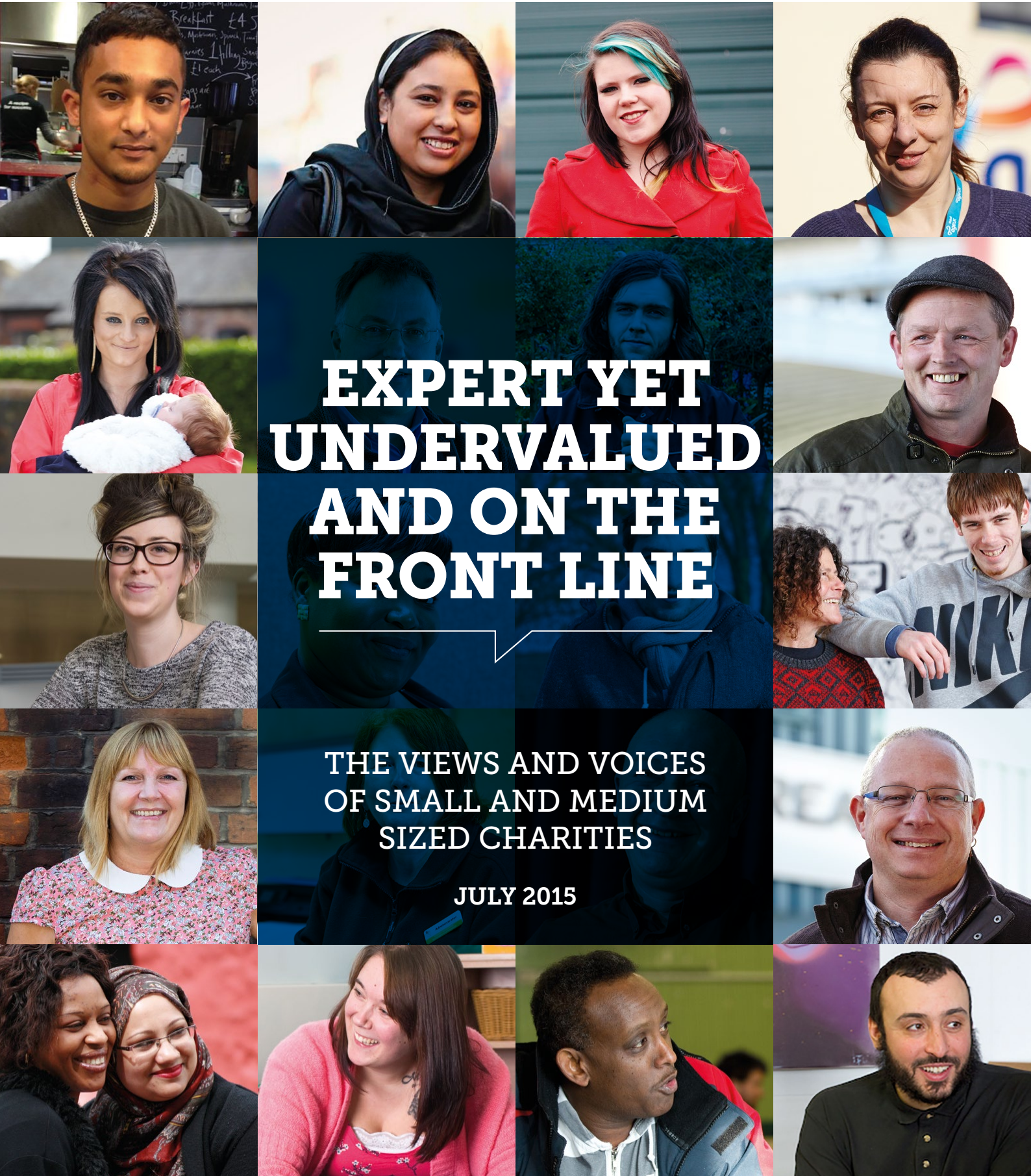




EXPERT YET UNDervalUED AND ON THE FRONT LINE

THE VIEWS AND VOICES
OF SMALL AND MEDIUM
SIZED CHARITIES

JULY 2015

BREAKING DISADVANTAGE BETTERING LIVES

About Lloyds Bank Foundation

We invest in charities supporting people to break out of disadvantage at critical points in their lives, and promote practical approaches to lasting change.

Foreword



Paul Streets OBE,
Chief Executive
of Lloyds Bank
Foundation for
England and Wales

We've been building
a picture for years of

small and medium sized charities experiencing real difficulties through having our ears to the ground – grant managers based in the field – and through published research. This report confirms what we've heard. It doesn't analyse in depth the ins and outs of these pressures; it tells the charities' stories in their own words. That's important because they have to be part of the solution both to the problems they face *and* those that society faces more widely. It is right that we provide a platform to highlight their needs and wishes. We've tried to do that here.

But whilst the words you will read in the report are peppered with challenges, the actions of those that speak them should inspire us: deeply committed people doing what they can with little to make a big difference. In spite of the problems they face they invariably do this stoically with limited resources and with great resilience: mirroring what they wish to achieve in the lives of those they touch. England and Wales would be much poorer places without them.

This is so important because it is these people in smaller, local charities that can deliver effective services to people facing multiple disadvantage. It is incumbent on all of us – government, centrally and locally, and independent funders – to work with them to find solutions if we have any concern for those in society who need them most.

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Summary

This is a tough time for charities. In this report, 800 small and medium sized charities tell their own story. Their words are compelling.

Demand is rising and it's getting more complex

9 out of 10 charities told us they are experiencing a change in demand, largely in terms of rising and more complex needs. Several reasons are attributed to this but chief among them are the effects of changes in the wider funding environment which have impacted upon those they support. Many have had to fill the void left as other, largely statutory, services close. Welfare reform and the impact of the recession on individuals have made the problem worse. People who are poorer are less resilient and need more help when things go wrong. If they can't find this elsewhere, they look to charities for support and by then their needs have become more complex and acute. For some charities these challenges are compounded by changing demographics like migration and an ageing population.

Charities are really worried about where they will find the money to deliver services

At the same time as facing increased demands charities face a number of other challenges. Many of these exacerbate each other but funding and income is the greatest. To work effectively they need core, long term funding. Balancing demand against income is increasingly difficult for many charities across England and Wales although it is particularly marked in Wales where only 38% of charities think they will be able to continue doing this in the coming years. Funding/income pressures have led to competition and difficult decisions over where to direct scarce resources both for funders and charities themselves. In such a tough environment, charities need the capacity and capability to respond. Some are taking steps to address the funding/income challenge, but for many, it's clear that there are no easy answers.

Commissioning is failing charities and failing those they support

Commissioning is a significant challenge for small and medium sized charities for many reasons but not least their difficulty in competing against large, national and/or commercial providers who typically win larger contracts. These are often priced to work with those with less complex problems and those who are easiest to help – when small and medium sized charities are typically working with those with more complex needs who require more help. The commissioning process promotes competition over collaboration, making it harder for smaller organisations to participate and work together to benefit those they reach. Too often if they are involved they end up as 'bid candy', attracting commissioners through their specialist, local services but rarely receiving referrals from the lead provider once the contract has been won. Complex bidding processes are frequently impenetrable for smaller charities that don't have the skills and capacity to compete against professional bid writers. Many struggle to meet excessive monitoring requirements which neither reflect the value of the contract nor the focus on those they exist to support. By excluding smaller charities from the commissioning process we risk losing the very specialist services which are best placed to reach those who need support the most.

Charities are increasingly tackling these problems in isolation as the networks and support charities need to be effective reduce or collapse

Charities need to be supported. For most small and medium sized charities, they are having to find this through personal contacts. Formalised support and networks bring real benefits yet charities report that availability of this support is decreasing. Small and medium sized charities are particularly keen to receive additional support with commissioning, both to navigate complex existing processes and push for change to make it a fairer system overall. Charities would also value better co-ordination of funders. Overall, effective support is needed from all stakeholders – government and independent funders, like Lloyds Bank Foundation have a role to play in ensuring small and medium sized charities can continue to meet the needs of the most vulnerable.

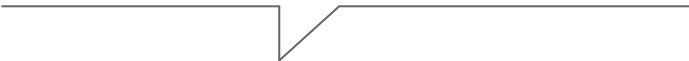
1. Introduction

In early 2015 Lloyds Bank Foundation for England and Wales surveyed 1,650 recent and current grantees (from its **Community Programme** and its **Invest, Enable and Enhance programmes**), charities working in social welfare from across England and Wales with an income between £25,000 and £1m.

The survey explored the challenges they face and what would help overcome them. A year into the Foundation's new strategy, which focuses on supporting charities helping individuals facing multiple disadvantage, the survey provided an opportunity to ensure the Foundation is meeting the needs of small and medium sized charities in the best way and to explore what it can do directly as a funder through seeking to influence the policy and practice shaping the environment in which they operate.

800 responses were received from charities, which included responses to both quantitative and qualitative questions. This report summarises and presents these findings. Throughout the report charities' own words are used – all of these quotes remain anonymous.

“
THE NUMBER OF REFERRALS
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FOR LONGER PERIODS OF TIME
”



2. Setting the scene: the changing demand for services

88% of charities that responded to the survey have experienced a change in demand for their services (Figure 1). While this pattern is evident across England and Wales, it reflects the views of 97% of respondents in the North East, compared to only 78% in the East Midlands.

For 72%, this indicates an increase in demand. The increase is often coupled with more complex demands, as individuals present with more acute needs. Even where demand for charities' services has remained static, the clients they are working with have more complex issues to deal with which in itself presents additional pressures for charities:

"Our casework clients have multiple problems and the complexity of those problems is rising."

"There has been an increased demand on services in the last few years with a 30% increase in our overall referrals. Clients are also presenting with more high risk and complex needs which in turn means that we need to increase the services we provide and the way in which we provide them."

Partly as a result of these complex needs, many charities are working with clients for much longer, requiring further resources from these charities:

"The number of referrals has increased and the needs of service users have also become more complex. This has also resulted in the need for 'move on' support to be more extensively required and for longer periods of time."

"Demand relating to more complex issues has tripled in the last three years. We have gone from 30-70% of our client group experiencing severe and enduring mental illness which means a more intensive service is needed over a longer period of time to make what might appear to be superficially smaller steps towards a positive outcome. We really believe that longer term, more intensive and therapeutic interventions are what is needed to create sustainable change. Unfortunately this is at a time when services seem to be focussing on short-term, fixed time interventions."

Figure 1

Demand for charities' services

Charities experiencing a change in demand

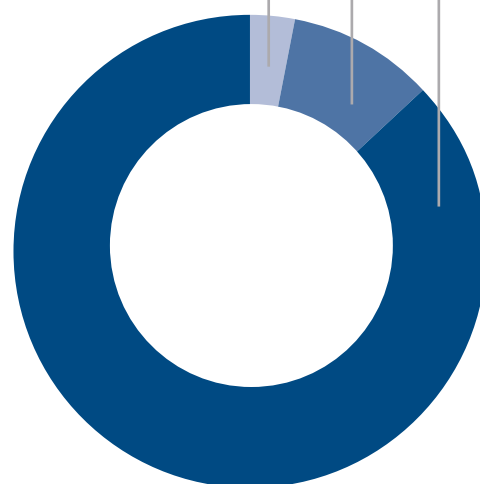
88%

Charities not experiencing a change in demand

10%

Not sure

3%



“LONGER TERM, MORE INTENSIVE AND THERAPEUTIC INTERVENTIONS ARE WHAT IS NEEDED TO CREATE SUSTAINABLE CHANGE”

There are a number of co-existing reasons that are contributing to this change in demand. Those most commonly cited are set out below.

- **A decrease in other services, particularly statutory service provision** has been a key driver of the increase in demand and of more complex needs, especially in adult social care – the lack of support can lead to intensified issues that then require more support from charities. As fewer services become available, charities have been left to pick up the pieces:

"Because there are fewer organisations available in the area we operate in (due to closures during austere times) the demand for our services has increased, and we get many more enquiries from other charities and groups who need support."

"With the reduction in adult social care across the board we are finding a greater need for the services we provide."

"Our volunteers are picking up real problems when they go into homes but there are no longer services to refer to until a crisis is reached."

"There will be an increase in demand for the sector to provide services which were previously provided by local authorities as their budgets are further reduced. The increased demand for services may not be supported with additional resources or funding so the sector may be asked to do more for less."

"The change in public sector delivery is already having a significant impact upon service users and we are being asked to bridge the gap."

- **Welfare reform has played a significant role in increasing the demand for charities' services.** This includes benefit sanctions and rising thresholds for receiving support. Charities report seeing clients with more urgent needs as a result of these provisions:

"The changes to the UK's welfare system have led to a catalogue of socio-economic crises for many of our clients, leading to more and more people approaching our centres in a desperate state seeking help and advice."

"Due to the impact of welfare reform, demand has increased significantly. Clients are seeking advice not only on one issue, but several due to the impact of welfare reform. These issues have become more complex, and [there is a] need for financial assistance with regards to food parcels and costs towards gas and electricity having increased. We have had to develop our food bank and work with other agencies as well as [the] local authority in developing a system to meet the need of emergency utility costs. Many clients who are reliant on benefits are not able to meet the most basic provisions if they have been sanctioned or have not met the criteria for employment and support allowance, or 'bedroom tax' has been applied."

“
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- **Individuals are increasingly poorer**, so are more frequently facing debt issues which can reduce their resilience and compound other difficulties:

"Welfare rights, finance and debt are now primary issues. In previous years young people, skills, training and crime were primary issues."

"As we are working with the more marginalised communities any deficit hits them immediately; we have seen a rise in need for food parcels/threatened eviction for non payment of bills/rise in fuel poverty and debt."

"Debt continues to be a problem for many clients but the nature of debt problems has changed. We are now seeing far more 'priority debt' e.g. rent or mortgage arrears, council tax debt. The potential consequences of not dealing with these problems are far more serious for clients than non-priority debts."

- For some charities, **the UK's changing demographic is contributing to a change in demand** in terms of levels and types of services. This includes both an ageing population and more recent waves of immigration.

"With the ageing population our services are becoming more in demand and the focus is on prevention."

"Older people are living longer with more complex needs but wish to remain independent too. The changes in demand are more complex requirements because of this."

"The number of homeless people... (especially Eastern European migrants) has increased over the last year."

The increase in demand experienced by charities may not always signify an increase in overall need – it is often an inability to access support elsewhere which is driving up demand for charities' services. For one in ten charities experiencing an increase in demand, they attribute the change to developing more services (11%) or increasing their own profile and reputation (10%).

The additional burden on charities raises questions of whether they will be able to continue meeting needs. While 60% of charities in London and the East Midlands believe they will be able to balance demand against income over the next two years, only 38% of those in Wales are equally confident. These charities typically work with individuals who have been unable to benefit from services elsewhere. This raises real concerns over who would meet these needs if the small and medium sized charities don't survive.

“CLIENTS ARE SEEKING ADVICE NOT ONLY ON ONE ISSUE, BUT SEVERAL DUE TO THE IMPACT OF WELFARE REFORM”

Summary: the changing demand for services

- Charities are overwhelmingly experiencing a change in demand, both in terms of increasing demand and the nature of demand becoming more complex.
- The changes in demand are largely attributed to:
 - decreasing availability of services elsewhere (especially statutory services)
 - welfare reform, leading to more acute needs
 - people are becoming poorer so are less resilient
 - changing demographics e.g. migration and ageing population.
- Charities need to be supported to meet this demand if the needs of the most vulnerable are to be met.

3. Challenges faced by charities

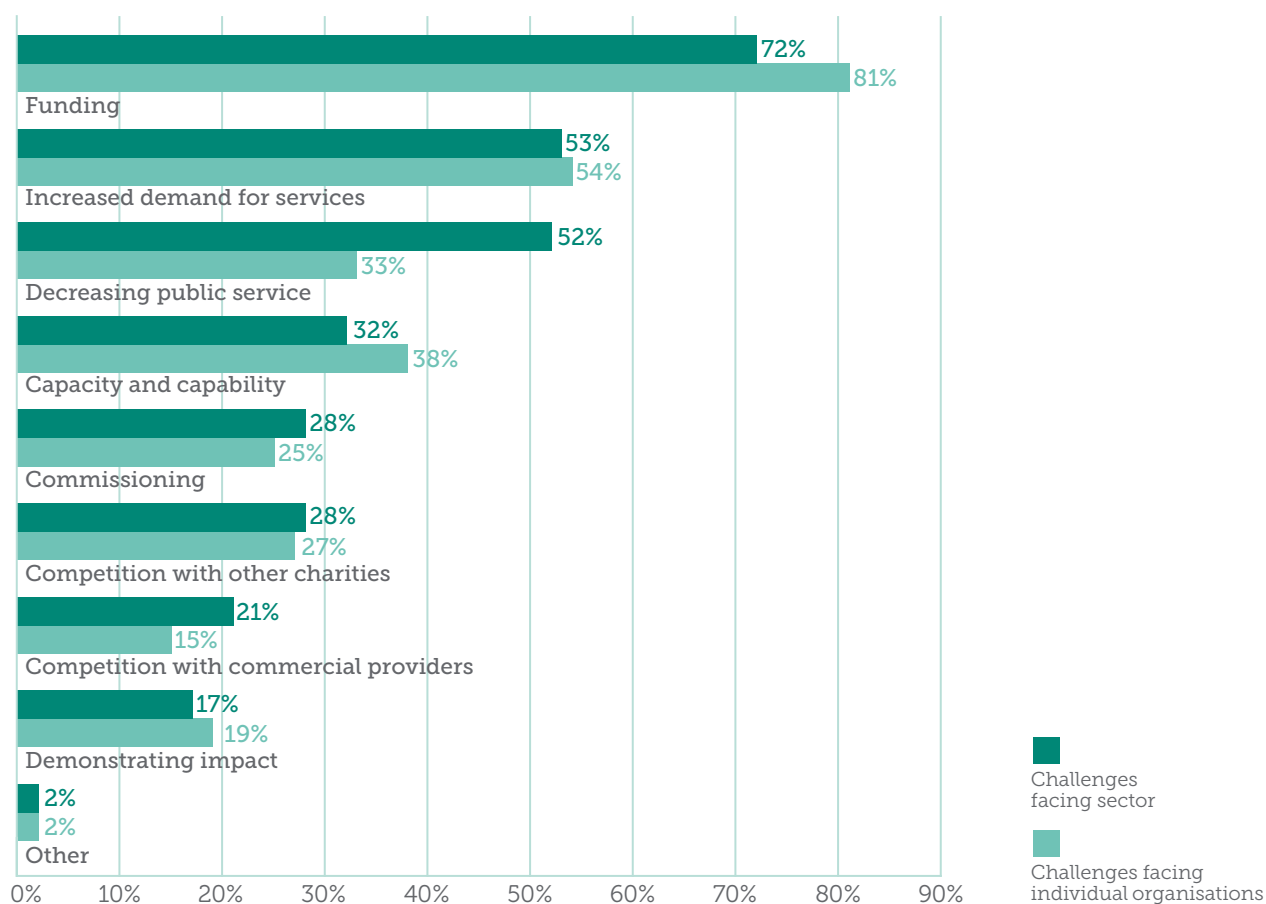
While experiencing an increased demand for services, charities are also facing a number of additional challenges concurrently. The survey explored the nature of these challenges and how they are being addressed.

Charities were asked to identify the three biggest challenges facing both their own organisation and the sector more widely over the next two years. Challenges for individual grantees' own organisations largely reflect the challenges faced by the sector as a whole, as highlighted in [Figure 2](#).

Figure 2

Main challenges facing the sector and individual organisations

(percentage of charities identifying issues as one of the top three challenges)



Many of these are inherently inter-related and can exacerbate each other:

"The sector faces all of these challenges and all will remain important in the next two years."

"The biggest challenge is that we are now facing all of these challenges simultaneously."

3.1 Challenges faced by charities: funding/income

72% of respondents believe that funding is one of the biggest challenges charities face, particularly at a time of increased demand for services:

"While the need increases, our ability to attract funding is increasingly difficult."

Almost two thirds of charities believe their ability to secure funding will get harder still over the next two years (Figure 3): charities are experiencing an increase in demand whilst facing a decrease in available funding. 32% of charities think their financial viability over the next two years will be either 'quite difficult' or 'very difficult' in terms of balancing income with demand for services.

Within these figures, there is some variation according to organisation size and location. Charities with an income of between £100,000 and £500,000 are the most pessimistic about their ability to secure funding over the next two years – 68% believe it will get harder. This is 10-12% higher than charities with an income of less than £50,000 and those over £500,000. Larger organisations the Foundation funds are the most confident, with 60% describing their future financial viability as either 'strong' or 'acceptable'.

In Wales, 70% of charities believe it will get harder to secure funding, 11% higher than the lowest area of England in the North East and 7% higher than the England and Wales average. The more positive funding outlook in the North East is particularly notable because it coincides with the highest change in demand evident in the same area.

Throughout the survey, the need for core and long-term funding was strong, as indicated when asking what charities would need to thrive rather than just survive:

"Long term core funding for advice. This would allow us to lever in additional funding for more innovative and developmental work, leading to a better service and a more sustainable advice offer."

"Stable core funding providing stability to explore diversification of other income sources."

"The greatest advantage to us would be funding for longer periods of time rather than the maximum of usually 3 years at present. An extended period of funding would enable our project to really develop instead of continually chasing the next pot of funding. The ability to concentrate completely on the work being undertaken would enable us to thrive."

“WHILE THE NEED INCREASES, OUR ABILITY TO ATTRACT FUNDING IS INCREASINGLY DIFFICULT”

Figure 3

Charities' predictions of securing funding over the next two years



Beyond this agreement, survey answers indicated a degree of conflict between charities as to where limited funding is directed. Many funders and commissioners seek innovative services and solutions but this may put those delivering established and effective interventions at a disadvantage. There is a need for:

"Funding for ongoing, unexciting but critical core work, not just for innovative creative new projects."

"Funders putting fewer restrictions on funding – they all want to fund things which are 'new' and 'innovative,' but what about things which are already proven to be successful?"

"Some people always want innovation, what is wrong with established services which have proved effectiveness already?"

There are also debates about whether prevention and early intervention work should be funded over more reactive services, as existing services that address problems after reaching crisis point continue to be needed:

"Recognising that though we would all love to address the cause not the symptoms, sometimes sticking plasters and bandages are needed to keep people from bleeding to death (metaphorically speaking). As long as there is poverty, there will be a need to 'rescue' people from the worst effects."

Yet the importance and potential of tackling the causes of issues is widely accepted:

"A recognition that early intervention work can prevent the escalation to more severe issues."

"We operate in one borough, it is important for the local authority to recognise and fund our early help work which stops problems becoming acute and would cost the local authority lots of money."

In an ideal scenario, funding would be available for both preventative and reactive services to operate in tandem but the pressures on funding appear to be forcing decisions to be made about whether prevention and early intervention should be prioritised over more traditional services.

3.2 Responding to the funding/income challenges

As a means of attempting to meet the funding/income challenges they face, charities are undertaking a range of measures to diversify their income, as demonstrated in [Figure 4](#). They are being proactive in the face of adversity and typically recognise that it is unlikely that there will be one action they can take to tackle funding/income challenges:

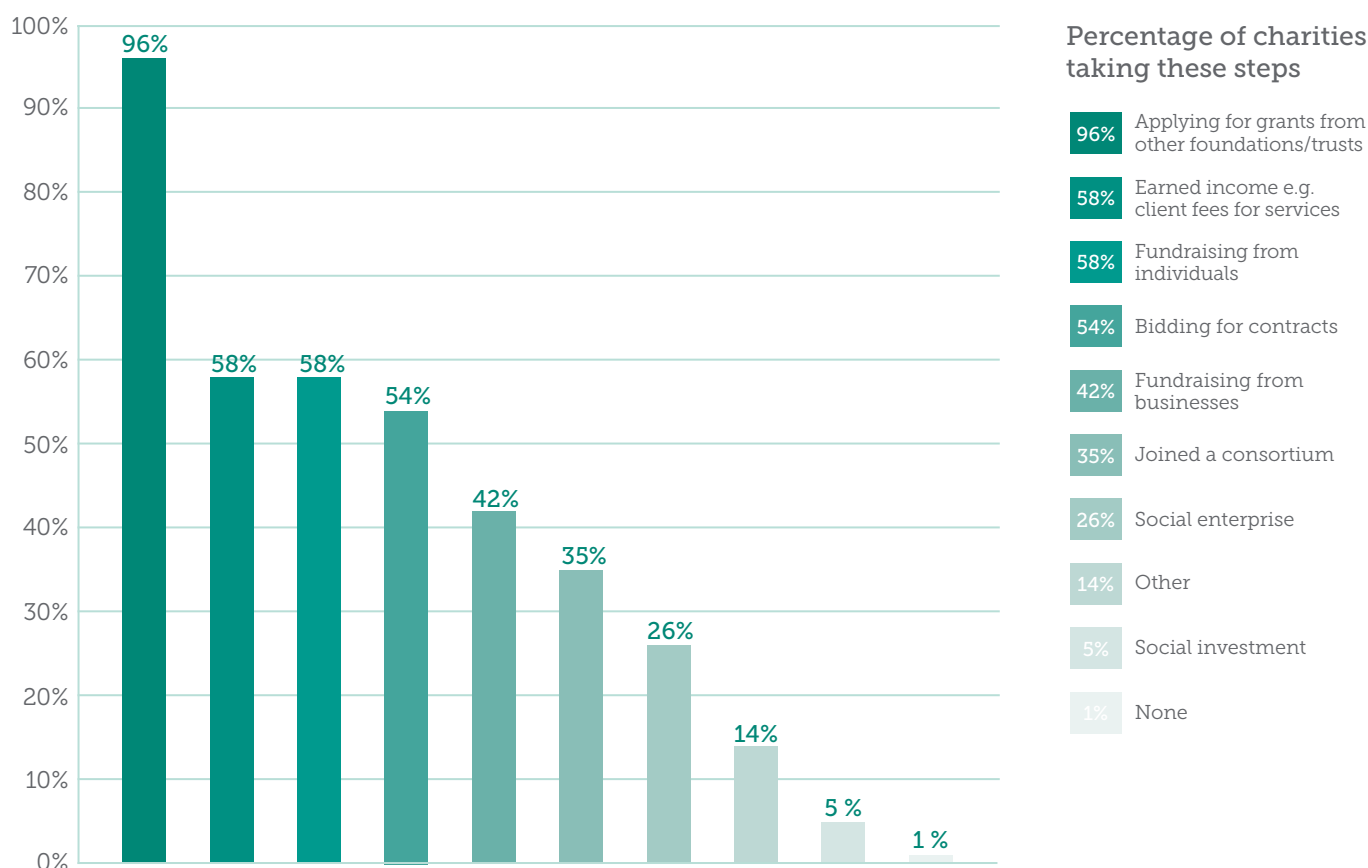
"The key for us is having a diverse income stream."

“
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“
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”

Figure 4

Steps charities are taking to try and diversify their income



Where new income streams have been sought, there have been mixed results with some charities facing success while others are struggling to reap the rewards of their strategies.

3.2.1 Responding to the funding/income challenges: fundraising

All of the charities surveyed receive or have received a grant from Lloyds Bank Foundation for England and Wales so it is not surprising that 96% are applying to other trusts and foundations to help diversify their income. A number of charities have also attempted to diversify their income through other fundraising activities, particularly through organising fundraising events:

"More recently we have been successful in receiving funding from individuals (mainly via challenge events) and local businesses (e.g. being Charity of the Year). Receiving income from these newer sources has naturally developed as our charity has grown and our staff and users have become more widely networked. We are currently working hard to improve these areas of our fundraising, mainly by creating a greater online/social media presence."

"We are looking to develop further links with businesses and have received some small support from some businesses such as Waitrose for particular events/activities. We also hold regular fundraising events/initiatives to encourage donations from individuals and to find new regular givers."

“RECEIVING INCOME FROM THESE NEWER SOURCES HAS NATURALLY DEVELOPED AS OUR CHARITY HAS GROWN AND OUR STAFF AND USERS HAVE BECOME MORE WIDELY NETWORKED”

Fundraising requires investment in time and resources so charities have found that it does not necessarily present a simple solution:

"All of the above require significant initial investment and present financial and operational risks to the charity. We have yet to experience the benefit of these investments, but are confident these will contribute to reduced risk and increased financial sustainability for the charity in the long term."

"We have diversified our fundraising to introduce ongoing schemes, including a charity membership scheme to secure annual income. We secured very good income from corporate partners last year, but unfortunately have not resourced this area well enough so have not managed to consistently achieve."

This investment has offered real opportunities for some charities in terms of financial return:

"Employing our own Fundraising Officer has enabled us to support individuals (and to some extent businesses) who raise funds for us."

"A new charity shop and fundraising team is diversifying income and rebuilding reserves."

"We have launched a fundraising volunteer team in the last year, which has been a great success and we also now earn income from the sale of training."

It has also offered wider benefits to some:

"Community fundraising is an important part of our activities, contributing both to fundraising and to outreach to the community – financial returns are modest in relation to effort expended, but awareness raising is an important product."

"We have done a lot of fundraising ourselves – not only to earn more money but also in order to raise the profile of the organisation. This has been quite successful."

3.2.2 Responding to the funding/income challenges: consortia

35% of charities have joined a consortium to try and increase their capacity and income in light of the funding challenges they face. Consortia can offer charities the opportunity to gain new skills and enable them to apply for additional funding. Yet successful relationships take work and survey responses show that charities have experienced mixed results from pursuing them. Some have seen benefits beyond financial impacts:

"We have joined a consortium of local advice agencies to apply successfully for a Big Lottery grant ... that has been useful in helping us learn from one another and take advantage of joint training, monitoring of outcomes etc. in a constructive and helpful way."

"Because we are a collective we each brought areas of expertise to the process."

Others have faced more challenges:

"We are looking at potentially joining a consortia/partnership but previous experiences have meant that this can be fraught as many organisations have different ethos and value bases which sometimes conflict and it makes it hard for the smaller/medium sized organisations to take part."

**“WE HAVE
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FUNDRAISING”**

**“FINANCIAL
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"The consortium work has yet to yield funding results."

"We do all kinds of things with varied measures of success. The consortium was an expensive disaster, wasted a lot of money and time on partnership models and although the Council said it wanted to encourage consortia it was the least efficient way to deliver services due to the complex governance issues."

In one example, a charity has used consortia to ensure the needs of its clients are represented, even where there may be no financial gain to its services:

"We can see that financially we will not benefit even if the consortium wins the tender but we need to be at the table to advocate on behalf of people with a disability... If someone with a disabilities remit isn't part of the consortium then disabled people will lose out. But our dilemma is that we will not get any money for this work regardless of the success."

3.2.3 Responding to the funding/income challenges: social finance

Social enterprises are businesses that trade to tackle social or environmental issues. Social investment refers to the use of repayable finance to achieve a social aim as well as financial return. Approximately a quarter (28%) of charities surveyed used either or both of them to diversify their income. There is a recognition, however, that it does not always work: it is not always feasible and doing so can mean overcoming a number of start-up barriers:

"We are investigating the possibilities of social enterprise, but have not taken any definite steps yet."

"Chargeable services should ideally be a part of a social enterprise and we are currently looking at options for developing a social enterprise approach but we need more resources for legal and business advice."

"We have tried to start a social enterprise but any business in its first few years needs cash and cannot afford to give cash to the charity so it is very much a long term solution. Also the charity does not have the funds to put the amount of cash needed to start a business and with business failure rates the trustees would not like to go for loans"

"We have considered, and continue to consider social enterprise and social investment but the majority of our work is just not suited to this model."

For those that have developed social enterprises, mixed results are evident:

"Successfully earning income from social enterprise"

"We've developed a social enterprise that works with both individuals and also public sector bodies – this is generating a small but growing amount of income."

"Our income from social enterprises has not been as high as hoped however the businesses are in operation and are breaking even whilst delivering a social benefit."

"Two attempts at social enterprise schemes have failed."

"Our social enterprise efforts have all cost us money to date."

It is clear that careful planning is necessary when moving towards a social enterprise strategy. Experiences shared throughout the survey show that the investment both in time and resources can be intense and charities need to be prepared for this and plan adequately:

"We have tried without medium term success to build up a social enterprise – set up costs and low turnover at the outset are the major problems, with a risk concern about taking on start-up loans."

"We had to close the social enterprises as we got too ambitious and started three all at the same time. We had short term resources to run them but nothing to sustain them through the first two years. Although they did not lose money they did cost the charity a huge investment of time which could have been better used to raise funds. Also, at the time, they created structural issues for the charity (such as the Local Authority demanding full rates and stating that they were not eligible for a charitable rates rebate)."

While the potential of social enterprise appears to be increasingly explored, fewer charities are engaging in other forms of social finance such as social investment. This may be because of a lack of understanding and a limit on which organisations can see it as a viable alternative income stream:

"We are reluctant to engage with social investment companies due to the loan element however, we recognise that this may be something we need to investigate further in the future."

"It is very difficult to make our work appear as a 'product' for social investment without compromising our mission or values."

3.2.4 Responding to the funding/income challenges: capacity and capability

Charities' ability to tackle the myriad of challenges they face can be hampered by internal capacity and capability issues. For example, in terms of securing income/funding, while a range of options may at first appear available, charities may be limited regarding which income streams they can try to develop due to capacity issues within the charity:

"There is a limit to what earned income or donations small local charities can obtain. As the director, there is a limit to my time and expertise in fundraising outside of statutory contracts and trusts."

"All this is very dependent on very scarce Trustee and volunteer resources."

"We would like to diversify our income but struggle with a lack of internal resources to deliver on our idea e.g. social enterprise or fundraising campaigns, corporate sponsorship etc."

Building capacity and capability in these areas can bring its own challenges in terms of impact upon staff.

"I think the smaller charities like ourselves can and do provide excellent services. However, they sometimes fail to carry the gifted people who understand development, growth and capacity. They may be excellent at what they do but they are not skilled in grant applications or understanding how commissioning works etc."

"My worry is serious over-work for staff who are totally committed to the delivery of the services."

Limitations are not only about internal capacity and capability issues. Some income streams are simply not viable for some charities. For example, those supporting the most marginalised groups cannot charge for services as those they work with would not be able to afford to access them:

"We cannot charge our clients. We deal only with the poorest and most vulnerable who are already in financial difficulties. They cannot pay for services."

“ALL THIS IS VERY DEPENDENT ON VERY SCARCE TRUSTEE AND VOLUNTEER RESOURCES”

Summary: challenges faced by charities

- Small and medium sized charities face a range of challenges and the sheer number of these challenges exacerbates them.
- Funding/income is the greatest challenge faced by these charities.
- The need for core, long term funding is particularly strong.
- Pressures on funding are leading to difficult decisions over whether funding is given to prevention and early intervention or more reactive services.
- There are no easy answers to the funding/income challenge.
- Charities have undertaken a range of measures to diversify their income but these present their own challenges.
- Charities need the capacity and capability to respond to challenges.

4. Commissioning

The Foundation has previously received anecdotal evidence from grantees about the difficulties presented by current commissioning practices. This was supported by responses throughout the survey which highlighted the challenges that small and medium sized charities face in bidding for contracts – charities involved in bidding are also more likely to predict that their ability to secure funding will get harder.

In establishing whether to attempt to compete for a contract, charities tell of first needing to establish whether they can provide the service dictated by commissioners at the price available and whether this is a service that they believe will bring sufficient benefit to individuals. Underpinning this are questions of money, as commissioners seek to drive down the costs of services:

“You can under bid for a project and get funding but you are not meeting your actual costs.”

“Many contracts are offered at below the service delivery cost by local authorities looking for a cheap option.”

“Local authorities are working hard to increase competition for contracts in order to drive down contract values. Unfortunately, the quality of services and the choice available will suffer as a result.”

There is evidence that attempts at cost reduction are made through larger, more generic contracts which can exclude smaller, more specialised charities, particularly where there are considerable costs inherent in winning a contract through TUPE transfers:

“We have seen an increasing trend whereby lots of smaller contracts have been lumped into one with an overall huge reduction in the contract value. TUPE costs exceed the income that can be earned from the contract.”

4.1 Bidding for contracts

61% of charities which responded to the survey have bid for contracts (either as the lead provider, as part of a consortium or both) although this masks significant differentiation between charities of different sizes. 70% of charities with an income under £50,000 have never bid for contracts, compared to only 12% of charities with an income over £500,000. There is also some regional variation – in Wales, 51% of charities have bid for contracts, compared to a high of 71% of charities in London. It is perhaps for this reason that a lower proportion of charities in Wales listed commissioning as one of the key challenges they face.

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Of those charities that have bid, responses indicate that consortia bids are more likely to cluster in urban areas: 49% of charities bidding for contracts in London and 42% in the Midlands have joined consortia compared to 28% and 29% in the South East of England and Wales.

Applying for contracts is challenging in itself and represents a considerable investment in time and resources for organisations that may be struggling to meet frontline demands, although the experience inevitably varies across the country:

“Degree of difficulty is dependent on who is commissioning the service, who is the main provider etc.”

49% of charities that bid for contracts found the experience ‘difficult’ and/or ‘impossible’ (Figure 5).

Figure 5

Charities’ experience of bidding for contracts

Impossible

5%

Difficult

44%

Okay

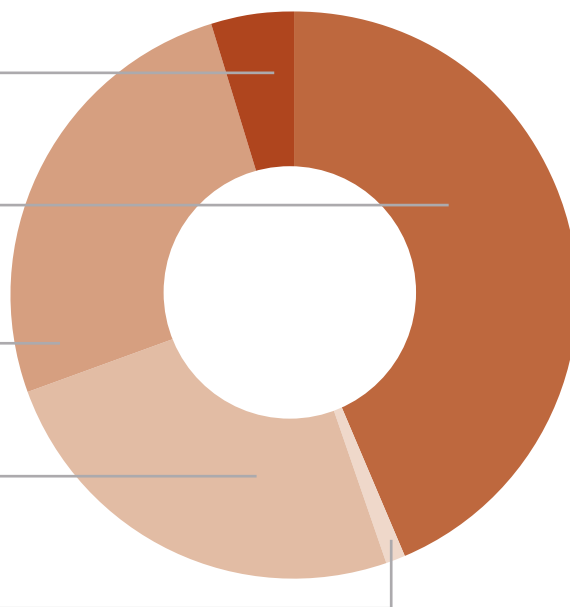
26%

Manageable

25%

Easy

1%



Key factors which dominate charities’ explanations of difficulties in bidding for contracts include:

- **Commissioning is typically set against small and medium sized charities.** Contracts tend to be awarded to large, national organisations (whether they are national charities, commercial companies or others) which have the scale to run more generic, far-reaching services and resources to pay for expertise in bidding:

“We regularly bid for contracts but now any contracts offered are being awarded to the larger charities.”

“Local providers do not have the necessary scale to compete with larger national organisations who have the capacity and skills to bid.”

“They are heavily weighted in favour of larger organisations which have the financial resources to a) hire professional bid writers, and b) put in whatever bid is necessary to win the contract and then deal with the consequences later if they do not meet the targets set.”

“LOCAL PROVIDERS DO NOT HAVE THE NECESSARY SCALE TO COMPETE WITH LARGER NATIONAL ORGANISATIONS”

"There is a 'predatory' feel at the moment when bigger organisations are branching out into different areas where they see a funding opportunity and this leaves organisations like ourselves with the expertise and local knowledge vulnerable. There is also an expectation that these bigger organisations can plunder our networks and contacts for their own aims, so it feels quite exploitative too."

"Competition with other charities is still the bigger threat and it is always the smaller, grassroots charities meeting the needs of the most marginalised that are at risk."

Local expertise is often central to the success of smaller charities' services. They understand local need and are able to reach traditionally 'hard to reach' groups. Yet these specialist services are threatened by commissioning larger providers. The lack of local understanding where contracts are awarded to larger providers can have negative impacts on services:

"We have already experienced larger charities under bidding and being awarded contracts without any history of local delivery or any local knowledge. Additionally, once the contract has been awarded, it has been re-negotiated and no longer reflects the original tender document."

"They bid for local services using the massive resources and their easily recognised brand with little understanding of what happens on the ground."

“THIS LEAVES ORGANISATIONS LIKE OURSELVES WITH THE EXPERTISE AND LOCAL KNOWLEDGE VULNERABLE”

- **Competing against commercial providers** who are focused on profit as opposed to service and offer the lowest price, irrespective of the quality of service:

"It is likely that commercial services will present as offering better value for money when in reality this will prove a false economy in terms of quality and long term outcomes."

"There are problems competing with commercial providers where commissioning does not put a high enough value on quality of practice, the negative impact of this is much wider but one may be that charities are not prepared to compete on price if it means services are not good enough."

"Commercial providers have seen new markets in winning contracts to work with vulnerable adults and children where they have no experience or skills but can deliver cheaper unit costs and are achieving considerable success."

"Several good small and medium sized charities have closed because of competition for the same resources (funding, staffing etc.). Sometimes commercial providers can undercut by economising on quality and underpaying professionals."

"Changes in commissioning structures/delivery are likely to put the sector in direct competition with commercial providers who can easily deliver services for less money (although the quality of services is likely to be lower)."

“COMMISSIONING DOES NOT PUT A HIGH ENOUGH VALUE ON QUALITY OF PRACTICE”

"Commercial providers are tending to win contracts as they cut costs – but the provision they provide is generally poor and then services break down... When contracts go to commercial providers the services suffer, and so do the service users. Small local providers may have challenges, but they provide better tailored services and keep the "personal touch" which is extremely important in terms of community and trust."

- Due to the scale of contracts, **smaller charities may be used as 'bid candy'** by larger, lead providers to win contracts but often receive few/no referrals once a contract commences. As they are not the lead provider they are limited in their ability to contest:

"Commercial providers often want to include us in a bid as it adds strength to their project proposal - however, when it comes to delivery they then retain everything in-house. Used and abused!!"

"We do wonder how much we may be used by larger organisations to tick the box that they have consulted with the sector."

- **The complex, secretive process** itself presents challenges to charities:

"We would like to join bidders for local services but the system of tendering and procurement is so complicated we cannot find out who is bidding so that we can approach them with a proposal. It is commercially sensitive information so the authorities will not tell us who is bidding but that means we cannot get in on the bidding process."

"Smaller local charities are often not able to compete with national charities in terms of very time intensive commissioning that requires specialist HR or legal advice, for example."

"It was very stressful. The mechanism to submit was very complex and hard for a small charity to manage."

"The process requires very complex data to be made into bid material."

Short timeframes for submitting bids can also prove difficult for smaller organisations with limited resources:

"The turnaround time/deadline for small charities and the process for bidding for contracts is prohibitive."

"The time frames are normally very short and the amount of work needed for them is extremely high."

Underlying these concerns is a competitive environment that disincentivises collaboration and often forces smaller, more specialist services out of the market. The pressure on funding has contributed to this increased competition, whether it is between charities or with commercial providers.

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Competition between charities was cited as particularly problematic in Wales, with 40% of charities listing it as one of their three biggest challenges (in the East Midlands this figure only reached 16%) while competition with commercial providers in Wales was highlighted by only 12% of respondents, lower than the England and Wales average of 15%.

Despite these difficulties, there were some examples of charities gaining some internal benefit from going through the bidding process:

“The process of working alongside external colleagues has been positive and more straightforward than one would otherwise believe.”

“We also found the tender writing thought provoking as it has helped us to look at services in a new way and has also helped us to re-evaluate our management structures.”

It needs to be remembered that comments like these were in the minority. More common was evidence that facing the challenges presented by commissioning can place smaller, local charities at a real disadvantage. In doing so, there is a belief that services themselves may not adequately meet the needs of those that need them most.

“
**THE PROCESS
FOR BIDDING
FOR CONTRACTS
IS PROHIBITIVE**
”

4.2 Carrying out contracts

Three quarters (74%) of the charities surveyed who did apply for contracts won the bid on at least one occasion (Figure 6) but this does not reflect the number of bids that may have been submitted to do so – less than 1 in 5 charities won all the bids they submitted.

Figure 6

Outcomes of charities' bids

Won all of them

19%

Won some of them

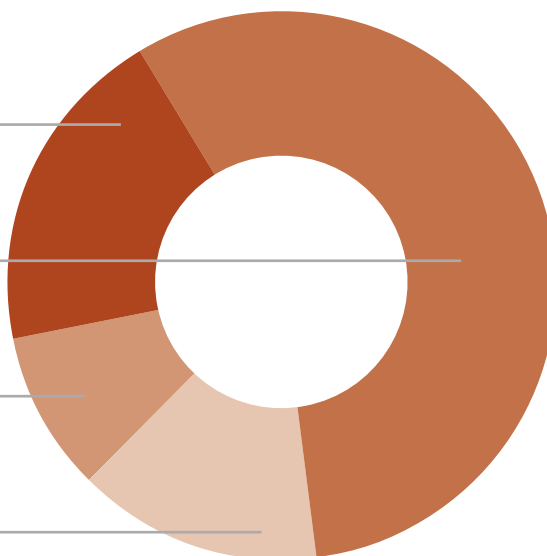
55%

Not sure

9%

Won none of them

14%



After the difficulties of bidding, the service delivery aspect of carrying out the contract was largely felt to be *“the easiest part”* although questions were raised about what services are delivered. The prescriptive nature of contracts can restrict the services charities are able to provide, which can then impact on those who need their support:

"The Voluntary Sector key contribution has always been its ability to see health and social care issues as they begin to emerge and to respond quickly with innovative responses. As charities are increasingly tied in to contracts with the statutory sector this ability is being lost."

"Access to grants to help the charity do more of what people need locally, rather than what is commissioned centrally."

Some charities have been able to use their contract to build valuable relationships with commissioners which may be able to tackle such questions in the future:

"We have agreed clear, realistic and achievable targets and have established a good working relationship with the contract manager."

"We have a good relationship with our local authority commissioners and actually use our regular monitoring meetings to give carers a voice – feeding back to them about difficulties that they are facing with statutory services at the sharp end of assessments. This is important feedback as Commissioners are not front line workers and whilst on paper everything may add up, the real experience of service users is often very different."

This demonstrates that there are examples of effective relationships and ways in which charities can use their contract to help influence commissioners and further improve services, even if these examples are in the minority.

4.3 Monitoring and evaluation

Charities highlighted monitoring and evaluation as some of the most difficult aspects of carrying out contracts:

"The area where it can become 'ok to difficult' is dependent on the monitoring and evaluation required by the funders."

"Carrying out the contracts is fine, it's the reporting that's a problem. Always lots of questions, and no realisation on the part of commissioners of the cost of that."

"To win the available contracts organisations like ours will need to understand how to demonstrate impact, whilst many organisations do this well in a qualitative manner it is the quantitative data that many struggle to produce due to the complexity of many stakeholder's needs."

Numerous examples were given of excessive monitoring requirements in relation to the size of the contract:

"The reporting requirements, in some instances are not relative to the contract size and value, often requiring the same process for small value contracts as large value contracts."

"Our potential hurdle when delivering contracts is the evidence/monitoring/evaluation requirements of the funder. While the majority of these are fair and realistic, a few funders... have set, in our opinion, requirements which are too time-consuming in proportion to the purpose and the grant awarded. We also

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”**

feel, on occasion, that some of the information requested is irrelevant. This creates concern because we don't know why the information was requested and fear that the commissioner will not make use of the information collected, making it a waste of our charity's resources (i.e. our time)."

These problems associated with monitoring and evaluation are not restricted to reporting to commissioners. They can be applied to a range of other funders' requirements:

"Funders are becoming more insistent on the demonstration of impact, but this can be very difficult to do, especially in cultural work, where the impact can be profound but takes years to manifest, and then in ways that were not expected."

"As competition for funds increases, funders are asking for more evidence of impact. Having the capability and capacity to provide the evidence and spend the time on fundraising at the same time as working on the frontline to support clients are big challenges for small charities like ourselves."

A number of respondents also pointed to a lack of capacity within smaller charities to respond to monitoring challenges:

"Some small VCS organisations do not have the capacity or capability to secure funding or the systems in place to demonstrate impact. This has seen some small providers disappear."

"Small charities do not always have the expertise in measuring impact necessary to prove our worth or the resources needed to do so."

Again, although monitoring and evaluation demands can be challenging for charities, where they are able to secure the resources to meet the demands, the rigour involved can offer limited benefits. Some charities identified that where they completed intensive evaluations, they may be able to use this evidence to attract more support from other funders. They also acknowledged how having robust monitoring systems in place can help to identify patterns and address any issues:

"Local authority contracts are monitoring heavy compared to independent trusts etc. However, we have used local authority monitoring visits and reports to provide independent evaluations for other funders, this means added value for our organisation and for both funders."

"We have excellent monitoring and data collections systems, and are able to fulfil the demands of regular reporting and monitoring the project against the contract. We have a dedicated Data Officer who works alongside our clinical team to monitor services and delivery on a constant basis and ensure any trends/issues are dealt with before they become a problem."

These benefits are hard to realise however, as charities focus on meeting front line demands first in an increasingly difficult environment.

“HAVING THE CAPABILITY AND CAPACITY TO PROVIDE THE EVIDENCE AND SPEND THE TIME ON FUNDRAISING AT THE SAME TIME AS WORKING ON THE FRONTLINE TO SUPPORT CLIENTS ARE BIG CHALLENGES FOR SMALL CHARITIES LIKE OURSELVES”

Summary: commissioning

- Commissioning presents a significant challenge to charities.
- Small and medium sized charities are placed at a particular disadvantage because:
 - they are unable to compete on price with large, national, generic services and commercial providers
 - they are used as 'bid candy' by larger providers
 - they lack the skills and capacity to penetrate the complex and secretive bidding market
 - they cannot meet excessive monitoring and evaluation demands.
- The process incentivises competition, not collaboration.
- Excluding smaller charities risks losing specialist services which are often best placed to reach those that need the most support.

5. Support needed by charities

For many charities, responding to challenges is an everyday aspect of survival and a variety of external factors can come into play. The survey explored how charities are being supported with this and where additional help would be beneficial.

5.1 Accessing support

Charities inevitably need support to overcome the challenges they face. The most frequently cited source of non-financial support (for two thirds of charities) was personal contacts as opposed to more structured support, as illustrated in Figure 7. Many small charities rely on their trustees for such support:

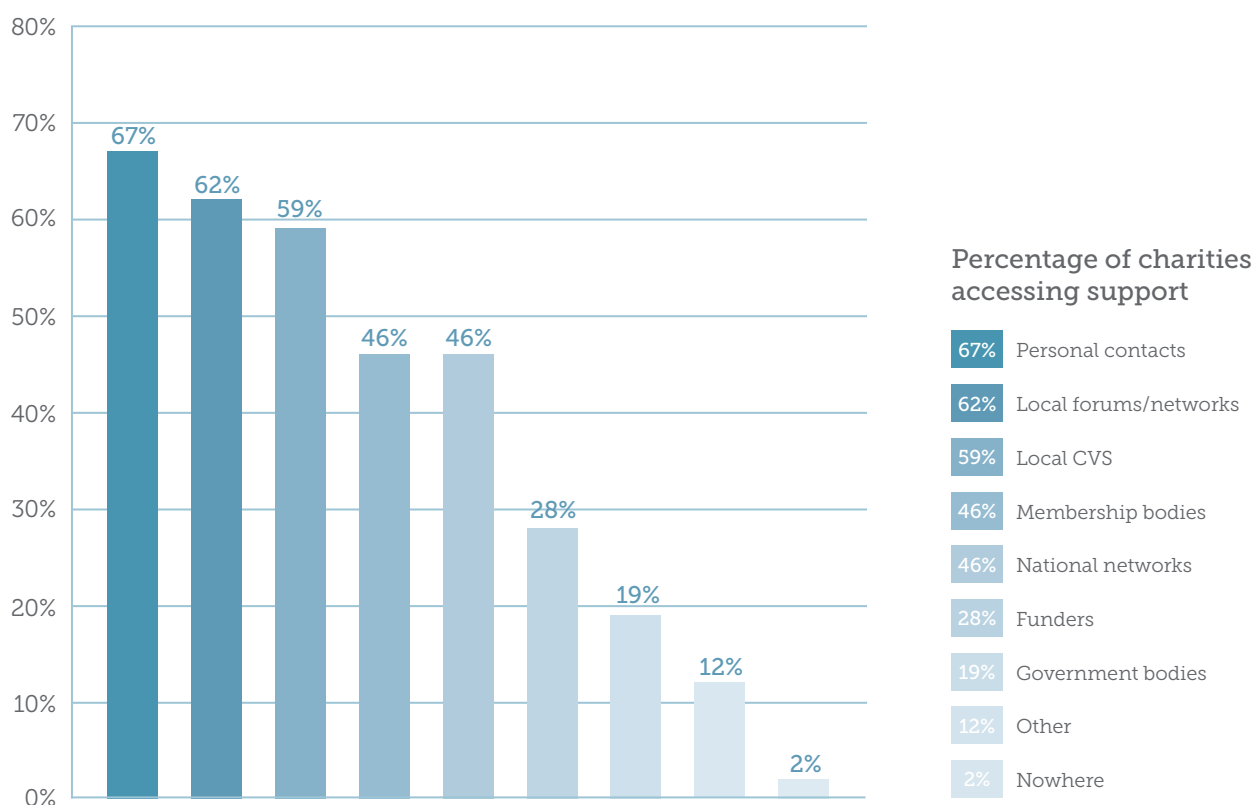
"Volunteers and trustees provide support – expertise, experience, work experience which can be applied to our work."

"We are able to use personal networks to get expert advice on specific projects (marketing, comms etc). We also rely on our board of trustees to contribute expertise."

“**THERE IS A GREAT LACK OF SUPPORT GENERALLY, PARTICULARLY FOR INDEPENDENT ORGANISATIONS DELIVERING BESPOKE SERVICES**”

Figure 7

Where charities currently access non-financial support



Infrastructure organisations and formal networks can provide valuable support in some areas:

"All of these networks enable me to gain valuable insights into current practice/what is working/areas of development ... also these contacts give a place to discuss with others experiencing similar issues, find partners for bids and gain research."

"As a member of both NACVA and NCVO we appreciate the support/information/advice these organisations provide. We also belong to the West Midlands Regional Volunteer Network which enables us to meet with representatives from organisations across the West Midlands and share good practice and lots of other information! We co-ordinate a local network for VCS organisations ... and find that the meetings are a great opportunity to share problems and ideas."

However, in other places they have been forced to cut back or close due to financial pressures:

"Non financial support is difficult to obtain as often the organisation that could help is struggling with funding and are in the same boat as you."

"There is a great lack of support generally, particularly for independent organisations delivering bespoke services."

"Former infrastructure groups are now compromised through them looking for survival, so support is difficult to find."

There are a range of areas where charities feel they would most like support, as illustrated in Table 1. In the survey charities were asked to select up to three options. Their answers largely mirror the challenges that charities face, in terms of issues surrounding funding/income being the most prominent areas for support.

Table 1

Non-financial support charities would value most

Support needed by charities	Percentage of charities prioritising this support
Coordinating funders	40%
Support with commissioning	37%
Changes to the commissioning process	36%
Training opportunities	32%
Support with lobbying/campaigning and representing charities to government	31%
Opportunities to work with other charities	29%
Mentoring opportunities	27%
Opportunities to establish networks between charities to improve learning	22%
Other	8%

At least a third of charities selected each of:

- **Coordinating funders**, with this figure rising to over 50% of charities in Wales and London:

"Coordination of funders could ease the application process as well as the evaluation and monitoring of the funding as currently we have to report to many different funders in many different ways."

"Coordinating funders might ensure a fairer spread of resources available both in terms of region and the nature of the charities' services and demands."

"Funding applications absorb a great deal of management time. It would be great if several funders would coordinate their activities and accept the same funding application."

“FUNDING APPLICATIONS ABSORB A GREAT DEAL OF MANAGEMENT TIME”

● Support with commissioning:

"It would certainly help significantly if support with commissioning could be offered."

"We also need it to be recognised by government that we are conducting valuable work that should be mainstream funded because we alleviate pressure on statutory services, so support in raising awareness of this would be useful. We are also intimidated by the commissioning process and think there should be more support for small agencies like ourselves to understand and to apply for services."

● Pushing for changes to the commissioning process:

"Commissioners need to build in awareness of the role of small organisations in innovation and niche delivery. If this was given weighting and consideration across commissioning then services would be more directly influenced by service users (who are better represented in grassroots organisations) and would therefore meet service users' needs better. This would mean better and more outcomes, better value for money."

"Simplify commissioning, discourage very large complex bids that limit access or require very large consortiums, look at where commissioning on a local level could be negotiated tenders rather than competitive."

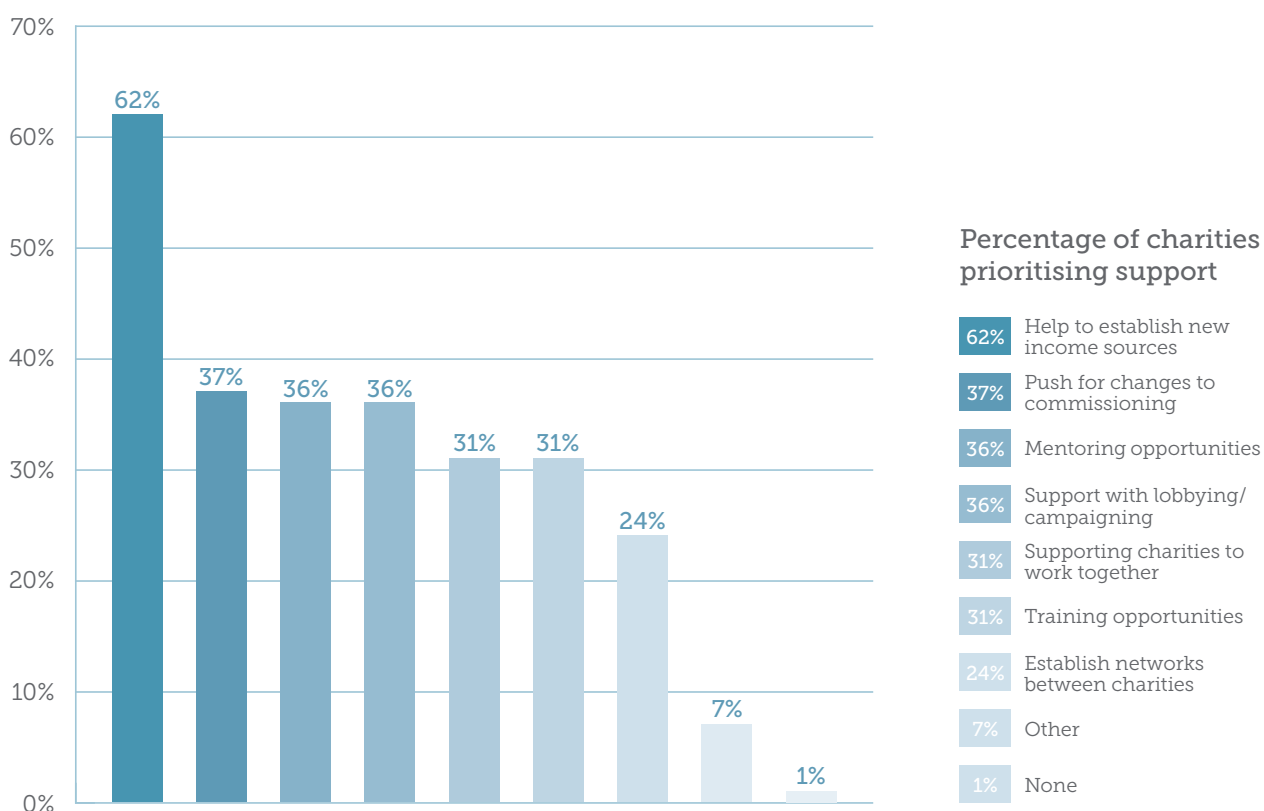
"The commissioning process needs to be overhauled and the element of experience in local knowledge and needs should be included."

5.2 A role for the Foundation

The challenges and support needs identified by charities indicate that there are a range of areas where additional non-financial support is needed. Asked where Lloyds Bank Foundation for England and Wales specifically could provide better support, charities selected up to three priority areas. The graph below shows the popularity of opinions.

Figure 8

Where charities feel Lloyds Bank Foundation could bring most support



'Help to establish new income sources' includes support identifying where new income sources such as social enterprises might be applicable as well as information and guidance about how they can be established. This was frequently given as an area where charities feel they need more support:

"Upskilling staff to all be able to raise money that will help."

"We, like many small charities, are having to try to develop into social enterprises in order to bring in our own funding rather than rely on grant funding – which is disappearing. However, this can be a steep learning curve and support from businesses to enable us to make this change, would be very welcome. Also social investment is a whole new world to many of us and support to enable us to get involved would be useful – especially from people who'd 'been there and done it'!"

The comments reflected a desire for help with influencing and navigating the wider systems within which grantees are operating; whether funding (fundraising, grant income and commissioning), reporting or lobbying, providing a voice for the small and medium sized charities funded:

"We are so engaged with the business of "doing it" that we don't have time or expertise to do the lobbying part - even though we know this needs to be done. The ideal would be if we could feed issues through somewhere and others did that aspect of the work."

"Without effective lobbying small charities remain unheard and unseen by the government. It would be great if small charities could have effective lobbying to government to get the voice of local charities and the people they represent heard."

There was also support for wider work to further support charities:

"Anything Lloyds Bank Foundation can do to support charities at a national level would also be very useful."

"I have found many charities don't work together as they want any funding for themselves and don't trust each other. If a foundation like Lloyds Bank Foundation could bring them together round the table to support and advise the group, it may help."

"We feel that the biggest support we can receive from Lloyds Bank Foundation would be towards identifying market opportunities and creating a platform for smaller charities to share/learn from that platform."

“GET THE VOICE OF LOCAL CHARITIES AND THE PEOPLE THEY REPRESENT HEARD”

Summary: support needed by charities

- Most charities access support through personal contacts.
- Formalised support can bring significant value but charities report that availability of this support is decreasing.
- Coordinating funders, support with commissioning and bringing changes to the commissioning process are key areas where charities wish for more support.
- Lloyds Bank Foundation may have a role to play in providing support both in terms of navigating existing systems and lobbying for more structural change.

6. Conclusion and recommendations

Small and medium sized charities are important. Often they serve those facing multiple disadvantage who are in most need and present the greatest challenge to public services. They understand local needs and how to meet them:

"We are normally in the best position to be able to work most effectively with the people that need our help and this mustn't be taken for granted."

They're clearly facing challenges from every angle which threaten the services they provide and the people they exist to serve. They are facing increasing demand and working with people with more complex, resource-intensive needs whilst experiencing a reduction in funding. Competition is increasing, both between charities and external providers with smaller organisations frequently squeezed out of the marketplace as the precedent for economies of scale and generic services takes hold.

Independent funders like Lloyds Bank Foundation of course can and must help charities to overcome these issues but it is a challenge that cannot be met alone. This survey shows that charities need a range of support, incorporating a concerted effort by all stakeholders to enable them to best meet the needs of the people they exist for:

"Responding to this new landscape requires the vision and commitment not just of charities, but of all players. The disenfranchisement of a large minority of society needs to be reversed. Obviously government policy plays a key role, but implementing change here will take both time and will."

6.1 Recommendations for government

If the new government is serious about tackling some of the biggest social issues of the day, it has to prioritise the work of smaller, local charities. It cannot solve these issues without them. In most cases, small and medium sized charities have the method, if not the means, to support those facing multiple disadvantage. They just need the right support to be able to do this:

"An opportunity to put what we can offer on the table and for funders/commissioners actually to take the time and interest to look at it. We don't want charity. We want to be accountable to delivering the very best solution in the most cost effective way. We feel as a small charity no one is prepared to look at our solutions. And they will work!"

“WE ARE NORMALLY IN THE BEST POSITION TO BE ABLE TO WORK MOST EFFECTIVELY WITH THE PEOPLE THAT NEED OUR HELP AND THIS MUSTN'T BE TAKEN FOR GRANTED”

“WE FEEL AS A SMALL CHARITY NO ONE IS PREPARED TO LOOK AT OUR SOLUTIONS. AND THEY WILL WORK!”

For government, this means:

- recognising the depth of understanding that small and medium sized charities have of the services that are needed and the vital role they play in delivering these services to the most vulnerable
- listening to the needs and experience of small and medium sized charities and ensuring they are supported to meet individuals' needs
- placing greater emphasis on the wider social value that can be achieved when commissioning smaller, local services
- ensuring a fair process that does not place small and medium sized charities at a disadvantage in commissioning or receiving support
- reassessing the funding of services, with a greater emphasis on grants as part of a more flexible funding mix that enables the best organisations to meet needs in the best way.

6.2 Recommendations for independent funders

Funders need to ensure that they also support small and medium charities in the most effective way. This means:

- focusing support on small and medium sized charities
- providing core, long term funding
- further strengthening charities by building their capacity and capability through both funding and 'grants plus' support
- supporting charities to trial new approaches to established problems
- pushing for structural change that facilitates an environment which enables charities to thrive and not just survive.

For Lloyds Bank Foundation the findings in this grantee survey back up the key elements of our strategy which we launched in April 2014, namely to:

- support charities with core, long term funding through our **Invest** programme
- help to build charities' own capacity and capability through our **Enable** and **Enhance** programmes.

Our work is rooted in our belief that multiple disadvantage cannot be broken without effective small and medium sized charities. That's why we will continue, using a range of tools, to work to ensure they have the means to operate effectively in an environment that enables them to not just survive but to thrive and flourish.

We know charities can't overcome the challenges they face with just direct support. We have to tackle the environment in which they operate. We're beginning to address this by starting to build the evidence base of the importance of small and local charities but we need to do more. To deliver lasting change we want to improve practice that will increase the impact of charities across the sector through influencing commissioners and making the case for grants. We will use our experience as a funder to make the case to government for change. We will also be considering what else we can do to help smaller charities become more sustainable. The results from this survey will inform our work. This includes exploring how we can support charities to develop new income sources and continue to build capacity and capability whilst working to ensure the environment in which they operate does not work against them because of their size.

As a nation we should be enormously proud that we have a huge number of small and medium sized local charities rooted in their communities and rooting *for* those facing deep disadvantage. We will continue to champion their vital role in helping people to break out of disadvantage and better their lives.

BREAKING DISADVANTAGE BETTERING LIVES

The Lloyds Bank Foundation for England and Wales is one of the leading community grant makers. An independent registered charity funded by the profits of Lloyds Banking Group.

The Foundation invests in charities supporting people to break out of disadvantage at critical points in their lives, and promotes practical approaches to lasting change.

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