

REPORT FROM THE LOCAL COMMUNITY SECTOR TASKFORCE (LCST)

1. INTRODUCTION AND EXECUTIVE SUMMARY

Voluntary and community activity is key to building social networks, community spirit and a sense of common purpose between and across communities. Higher levels of voluntary activity and participation ('social capital') result in better health, higher educational achievement, better employment outcomes and lower crime rates. The VCS has a long history of spearheading social change, at its best playing an important advocacy role through its ability to understand local communities and the needs of individuals in those communities.
Spending Review 2004

1.1 **This report presents the findings of the Local Community Sector Taskforce. ¹ We were commissioned:**

'To ensure that central, regional and local government put in place a framework which allows neighbourhood and community groups to manage the wind-down of the Single Regeneration Budget (SRB) and to ensure there are opportunities for them to access the range of substantial sums of Government investment available.'

1.2 A healthy community sector is critical for the sustainability of local communities. It is not an end in itself. It helps deliver social capital, social cohesion and democratic participation. Better public investment in the sector will result in a better quality of life for local people and local communities, partly through their own direct activities and partly through their interaction with public services.

1.3 We are in no doubt that the wind down of SRB and European funding has placed additional pressures on the sustainability of local community groups and projects.

1.4 We have found that these pressures have been partially mitigated for some groups by a range of factors, including:

- New funding programmes for the sector, introduced since 2004;
- Continuation of the Neighbourhood Renewal Fund in a small number of deprived areas;

¹ The Taskforce is an independent group reporting to the Government. Its report was finalised during the last weeks of 2006 prior to the publication of the Pre Budget report and two other relevant reports - the Interim Report on The future Role of the Third Sector in Social and Economic Regeneration; and Partnership in Public Services: an Action Plan for Third Sector Involvement. The Taskforce is aware that these publications respond to some of the proposals in its report.

- Investment of Regional Development Agencies (RDAs) in the VCS, in line with the Regional Economic Strategies for their regions;
- The wind-down of SRB and European funding in some areas has not been quite as steep as had originally been feared; and
- The development of Local Area Agreements (LAAs) has brought parts of the sector together with a range of local service providers, including local authorities.

1.5 However, more remains to be done and new pressures are emerging:

- the financial soundness of the sector is not a new problem, although changes to SRB and other funding has thrown short-term problems into sharp relief;
- there is just as sharp a need to address the long-term problem of getting greater sustainability within the sector – and not just amongst the larger organisations;
- there are concerns that there are widening divisions between larger voluntary organisations (relatively well placed and organised to compete for public service contracts and engage with regional organisations and with local authorities) and smaller community based organisations;
- increased use of the VCS in procuring public services is being accompanied by reductions in grant aid to community groups in some areas (for example in 2006 NAVCA member survey);
- more can be done to improve relations between local authorities, RDAs and the Voluntary and Community Sector (VCS),
- we look to see more improvements in the way LAAs involve the VCS.

1.6 Our work led us to the conclusion that a new model is needed to develop the sector's long term sustainability, comprising three elements:

- **a continuing need for grants and community capacity building (CCB).** Grants continue to be important in supporting a variety of organisations in the VCS – notably in assisting smaller community groups and those which undertake an advocacy and representative role. These groups are essential to achieving increased community involvement in the design and delivery of services and for devolving decisions to neighbourhood or parish level. Many consist mainly of their own voluntary labour where grants represent a small element of support to their activities, many of which do not rely on payment. These groups have an enormously beneficial effect in building social capital, community cohesion and in sustaining a healthy, democratic, self-organising society;
- **the need to reinforce the contribution the community sector can make to improved quality of life through Local Area Agreements (LAAs).** These Agreements can bring together the unique contribution

that the sector can make to their communities with local authorities, business and other service providers operating at a local level;

- **a need for asset development and enterprise support for those organisations which can grow in this way.** If community enterprises are going to make a transformation change from short-term, grant funded “projects” to sustainable regeneration keystones, they need to build up a basket of stable and secure independent income streams to resource their development and growth. A critical element will be the nurturing of an income generating asset base.
- 1.7 The community sector can only deliver some elements of what communities need in order to thrive. Wider partnerships are essential to deliver sustainable local communities. Our recommendations in this report are about equipping the community sector to play its full part in this partnership working and offering a variety of mechanisms for resourcing the sector in sustainable ways. The ultimate aim is not sustainability of the sector for its own sake, but for the unique and indispensable contribution it can make to sustainable local communities and better outcomes for local people.
- 1.8 Our thinking is consistent with the interim report from the Commission on Unclaimed Assets² and recent research on community assets³. The proposals set out in this report are intended to help create a funding system that will allow the sector to respond to the Government’s desire to devolve powers to the local level – and then devolve again to the neighbourhood level, fostering the ability of communities to solve problems for themselves and to drive up the standards of public services.
- 1.9 The recent changes of Government machinery, involving the creation of the Office for the Third Sector and the dedicated review of the third sector during the current Comprehensive Spending Review presents an opportunity to promote the long-term sustainability of the voluntary and community sector – from the community level to large, national delivery focused organisations. We look forward to our recommendations being considered and confirmed during the course of the Comprehensive Spending Review (CSR).

Summary of Recommendations

² A Social Investment Bank – a consultation paper by the Commission on Unclaimed Assets (July 2006)

³ Communities Taking Control: Final Report of the Cross-Sector Work Group on Community Ownership and Management of Assets (DCLG March 2006) and ‘Community Assets: the benefits and costs of community management and ownership.’ (DCLG, July 2006)

- 1. Given the importance of NRF to community services and projects in deprived areas, we recommend that further neighbourhood renewal funding be made available in CSR 07 and that, as now, it is incorporated in LAA funding, while ensuring support to CCB and local community groups (3.24)**
- 2. We recommend that England's RDAs continue to work with the voluntary and community sector to realise the full potential of the sector to promote enterprise, jobs and economic inclusion, particularly in deprived communities and with excluded groups, consistent with the priorities for economic and social regeneration set out in each Regional Economic Strategy and by taking account of the requirements on the RDAs set out in the Tasking Framework. For further information including references to addressing social exclusion and related issues as part of developing the RES for the region, see also DTI 2005 Guidance to RDAs on Regional Strategies, <http://www.dti.gov.uk/regional/regional-devagencies/regional-economic-strategies/page19357.html> (4.7).**
- 3. As part of the Comprehensive Spending Review Government should explore the case for commissioning a framework for measuring the wider economic and social impacts of the community sector, both overt and hidden, which could be accepted as standard by central government, regional agencies and local government and other key institutions and the community sector itself (4.9)**
- 4. We recommend that the Government encourages the development of 'neighbourhood charters' through guidance, promotion and good practice exchanges (4.19).**
- 5. We recommend that Government provides guidance to local authorities and their partners to improve co-ordination of CCB activity, through the Local Strategic Partnership. (4.23).**
- 6. We also recommend that , within the sums of money currently available for supporting improvement in local authorities, around £50m be dedicated within CSR 07, primarily on community capacity building targeted to enable more effective engagement with LSPs, especially in connection with LAAs (4.24)**
- 7. We recommend that, within the total funding referred to in the previous paragraph, the case be considered for dedicated funding to be made available through the Regional Centres of Excellence to build both greater understanding of the local VCS amongst local government commissioning and procurement**

officers and improved bidding capacity in the local VCS. We would not expect this to total more than £1m. (4.25)

- 8. Government Offices, which are responsible for negotiating LAAs on behalf of central Government: should, a) as part of the negotiation of the LAAs, always make sure that they assess and build an understanding of the role and challenges faced by the community sector and wider VCS in the design and delivery of local priorities and services, especially in areas benefiting from NRF, and the associated capacity needs and policy responses required at local level to ensure that the sector can play a full and effective role in the design and delivery of local priorities; and b) ensure that LAAs reflect the direction of travel to be followed locally around the role of the VCS in commissioning and delivering public services as well as a coordinated and cross partnership approach to supporting community capacity building. (4.26)**
- 9. We recommend that, in negotiating current LAAs the Government Offices, on behalf of central Government, should work with local authorities and partners to identify how best to support community sector activity that may be impacted upon by the changing funding and policy environment. We welcome the Invest to Save budget's Inclusive Communities Fund focussing on LAA priorities and community strategies and would expect this fund to support the majority of support needed. However, we do not rule out up to £3m a year in any one region being needed to support significant community sector activity that is threatened from the decline of SRB or ERDF funding. The LAA(s) should identify desired outcomes for the wider sector, to be monitored within the LAA performance management process. (4.29).**
- 10. We recommend that national umbrella bodies and funders make best use of performance management toolkits and other resources, as part of improving overall VCS effectiveness. (4.30)**
- 11. More needs to be done to incentivise effective asset transfer, ownership and management. We welcome the review to be led by Barry Quirk to look at existing powers and policies that allow the transfer of the ownership or management of local public assets; how they can be better used; and what new powers may be necessary. In the light of the findings of the review, we would look to the CSR to secure the necessary investment from government to deliver community management and ownership of assets and support and training for both new and existing community-based owners of assets. In the interim, we recommend that asset transfer be incentivised by securing**

£10m to support refurbishment and development costs on local authority buildings and land that are transferred to community management or ownership (5.21).

- 12. Subject to the conclusions of the review, we would look to Government to take the lead in developing a comprehensive and high profile promotion campaign to promote the potential benefits of community ownership or management of assets. (5.22)**
- 13. As part of the third sector review in the context of CSR 07, we recommend the establishment of a funding over the 3 years of CSR 07 to be delivered through LAAs, of Community Micro Grants offering small grants to community groups to develop social capital and build community capacity, including the training of leaders of community organisations. We recommend that LSPs should normally devolve the administration of Micro Grants to existing funders or to suitably constituted panels. There should also be safeguards to ensure that such a fund does not 'displace' similar funds provided through local authorities or other LSP partners. Given the wind-down of funding streams exemplified at annex C, we envisage that funding of £35-50m a year throughout the CSR 07 period would be affordable (5.26)**
- 14. We recommend the expansion of the Adventure Capital Fund from £15m to £30m, to provide revenue funding for the development of community anchor organisations (5.27) Being, independent of local government and other state providers, their ability to combine service delivery with community advocacy makes them central to the effective delivery and sustainability of the preceding capacity building recommendations**

2. THE ADDED VALUE OF THE COMMUNITY SECTOR

‘Social capital is an important fundamental to the well-being of a community and an economy.’

(Consultants’ report to One North East, Social Capital and Economic Development in the North East of England (2005))

“Between the traditionally recognised realms of private gain and public good, a new market of social investment is in the process of being articulated...The scope of this market is broad. It can help drive up productivity and competitiveness; create socially inclusive approaches to wealth creation: enable individuals and communities to regenerate their neighbourhoods; develop an inclusive society and active citizenship”

Stephen Thake – Primed for Growth (2003)

- 2.1 We were invited to consider how the conclusions of the 2004 Spending Review might be applied as part of a wider vision for building a strong and healthy Voluntary and Community Sector (VCS). This section of the report considers and confirms the Spending Review’s conclusions about the importance of the role of the sector in building social capital.
- 2.2 The sector reaches groups that government, central and local, cannot. It helps government, central and local, provide solutions and answers to difficult questions that affect disadvantaged communities and groups. It has a tradition of being able to spot emerging needs within communities that larger institutions find it hard to do.
- 2.3 It also has a long tradition of designing and delivering public services – a tradition on which there has been an increasing focus in recent years. The community sector contributes, directly and indirectly to many social and economic regeneration outcomes. Social capital grows out of personal contacts and social networks that generate shared understanding, trust and reciprocity between social groups. It helps underpin co-operation and collective action.
- 2.4 **Research evaluations, before and since 2004, have pointed to the added value of the community sector as:**
 - helping to develop forms of linking and bridging social capital which are especially valuable in increasing social cohesion and widening local access to opportunities and services such as learning, health and employment;
 - increasing collective efficacy – people willing and able to be engaged in ways that improve their community, that in turn has major positive impacts on outcomes such as variations of crime levels, health and morbidity rates;

- helping to mobilise local resources of all kinds. Research has shown that all communities are rich in resources of all kinds which when put into use have major economic value (e.g. volunteering, land and building use, local spending and saving and a range of gifts-in-kind).

2.5 Examples from 2 cities illustrate some benefits that can be obtained:

Birmingham

In Castle Vale and Balsall Heath, where the greatest investment has been made in community activity and involvement, 30% of residents though conditions had improved compared with 6% in Birmingham as a whole. Castle Vale was one of only two areas in the city where the fear of crime reduced over the 2 years considered by the survey.

Liverpool

In 2005 4 self-defined communities negotiated community service agreements with the Liverpool PCT, committing to deliver 'health by stealth' activities, which reached 2,000 people in 2 months. Many supposedly 'hard to reach' groups were engaged, including 250 young men attending workshops on testicular cancer.

At the same time a social enterprise called 'Include' took on a recycling contract for part of the city. During the first year of the recycling work the take up was impressive, with 28.6 tonnes of paper, 6.5 tonnes of glass and 0.5 tonnes of aluminium being collected and recycled – prior to Include there was very little recycling activity in the area. Housing voids dropped from 28% to zero and there was a reduction of more than 50% in rates across 4 key crime indicators over the period that Include was active in the area.

2.6 These illustrations show that the community sector can help meet the Government's commitment to improved public services, quality of life and local decision making in a number of ways. The community sector can help ensure that people have access to high quality services that are tailored to meet individual needs. In many cases, this may result in an increased take-up of services provided by Government. And it is also likely to create a better-informed and assertive base of users, so driving up standards of services and democracy in all areas of the country.

2.7 The positive case for investment in communities is that it will boost social capital, enhance collective efficacy and support the mobilisation and use of a wide range of local resources. In this way many local grants for community activity result in a multiplier effect of 11:1, with £2,000 resulting in a further £22,000 of support in-kind and in-cash.

2.8 Community investment has the potential to make an impact on public spending and services in many ways, including the following examples of government expenditure:

Health

- Costs of depression (treated and untreated) c £60bn to society
- Costs of smoking-related disease c.£1.5bn per year
- Alcoholism - £1.6bn (to NHS) and £4.7bn to society
- Obesity - £500m per year NHS cost

Crime Reduction and Community Safety

- Cost of crime is £11.6bn per year

Worklessness and job creation

- Costs of incapacity benefit £6.8bn per year
- Rate of business start-up in more affluent areas is eight times that in poorer areas

In all the above cases there are severe cost pressures upon government expenditure. These are also all areas where community action is known to be of benefit. If investment in the community sector were only to achieve marginal benefits in some or all of the areas listed (and we have examples such as 50% crime reductions achieved in some communities), then the costs of the original investment could be repaid many times over.

2.9 Regeneration activities rooted in and owned by communities play a vital role in improving their quality of life, including many people in areas of disadvantage. Self-help and community enterprise initiatives have sometimes filled the gap left by the withdrawal of uneconomic public services, as has happened in many rural areas. Many cities, towns and rural settlements have at least one medium-sized VCS infrastructure body (or community anchor at village or neighbourhood level) to support a variety of grass roots groups that make a valuable contribution to delivering local, regional and national targets.

2.10 The community sector helps build social capital and with its specialist knowledge and understanding of the needs of communities has a crucial role to play in improving quality of life and local democracy. This includes an important contribution to the design and development of public policy and the delivery of public services. By meeting the needs of hard to reach groups and people with multiple needs it adds value to many aspects of public life, including public service delivery.

2.11 However, much of the grass roots activity of the sector does not rely on payment. Its main resource is often people's own efforts and participation. These activities have an economic value and underpin the more visible trading, charitable and social enterprise types of activity. Some of these activities will always need public grant support, even though this is often only a small fraction of the value of their voluntary activity. But since most of this activity is not costed and unrecorded in conventional accounting terms, there is little in the way of available figures to assist us to examine it economically. We therefore recommend that as part of the Comprehensive Spending Review the Government commissions a study of the full economic value of the sector, taking account of both visible and hidden economic value.

3. THE FUNDING AND POLICY CONTEXT

'I value the voluntary sector not just as a service provider but because it provides opportunities for people to express their views, campaign against injustices and champion causes. It can spot unmet needs that stay below the radar of public and private institutions and meet them. It prospers in partnership with an empowering and enabling government.'

David Miliband, Scarman Lecture, February 2006

The community sector is changing with the growth of more innovative social enterprises that combine hard headed business acumen with a clear moral purpose. This means we have more groups who know their patch and the people who live there. And more groups who have a pretty good idea of how to solve local problems.

Ruth Kelly, speech to Development Trusts Association, September 2006

- 3.1 Our first aim was to ensure that a framework was in place to allow neighbourhood and community groups to manage the wind-down of the Single Regeneration Budget (SRB) and to ensure there are opportunities to access the range of substantial sums of Government investment available.
- 3.2 Much has been achieved. Overall funding for the VCS from government has risen in recent years *although much of this has been to larger voluntary groups delivering services rather than local community groups*. VCS income from other sources, such as public and private donations and the Lottery has decreased. **The National Audit Office summarises recent funding levels from government as follows:**
- In the 2 years before 2001/02 government funding for the sector rose by 43% and 37%. However, this increase occurred from a relatively low base, after a long period of decline and represents a small proportion of all Central Government spending, at around 0.5%;⁴
 - The Home Office estimates that in 2001/02, government funding of third sector organisations totalled £5.08bn, of which £2.03bn came from central government, £1.87bn from local government, £904m from the NHS and £274m from the EU.⁵
- 3.3 This trend continued. Findings from the State of the Sector Panel indicate that Government funding of the voluntary and community sector grew in 2003/04 – the estimated increase of median funding in that year was 12%.

⁴ Working with the Third Sector – NAO (June 2005)

⁵ Central government funding for voluntary and community sector organisations. (Home Office 2004)

3.4 **This rising trend was reinforced in the last Spending Review in 2004. That Review:**

- Provided continuing investment in Futurebuilders - a £215m fund providing mainly loans and some grants, *but mostly going to larger voluntary organisations involved in public service delivery*. The fund was set up to address the limitations of the conventional capital markets in lending to VCS organisations, by providing investment finance for service delivery. Futurebuilders England, who are responsible for the management of the fund, have a published policy of spreading their investments between small, medium and large organisations;
- Invested £90m in local areas over 3 years through Invest to Save - Inclusive Communities, with local partnerships playing a central role and a new focus on migrant integration;
- Rolled forward £525m a year for the Neighbourhood Renewal Fund, which included enabling Local Strategic Partnerships (LSPs) in deprived areas to engage communities in shaping services to regenerate their area, and to commission services through the VCS. *However in some areas anecdotal evidence suggests that this investment has been geared towards services provided by local authorities, sometimes at the expense of those delivered by community groups* ; and
- Increased funding and flexibilities of RDAs, enabling them to continue support for some voluntary and community organisations leading on taking forward the RES for their region.

3.5 **Other relevant funding schemes have also been introduced, some of which provide limited support to local community groups:**

- ChangeUp – aimed at improving support and infrastructure for third sector organisations. The initiative provides £150m in funding, spread over 4 financial years from 2004/05 to 2007/08. Since April 2006 it has been managed by a new voluntary sector led organisation appointed by government, *Capacity Builders*. However funding is mostly for second tier infrastructure organisations rather than local community groups;
- The Big Lottery Fund – BLF has a £600m a year budget from which 60-70% is committed for investment in the VCS. The BLF is particularly keen that the funding is targeted on community groups;
- The ‘neighbourhood element’ of the Safer and Stronger Communities Fund – worth £93m over 2 years covering deprived neighbourhoods;
- The Adventure Capital Fund – set up at the end of 2002 to deliver a new form of long term investment in community enterprises through a partnership between Government and leading organisations in the field of social and economic regeneration;
- A new Local Enterprise Growth Initiative (LEGI), worth £300m over 3 years to support investment in deprived areas;

- The Capital Programme – a £4m fund, which will provide loans for small and start up third sector organisations to obtain workspaces.
- 3.6 These initiatives will benefit the VCS as a whole. That said, many will have limited impact at the community level, particularly outside those areas where initiatives are highly targeted. The impact will also be low on community capacity building (CCB) that previously benefited from funding under SRB and some parts of the current programme of European funding now coming to an end. It is this issue that this taskforce has sought to address.
- 3.7 **We have, therefore, looked again at the conclusions of the work done on this issue by the Regeneration and VCS working group as part of the 2004 Spending Review.**
- 3.8 SRB was created in 1994 as an amalgamation of funding from various Government Departments for greater efficiency in distribution. In 1999, the administration of the budget transferred to RDAs. The Deputy Prime Minister and the Chancellor announced in March 2001 that RDAs, as the strategic drivers of economic development in their regions, should have new flexibility to decide their budget priorities for leading the preparation of the regional economic strategies across England in consultation with private, public and VCS stakeholders in the region and that there would not be a further round of SRB. Within this context, each RDA prepares a Corporate Plan, which clearly sets out how it will contribute to taking forward the regional economic strategy for their region. .
- 3.9 The new flexibilities were not intended to mean that the RDAs should not invest in tackling economic objectives which have social outcomes, but to require such investment to take place only where there was a clear, strategic fit with the priorities set out in each RDAs' Corporate Plan and deliverable outcomes for the regional economic strategy. These necessarily vary from region to region, taking into account regional needs, demands and aspirations. It was also made clear that existing commitments for SRB schemes, many of which were intended to last for 5 or 6 years, would be honoured.
- 3.10 The 2004 working group considered the concern that, with the wind-down of SRB and the RDAs' primary role as strategic drivers of regional economic development, the amount of funding being accessed for local and neighbourhood-based community development-type activities would diminish.
- 3.11 The 2004 working group also looked at the potential impact of changes to the European Structural and Cohesion Funds after the current Financial Perspective ends in 2006. The group assumed that, given the impact of enlargement of the European Union and reforms to Structural

and Cohesion Funds, less funding would be available to the VCS via the new programme due to begin in 2007. **The group reached the following conclusions:**

- Some VCS and other social regeneration activity would disappear once SRB money was phased out, especially community capacity building;
 - This would affect grass roots organisations the most;
 - SRB had on the whole worked well, in part due to the guidance requiring projects to include community capacity building;
 - The SRB funding issue was compounded by the reform of the EU structural funds and EU enlargement;
 - The approximate scale of the problem in financial terms from the wind-down of SRB and EU funding was estimated at around £170m per annum.
- 3.12 The group identified a range of possible options, including rationalising the 'spaghetti bowl' of regeneration funding and making it more community friendly and finding money to establish a new fund. It was, however, unable to identify a clearly preferred option to take forward.
- 3.13 We have found it difficult, during the course of our review, to establish the reliability of the estimated figure of the £170m estimated by the 2004 working group. Research undertaken in different regions show significant differences in the possible quantity and timing of the impacts of funding changes on community groups.
- 3.14 Research undertaken in the North East for Invest 2006 suggested that the impact of the changes was, unsurprisingly, least likely to be felt by larger organisations in the sector. They either had, or were developing the capacity to adapt to the changing framework for funding. However, it did suggest that the changes were presenting the biggest problems for medium sized organisations (with a turnover of between £50k-250k a year) and those providing advice, guidance, advocacy and lobbying rather than the delivery of services.
- 3.15 Less research has been done in other regions, but during the course of this review, all Government Offices, RDAs and many major local authorities met to discuss and take action in areas where pressures are thought to be most severe with changes to SRB and European funding.
- 3.16 The worst fears of the 2004 Spending Review Working Group have not been realised for all parts of the VCS, particularly those involved in service delivery and trading activity. However, continuing financial pressures remain, especially for CCB and for local community groups.

The pressure, particularly on larger VCS organisations, has been mitigated by 3 factors over the past two years.

- 3.17 ***The first reflects the increased investment by RDAs in VCS activities***, although this may not have reached levels of investment by

SRB in community capacity building and support for local community groups. In 2003/04, RDA investment from the Single Programme on VCS activities was estimated at around £46m. Estimated RDA investment for 2004/05 rose to £62m. In 2005/06 RDA financial projections had further increased to a forecast spend of £70m.

- 3.18 *We have also looked at how SRB schemes have fared once they have ended, the extent of funding by area and the proposed strategy for mitigating the impact (including mainstreaming) across all RDAs. In the South West, for example, there have been 70 SRB schemes over the years, 63 have already ended or are about to. They all have plans in place either to wind up the projects, to seek alternative investment, or to become self-financing. There is evidence from across the country that funding for some SRB projects has been mainstreamed within local authority and other expenditure. Some SRB projects have formed part of the basis for subsequent LSPs now responsible for negotiating LAAs. That said, it is not known how local community groups and CCB will fare when SRB ends but they are likely to be the most vulnerable to being wound up. There is a danger that CCB and community sector activity will not form a significant part of this mainstreaming.*
- 3.19 *Government Offices and RDAs have reviewed the results of this mapping, often in conjunction with local authorities. RDAs have increased investment in some VCS activities during the past year, but most of this investment is not in CCB and local community groups. This investment relates directly to the delivery of RDA priorities as set out in their respective Corporate Plans and include activities such as:*

Business Support

- promoting access to finance (e.g. the Adventure Capital Fund and other similar investment mechanisms) for social enterprises and other larger third sector organisations to develop their enterprise base;
- improved brokerage of social enterprise business support and outreach to some VCS organisations that trade;
- VCS organisations successfully tendering to manage the delivery of interventions in priority sectors (e.g. Churches Regional Commission managing tourism delivery in North Yorkshire; Creative Industries Development Agency providing specialist business support to Third Sector creative and cultural organisations in London).

Skills and Employment

- business development for VCS training providers (to make them fit for purpose/develop links with employers);
- capacity building for community-based organisations (operating in disadvantaged areas/with equality groups) to link their clients into skills and employment projects funded by the RDA (e.g. London);
- commissioning work to produce sub-regional VCS workforce development strategies (London; South West).

Regeneration and Development

- brokering VCS representation on sub-regional partnerships and/or management roles for activities within partnerships (e.g. EEDA Investing in Communities Partnerships; London Thames Gateway Third Sector Steering Group);
- promoting as part of an overall approach to infrastructure sustainable community asset-based approaches to area regeneration (e.g. through RDA investment in the Adventure Capital Fund and similar investment mechanisms, for example, Yorkshire Forward and South Yorkshire Key Fund; EEDA through Investing in Communities Programme).

3.20 These figures and examples show that some fears about the potential impact on the sector of the wind-down of the SRB have been less significant than first feared, particularly for economic and trading parts of the sector. However concerns about declining funding for CCB and local community groups remain valid.

3.21 We also recognise that the wind-down of European funding has not been as sharply defined as had been thought likely during 2004. Financing of VCS activities is continuing, though declining, under the current programme until 2008. A new programme from 2007-2013 means that the UK will continue to receive substantial funds for several regions, totalling an estimated €9.4 billion (in 2004 prices).

3.22 ***Secondly, the identification in the 2004 Spending Review of £525m a year for the Neighbourhood Renewal Fund (NRF)*** has been important in enabling LSPs in NRF areas to engage communities in shaping services to regenerate their area, and to commission services through the community sector.

3.23 That said, there has been growing anecdotal evidence to suggest that local authorities are applying NRF to support their own direct service provision in some areas, sometimes at the expense of services provided by the community sector.

3.24 Nevertheless, the NRF has played an important part in helping to support community services and projects in some areas as funding from the SRB and Europe has declined. **Given the importance of NRF to community services and projects in deprived areas, we recommend that further neighbourhood renewal funding be made available in CSR 07 and that, as now, it is incorporated in LAA funding, while ensuring support to CCB and local community groups.**

3.25 ***And the third factor has been the development of Local Area Agreements (LAAs).*** Research by Peter Tyler⁶ found that: distinctive features of good SRB schemes had:

⁶ Issues to consider with the Demise of the SRB – SR 02 research paper

- Enabled comprehensive regeneration of neighbourhoods that brings together people-oriented and area based initiatives;
- Led to the adoption of cross-cutting objectives that involve a number of Government department interests including job creation, housing renewal, environmental and health improvement, enhanced educational achievement, prevention of crime and community development;
- Allowed a range of neighbourhood based regeneration strategies that in the best cases have prioritised local problems and considered the economic opportunities available from the wider district and sub-region;
- Secured effective scheme design and involvement through the partnership based approach;
- Begun to involve representatives of the community as members in local partnerships and thus sharing in the design and implementation of neighbourhood schemes.

3.26 LAAs are consistent with the successful principles noted by Tyler. They also represent a new way of working to build a more flexible and responsive relationship between central government and a locality on the priority outcomes that need to be achieved at a local level. The Safer and Stronger Communities Fund block within LAAs includes a mandatory outcome to increase community engagement. However, some resources have been lost to the sector and for community development through the merging of Community Empowerment Network funding into LAAs.

3.27 As the National Audit Office pointed out in its Third Sector report, the complexities and transaction costs of filtering money through various organisations until it reaches the front line should be simplified and reduced where possible. It welcomed the introduction of LAAs as a potential mechanism for improving co-ordination between Central Government, Local Authorities and others, including VCS organisations.

3.28 **There has been other progress:**

- We have also noted good examples of pro-active working between local authorities and the local VCS. In Leeds, for example, the local authority has been keeping track of local community organisations and their survival strategies and it is aware of emerging problems. A task group has been set up under the LSP to look at the challenges around reduced funding and the opportunities that exist. The main activity is around identifying those groups that have potential to become social enterprises by tailoring their approach to procurement;
- The new DEFRA Rural Social Community Fund has provided valuable funding for the VCS in rural areas.

- In several regions, more research is now being done on the sustainability of the VCS in the short and medium term, identifying key issues and strategies for the sector to minimise adverse effects.
- In most regions including the North West, sub-regional ChangeUp consortia are being established, looking at infrastructure development with associated resource plans and links to national hubs providing support for ICT, workforce development and finance.
- Community Empowerment Networks, where they exist, have operated small grant schemes that have proved very valuable to the community sector, though many of these are now under threat with the ending of the Single Community Programme.

3.29 However, more remains to be done and new pressures are emerging:

- There are concerns nationally of widening divisions between larger organisations, well placed and organised to compete for public service contracts, and smaller community organisations. It is important that public authorities recognise a continuing need, and hidden economic as well as social value, in grant-aiding the variety of small groups which are not in a position to go down the social enterprise route;
- Recent research with members of *bassac*⁷ found that the potential of smaller community organisations to act as agents of community change, or as advocates for the local community, appears to have been restricted by their service-providing role and by the lack of availability of funding for them to act in a 'community development' capacity. This research suggests that specific, bespoke funding is required in order for community organisations to retain the features for which they have been valued in the past - their ability to empower people at the local grassroots, to build social capital and to act as a focal point for community development – and to contribute to building social cohesion, enabling local people to respond to local problems, establishing 'community anchors' and tailoring responses to local circumstances.
- The community involvement requirement of many public initiatives and the reform of local government both require higher levels of community capacity building to strengthen community skills, knowledge and networks, yet there are diminishing resources available for such activity.
- Where they exist, some Community Empowerment Networks are not working well within the LAA process to access additional funds to support their work in 2006/07. Government Offices and future funding

⁷ Cairns, B., Harris, M. and Hutchison, R. **Servants of the Community or Agents of Government? The role of community-based organisations and their contribution to public services delivery and civil renewal**, *bassac*, 2006

programmes from government have a role to ensure that this happens effectively.

- Mainstreaming will not be a solution for all SRB projects, although there is recognition that within this some SRB projects will have come to a natural end and will therefore pursue exit strategies as most appropriate rather than succession planning/mainstreaming options;
- Changing priorities in the Learning and Skills Council mean that their capacity to fund VCS activities has diminished and is likely to do so further over the next 2 years;
- Financial pressures facing Primary Care Trusts (PCTs) may impact on community sector and CCB budgets, despite the contribution made to health outcomes.

3.30 In summary, the financial soundness of the sector is not a new problem but changes to SRB and other funds has thrown short-term problems into sharp relief. There is just as sharp a need to address the long-term problem of getting greater sustainability within the sector – and not just amongst the larger organisations. The next two sections look at how to get the most out of the existing framework and what more is needed to put the community sector on a sounder, longer-term footing.

4. GETTING THE MOST OUT OF THE EXISTING FRAMEWORK

- 4.1 The 2004 Spending Review set a goal for making local compacts work better, building the capacity of the VCS and local public sector to work in partnership, improving funding and procurement practices to reduce unnecessary bureaucracy and more effectively sharing and learning from best practice.
- 4.2 As we have shown above, continuing RDA investment in the sector and the emergence of LAAs has been partially successful in mitigating the impact of the wind down of SRB and European funding. We have recognised that SRB style funding cannot continue indefinitely. SRB schemes were established and intended to have clearly focused exit strategies for their closure at the end of their project, or funding or other support for their continuation.

Regional Development Agencies (RDAs)

- 4.3 Under the Single Pot arrangements, we are clear that RDAs have maintained or increased their overall funding for VCS activities since 2004. However, given the RDAs' remit, we believe that this support is less likely than was the case under the SRB to be focused in CCB and is less likely to reach smaller community groups than larger voluntary organisations. RDA investment in the VCS is likely to be channelled towards those organisations with a clear focus on economic development activities such as VCS training providers and social enterprises. We should, however, guard against, too narrow an interpretation of economic outcomes. Projects producing multiple economic and social benefits can represent good value for money that is not always self-evident when measuring economic outcomes alone.
- 4.4 The changing focus of RDA investment is unsurprising, RDAs' have a regional strategic role and economic development remit. It is not to be expected that they should focus investment at the community level. It is to their credit that they have made some investment in the VCS and promoted effective succession planning and exit strategies to enable some community projects to adapt as SRB funding has declined.
- 4.5 It will be essential that the links between RDAs and the VCS are cemented at the regional and sub-regional levels. The measures we wish to encourage RDAs to undertake include:
- Sharing good practice widely on examples of RDA-VCS collaboration, especially where this has led to effective support being provided to the local community sector;

- Ensuring that RDA procurement and commissioning processes do not present barriers to the VCS, including community groups;
- Continuing their development of relationships with relevant specialist community sector networks, in the same way as they have dialogue with private sector networks operating in industry areas of specific interest, in recognition of the need, where appropriate, to engage in dialogue with community sector networks that address different interests at regional level.

4.6 In summary, the main future focus of the RDAs' relationship with the community sector should be as strategic partners in the regional economy and capitalising on the strategic added value that community groups and the wider VCS can contribute to RDAs' Corporate Plan priorities and the regional economic strategies more broadly.

4.7 **We recommend that England's RDAs continue to work with the voluntary and community sector to realise the full potential of the sector to promote enterprise, jobs and economic inclusion, particularly in deprived communities and with excluded groups, consistent with the priorities for economic development and social regeneration set out in each Regional Economic Strategy and taking account of the requirements on the RDAs set out in the Tasking Framework. For further information including references to addressing social exclusion and related issues as part of developing the RES for the region, see also DTI 2005 Guidance to RDAs on Regional Strategies, <http://www.dti.gov.uk/regional/regional-devagencies/regional-economic-strategies/page19357.html>**

4.8 **We consider that the Community Sector should:**

- Do more to promote awareness and understanding of the Regional Economic Strategy for their region and the RDA in their region's objectives as set out in the RDA's Corporate Plans.
- Seek better alignment with the RDAs in terms of describing what they do and what more they could deliver on the RDA agenda (taking into account regional variations and RDA priorities as set out in each respective RDA Corporate Plan).
- Consider producing strategies or frameworks that set out clearly how they can deliver on the Regional Economic Strategies and RDA Corporate Plans in order to facilitate understanding of community sector and RDA alignment on meeting economic development objectives.
- Use the evidence base to overcome a credibility issue in terms of asserting their role when new programmes are developed or changed in order to better 'stake their claim' to effective delivery.

- Focus on the strategic added value they bring to the RDA agenda including social and environmental as well as economic impact.
- Use examples from delivery to demonstrate how the community sector can help meet RDA objectives and priorities from RDA Corporate Plans in each region.
- Working with relevant community representatives, identify any specific barriers to the VCS, including community groups, in procurement and commissioning processes, and establish a dialogue with the RDAs and other public sector organisations to make them aware of these and ensure that no such barriers are introduced inadvertently, whilst ensuring that due diligence in commissioning and procurement is observed.

Central Government

- 4.9 **We recommend that the Government should commission a framework for measuring the economic impact of the community sector, both overt and hidden, which will be accepted as standard by central government, regional agencies and local government and other key institutions and the community sector itself.**

Local Authorities and LAAs

- 4.10 The 2004 working group recognised the complexity of the ‘spaghetti bowl’ of funding. Community and other organisations repeatedly come up against the frustrations of trying to piece together funding from a variety of different schemes, often with related objectives but working to different timetables and criteria.
- 4.11 We are keen to ensure greater certainty in funding and welcome the Government’s announcement that, given the move towards 3 year settlements for local government, there will be an expectation that there should be a similar multi-year approach for grants from local authorities to VCS organisations.⁸
- 4.12 We also endorse the National Audit Office’s conclusions about the need to simplify the complexities and transaction costs before money reaches the front line. We believe LAAs must play a critical role in opening up resources to a diverse range of VCS groups, including community groups at neighbourhood and parish level.
- 4.13 **It is also clear that:**

⁸ Ruth Kelly, speech to Development Trusts Association, September 2006

- successful LAAs will ensure the involvement of relevant stakeholders including in particular community groups in helping to identify, shape and deliver local services;
- the effective roll-out of LAAs and SSCF relies on sufficient engagement and capacity among communities. Without this, negotiated outcomes in LAAs are unlikely to include investment in community capacity building (CCB), reducing their ability to deliver lasting change in local areas.
- the LAA should include a statement of the involvement of the community sector in the design and delivery of the Agreement and how this builds on the infrastructure or capacity building services being developed through ChangeUp and developing minimum standards for community capacity building as outlined in "***Firm Foundations***" (Home Office 2004).

4.14 The crucial link to get right is between community and neighbourhood groups and local service providers.

4.15 To get the most out of the possibilities of LAAs, we believe that communities should have real influence over local services they receive. One way of doing this is for communities to negotiate a 'neighbourhood charter' or agreement with the Local Authority. This idea can build upon the work of the Scarman Trust in developing Community Service Agreements⁹, the Tenant Participation Advisory Project (TPAS) work on neighbourhood charters/compacts and the work of ACRE network and National Association of Local Councils on rural parish plans and parish charters.

4.16 A neighbourhood charter could give people a clear set of standards against which the performance of local service providers could be assessed. They should be jointly owned by the local authority and the community – helping to join up LAA partners and services in a particular neighbourhood. They would need to reflect local circumstances and have maximum flexibility to help to mobilise the broadest range of local resources and energies to tackle local issues.

4.17 We believe that such agreements have the potential to:

- Enhance the input of community engagement and capacity in the work of LSPs;
- Build social capital and collective efficacy;
- Reveal the potential and use of local assets, community action and neighbourhood management arrangements;
- Redirect public service revenues;
- Make institutions more accountable to local users;
- Recognise the rights, duties and responsibilities of all participants;

⁹ The Office for the Third Sector has recently awarded the Scarman Trust £1m to disseminate Community Service Agreements through a CSA challenge fund for local public agencies.

- Set out how and to what standards public services are to be delivered;
 - Articulate empowerment mechanisms that are to be available to local communities.
- 4.18 LAAs are leading to an improved dialogue between central and local Government. The increased flexibility of funding that they offer is leading to more, and better, decision making at the local level. We want to go one step further.
- 4.19 **We recommend that the Government encourages the development of ‘neighbourhood charters’ through guidance, promotion and good practice exchanges.**
- 4.20 One feature of the past few years has been the investment Government has made in improving the capacity of local authorities, through bodies such as the Improvement and Development Agency (IDeA).
- 4.21 The need now is to make similar advances in investing in the capacity of the community sector if the most is to be made of the potential of LAAs and increase the credibility and influence of the sector with local authorities and other service delivery partners.
- 4.22 Local authorities, other public sector bodies and the voluntary and community sector already devote significant resources to community capacity building. However, much of this is funded on a short term basis, reaches only limited circles of residents, is not co-ordinated with the capacity building work of other providers, and leads to inefficiencies.
- 4.23 **We recommend that Government provides guidance to local authorities and their partners to improve co-ordination of CCB activity, through the Local Strategic Partnership.** The result should be a better understanding of the need for CCB across a locality, together with the pattern of actual provision, so identifying gaps and considering redeployment or re-prioritisation to fill them.
- 4.24 We are aware that there is currently a value for money review looking at the arrangements for supporting improvement in local government. Across Government, it is estimated that more than £1 billion has been made available during the current Spending Review period to support local improvement. In this context, **we recommend that, within the sums of money currently available for supporting improvement in local authorities, around £50m be dedicated within CSR 07, primarily on community capacity building targeted to enable more effective engagement with LSPs, especially in connection with LAAs.**
- 4.25 We also want to see more public sector commissioning of VCS services. This is happening already in some areas. For example,

Regional Centres of Excellence, led by the North East centre, are already helping local authorities and the local VCS work more effectively together so that there are more opportunities for local VCS services to be procured. The NE Centre has been appointed as the lead RCE on third sector commissioning and procurement and are to develop over time a national programme to improve not only commissioning, procurement and funding practices but also facilitate a more effective dialogue between commissioners and providers in the third sector¹⁰. **We recommend that, within the total funding referred to in the previous paragraph, the case be considered for dedicated funding to be made available for this work and in particular to build both greater understanding in all regions of the local VCS amongst local government commissioning and procurement officers and improved bidding capacity in the local VCS. We would not expect this to total more than £1m.**

- 4.26 **We also recommend that Government Offices, which are responsible for negotiating LAAs on behalf of central Government:**
- a) **should, as part of the negotiation of the LAAs, always make sure that they assess and build an understanding of the role and challenges faced by the community sector and wider VCS in the design and delivery of local priorities and services, especially in areas benefiting from NRF, and the associated capacity needs and policy responses required at local level to ensure that the sector can play a full and effective role in the design and delivery of local priorities.**
 - b) **should ensure that LAAs reflect the direction of travel to be followed locally around the role of the VCS in commissioning and delivering public services as well as a coordinated and cross partnership approach to supporting community capacity building.**
- 4.27 In all cases, negotiation of the current round of LAAs should be informed by up to date information on the future prospects of projects previously funded by SRB or European Funding and their past or potential scope for adding to the social capital of an area.
- 4.28 Consideration of key community projects in the negotiation of LAAs and continuing investment by public sector agencies, including Learning and Skills Councils, RDAs, and others, in VCS activities will play a major part in ensuring that good projects that enhance social capital can survive over the next 2 years and can then prosper under our CSR 07 proposals.

¹⁰ 'A framework for strengthening the Third Sector's role in the delivery of local public services.' Speech by Phil Woolas MP, Minister for Local Government and Community Cohesion to the Third Sector summit, 22 June 2006

- 4.29 **We recommend that, in negotiating current LAAs the Government Offices, on behalf of central Government, should work with local authorities and partners to identify how best to support community sector activity that may be impacted upon by the changing funding and policy environment.** We welcome the Invest to Save budget's Inclusive Communities Fund focussing on LAA priorities and community strategies and would expect this fund to support the majority of support needed. However, we do not rule out up to £3m a year in any one region being needed to support significant community sector activity that is threatened from the decline of SRB or ERDF funding. The LAA(s) should identify desired outcomes for the wider sector, to be monitored within the LAA performance management process.
- 4.30 This recommendation is intended to cover the period pending the establishment of a new framework in CSR 07. All community projects financed by SRB or by RDA and LAA funding should plan ahead, including developing succession plans or exit strategies. **For organisations operating as social enterprises or reliant on a major element of grant funding, we recommend that they undertake a health and performance review. Several examples of toolkits to assist with such reviews are being developed, including one developed by Rocket Science as part of the work of the Taskforce.** These toolkits aim to assist existing and new projects to explore a range of options about their future – from closure to long-term sustainability through the maximising of earned income. Different frameworks should be developed for the large number of small community organisations whose economy consists largely in their own labour, but which also need some public funding in order to have maximum impact. The emphasis here would be on retaining and extending their voluntary base and the value of their informal services combined with good management and light touch accountability for grants.

Compacts

- 4.31 We have considered separately the case for regional compacts with the VCS. Whilst they may have a useful role, it is important to ensure that local compacts are working effectively. Therefore regional compacts should be framed in a way that complements both national and local compacts and promotes a Compact way of working in line with Compact principles and linked into the delivery of Regional Compact Action Plans. We have agreed the following a set of principles:

- GOs should take a coordinating and facilitating role on regional compacts, to prevent regional compacts being developed in silos, or multiple regional compacts being developed in any one region.
- Where there is no regional compact in place, GOs should sound out regional partners' views on the development of one. A very short statement of the commitments partners would make to implement principles of the national Compact could meet the needs of a Regional Compact. This may then link to action plans or other existing plans or protocols with the detail of what needs to be implemented. This short set of commitments could also take into account the principles proposed in the consultation document "Strengthening Partnerships: Next Steps for Compact;"
- This could be sent out to RDAs and regional Third Sector networks to help them identify the main principles to highlight in an agreement in a process facilitated by the GOs.
- A statement of this kind should help RDAs, GOs, regional networks and other regional bodies to strengthen and develop a Compact, and also to feed their learning in as Government and the Sector work together to develop the new arrangements.
- The Office of the Third Sector will help regions wishing to pilot models of regional compact. Where regions wish to use other models of agreement, we would want this to be using the Compact principles, and named as such.
- Many of the GOs have, or are working on, regional compact action plans. These can set out how implementation will be taken forward by the regional partners, and include for example the mechanisms for how the partners will progress implementation, and keep the relationship under review.

5 WHAT MORE IS NEEDED?

'The public and third sector agencies play the most significant role in neighbourhoods of multiple deprivation and among members of marginalised communities and groups outside the formal labour market. They provide services that meet expressed needs and alleviate the symptoms of poverty. But often these interventions do not address the underlying characteristic shared by poor neighbourhoods or poor people: the lack of wealth....

What distinguishes the most effective third sector organisations is that they pursue the opposite approach, building on resources and creating opportunities. This works on two different levels: they build the assets of their own organisation and they also build the assets of those they seek to serve.'

A Social Investment Bank – consultation paper

- 5.1 The previous section described what can be done to improve the existing framework. Those parts of the sector whose self-sustainability consists largely in their own labour need to be better at presenting the social and economic case for continued grant funding at a moderate level. The authorities and other funders who assist them need to develop a more realistic understanding of their hidden economic and social value and the ways in which they save costs in public services by dealing with problems and needs directly with the community.
- 5.2 For the majority of small community groups it is not appropriate for them to build a physical asset base or become social enterprises and they will always need access to grant funding and CCB support. Some groups at the very local level will always need grants because that is the most economic way for society to support activities which are for the public good, and the absence of which would impact negatively on the quality and cost of public services and community cohesion.
- 5.3 *Firm Foundations*: the government's framework for community capacity building (HO 2004) identified **four key components of support** that should be accessible at neighbourhood, parish or community level, summarised as follows:
- **A meeting space or base** that is welcoming and accessible, such as a community centre, village hall, development trust or settlement
 - **Seedcorn funding**, proven to be a cost-effective way of stimulating grass roots activity and capacity building
 - **Workers with community development skills** to support local community groups and activity
 - **A forum or network** that is inclusive, open, participative and accountable to the community

To make these key support components happen will require them to be integrated more closely into government policy and programmes, including the assessment process used to gauge an effective and inclusive LAA.

- 5.4 We are of the view that a step change is needed to better enable those parts of the sector which can grow through community and social enterprise activity to move away from grant and programme funding towards self-sustainability. Grant programmes are appropriate for organisations based on mutual aid, advocacy, civil renewal and community development, but are not as well suited to encourage asset development and enterprise. If community enterprises are going to make transformation change from short-term, grant funded “projects” to sustainable regeneration keystones, they need to build up a basket of stable and secure independent income to resource their development and growth. A critical element will be the nurturing of an income generating asset base.
- 5.5 By moving to an asset-building approach, with sustained investment, some parts of the community sector can move away from grants to building capacity and assets in a more sustainable way. Assets include, but are not limited to, buildings and land. Community assets include social capital.
- 5.6 **The 2005 Labour Party Manifesto stated:**
 ‘...we will offer neighbourhoods a range of powers from which they can choose, including:
- New opportunities for communities to assume greater responsibility or even ownership of community assets.
- 5.7 *Firm Foundations: the government’s framework for community capacity building* (HO 2004) includes amongst the specified actions to bring about change:
- ‘Facilitate the appropriate transfer of assets to community anchor organisations, by raising awareness amongst local authorities, encouraging consistent application of the rules, reviewing the basis on which the purchase of assets is funded, and building management capacity in the sector.’
- 5.8 In March 2006, a report was published by the cross-sector working group on ‘*Community Ownership and Management of Assets*’. The report highlighted a number of benefits, including:

General

- Users of assets that are in the control of the community, whether individuals or groups, are better able to plan for the future;
- Wealth creation and the revaluing through new use of an existing facility, be it a centre, a shop, a housing estate, or a school, can have a powerful multiplier effect. It can restore confidence in that place, help restore the viability of local businesses, help to reverse the exodus of residents and businesses, it can help to restore land values and attract new investment;
- Surpluses generated for the community organisation remain in the community and can support innovatory projects through small grants and the availability of community facilities and development support;

For local service providers

- Local service providers may find themselves with a local partner which can tap resources they cannot, complement services they provide, and act as a channel for user and community feedback in response to service provision;
- Asset-based organisations can often offer a base for neighbourhood-based service provision, making it more accessible to local people. Multi-purpose community buildings can act as a base for interaction, information and self-organisation. This would make it easier to activate collective efficacy; could underpin more formal neighbourhood governance structures and would be open to all residents, not just a particular section.
- Asset transfer and ownership can enable community organisations to support a public body in delivering its objectives in ways that are more community-responsive and more closely related to local needs.

For community organisations

- Asset ownership and the related sustainability can bring hope to an organisation, and greater confidence in a secure future;
- Capital asset ownership gives an organisation status and recognition, and indeed power, which it would not otherwise have, which is particularly important in giving it the confidence to plan for the future and form long-term relationships;
- Ownership of a capital asset can be a key factor in providing collateral for further borrowing, in leveraging in additional assets, and generating surpluses to finance new activity, thus providing a springboard for further growth.

5.9 *However, there are also risks:*

- Community organisations may be unable to manage the assets effectively, and might be unwilling to take on the associated risks and liabilities;
- Communities may not have the necessary capacity to run and manage these assets either in the short or long term. Unless this risk is mitigated it could result in their falling into disrepair;
- Communities' interest levels could fall leaving assets under used;
- Assets could be captured by unrepresentative groups and, unless appropriate clawback mechanisms were in place, could be sold off without a mandate to do so, or without public benefit from the monies raised;
- The splintering of asset ownership may increase political parochialism (i.e. local emotional attachment to visible physical assets) and thus hinder strategic, more objective management, usage and disposal of assets.

5.10 *However we believe there is considerable, documented experience that demonstrates ways in which risks can be effectively managed:*

- Many community organisations already successfully own and/or manage community facilities. Experience shows that there is a need for technical

guidance and organisation development support to maximise the effectiveness of such assets. Government, RDAs and other partners should provide specialist support to community organisations to help them manage existing assets.

- Any proposed transfer, and investment relating to it, should be dependent both on the preparation of a business plan for its management and development that is assessed as achievable by people with experience of the field and a perspective that takes on board financial, social and organisational considerations, and also on supportive monitoring of its implementation (ACF offers a model for achieving this).
 - Public bodies should not consider transferring assets to communities without either providing the necessary funding, or satisfying themselves that the project, and those involved, have the potential for attracting the required financial and/or support in kind to take it forward.
 - Experience shows that there is a need both for technical guidance on the complex issues of asset ownership and management, and also for tailored organisational development support to ensure organisations and their staff and boards have the skills and understanding necessary to run an effective and viable asset-based project. Government, RDAs and other agencies can help ensure that community organisations have the access they need to specialist consultancy services for feasibility studies, business planning and brokerage of funding packages. For example, programmes that include Business Mentoring, giving access to private sector “turnaround” experts, will also be critical. RDAs, with their links to the Small Business Service, are well placed to use their brokerage role to promote knowledge transfer, where there is a robust evidence base and a rationale for intervention to address market failure in this area.
 - Effective learning between local community organisations in order to share experience and information. Central and local government, and other funders, should work together to ensure that there is adequate provision of capacity building support for this purpose. Community sector infrastructure bodies and generic business-related support can play a part.
- 5.11 Many risks can also be mitigated by focusing on community management of assets rather than transfer of ownership. This approach will often deliver many of the benefits without much of the potential downside risk.

The Adventure Capital Fund, which offers patient capital to community enterprises, and which has since 2002 commanded an investment fund totalling £15 million. To date the ACF has provided 60 community organisations with grants and business mentoring to help them develop their enterprise ideas and become investment ready, and agreed 40 main investments ranging from £50 – 450K. One third of the funds invested have been provided in the form of grants and two thirds in the form of repayable finance including loans, repayment holidays and quasi-equity (e.g. profit sharing agreements). The capital investments attract leverage at an average

ratio of about 1:4. Taking account of current and projected demand the ACF estimates that that the fund should grow to a fund of around £150 over 7 – 10 years in order to provide investments and related support for 500 community enterprises across England (and that £40m over the next 3 years would provide capital investment for around 130 organisations alongside pre-investment and post-investment support).

- 5.12 A range of measures is already in place to encourage and enable greater community control. Local authorities have powers to support the transfer of assets to communities to own or manage. They can sell property or land at a discount of up to £2m. Recent developments include revised Treasury guidance on clawback for government departments and funders, which encourages funders to take a proportionate and imaginative approach in deciding whether to impose charges on assets or similar grant conditions, so that asset-based community organisations are not necessarily prevented from using publicly funded assets as collateral for loans, or for generating earned income.
- 5.13 The work of the **Commission on Unclaimed Assets** is of interest. The Commission's recently published report identified that capital from unclaimed assets in dormant accounts could total, on a conservative estimate, several hundred million pounds. Leveraging this equity would enable the proposed Social Investment Bank to multiply its investment several times.
- 5.14 The Commission identified other financial products the Bank could offer, including equity for social enterprises; lending in low income communities; and promoting enterprise in disadvantaged communities.
- 5.15 It also endorsed the strongly held view of this Task Force that more needs to be done to provide advice and financial support to community organisations seeking to develop under-utilised land or buildings (and/or more effective management) to benefit the wider community.
- 5.16 **What is needed is:**
- facilitated investment in asset base development (housing, buildings, and land);
 - working capital to assist business growth;
 - specialist technical support for existing and new owners of community assets;
 - training, for example in project management, asset development and management, community engagement, finance, business planning, risk management and governance. Access to good quality development thinking and learning opportunities is necessary to the successful growth of community enterprises, especially the development of assets. It remains patchy. Many community organisations are unable to get hold of or free up the resources (money or time) needed.

- 5.17 There is a gap in finance available to community enterprises. The sector is rapidly growing and financial instruments are growing too. There is a tendency for these to be either about easier access to grants or about low cost finance. There is little that bridges the two, connecting vital revenue support with the deliberate and planned acquisition and control of assets. This connectivity can broadly be badged as infrastructure (core) funding, and is one piece of funding packages that funders, ironically, often perceive to be ineligible under their programmes.
- 5.18 For all that, growth has reached a point where enough good quality community enterprises are operating to demonstrate this can work, the majority of these organisations remain vulnerable, for example more than half of all Development Trusts have assets less than £100,000.
- 5.19 The potential for expansion (and for real long-term sustainability) is frustrated by the way public bodies currently invest, and by the way we understand community organisations as cost centres, and not profit centres. Very little exists to fill the space between traditional grant making and loan finance. A number of community enterprises, once they have reached a certain stage of development, find that regeneration funders only allow them to carry out very specific output-related activities, are highly risk-averse and represent a barrier to the creation of a more enterprising culture.
- 5.20 On average (with regional variations because of property values) £1m of assets in community ownership is the minimum base from which a community organisation is likely to grow a portfolio of enterprise activities, and acquire further assets. The experience of the Adventure Capital Fund, and other relevant investment funds, suggests that investment will be needed in:
- Pre-investment support - Grants and mentoring to help organisations undertake feasibility work and other preparatory actions;
 - Development - Packages of development finance linked to professional and practitioner expertise will sometimes be needed to develop building based projects to the point of full investment readiness;
 - Capital - Patient capital investment, as modelled by the Adventure Capital Fund and Futurebuilders, combining a mix of patient loans and grants (in a proportion of about 2:1), with flexibility to tailor to each deal; and
 - Post-investment support - Mentoring and other support to safeguard the investment over a period of 5 years
- 5.21 We need to enable those community enterprises most ready to make the transformation from grants to self-sufficiency plan and shape their future. **More needs to be done to incentivise effective asset transfer, ownership and management. We welcome the review to be led by Barry Quirk to look at existing powers and policies that**

allow the transfer of the ownership or management of local public assets; how they can be better used; and what new powers may be necessary. In the light of the findings of the review, we would look to the CSR to secure the necessary investment from government to deliver community management and ownership of assets and support and training for both new and existing community-based owners of assets. In the interim, we recommend that asset transfer be incentivised by securing £10m to support refurbishment and development costs on local authority buildings and land that are transferred to community management or ownership.

- 5.22 **Subject to the conclusions of the Quirk review, we would look to Government to take the lead in developing a comprehensive and high profile promotion campaign to promote the potential benefits of community ownership or management of assets, including:**
- a) The wide-ranging benefits (as well as the potential risks) of community management and ownership of assets, including how transfer of management or ownership of assets can help local authorities achieve their wider priorities;
 - b) The importance of public bodies taking a community development approach to their assets;
 - c) The range of existing legal powers and provisions under which assets can be transferred by public bodies to communities on favourable terms, alongside the need to exercise care and caution in the treatment of publicly purchased and owned assets.
- 5.23 These proposals will enable those community organisations that are ready to grow as asset-based centres and community or social enterprises to do so.
- 5.24 But we have also concluded that it is vital for community capacity building (CCB) to continue to be supported in order to empower and raise standards of smaller community groups, as well as the more visible voluntary organisations. Without CCB support, community involvement in service planning and delivery will be ineffective.
- 5.25 We think the time is right to consider the particular role that the voluntary and community sector has played in supporting community capacity building, especially in deprived areas. A number of funding streams geared at the community sector at local level are due to finish by March 2008 (see Annex C). It is clear from the arguments set out in our report that small grants and other investment in the community sector enable greater participation, better quality of life and more effective public services. We therefore look to Government investment in the sector to be maintained at their current levels and, despite the tight fiscal climate, to be enhanced in CSR 07. Rather than continue with small, separate funding streams, we recommend that priority be given to bringing grant

programmes together and that decisions are devolved through LSPs to the neighbourhood level.

- 5.26 **As part of the third sector review in the context of CSR 07, we recommend the establishment of a funding over the 3 years of CSR 07 to be delivered through LAAs, of Community Micro Grants offering small grants to community groups to develop social capital and build community capacity, including the training of leaders of community organisations. We recommend that LSPs should normally devolve the administration of Micro Grants to existing funders or to suitably constituted panels. There should also be safeguards to ensure that such a fund does not 'displace' similar funds provided through local authorities or other LSP partners. Given the wind-down of funding streams exemplified at annex C, we envisage that funding of £35-50m a year throughout the CSR 07 period would be affordable.**
- 5.27 Above all, our proposals provide the opportunity to promote the long-term sustainability of the sector – from the community level to large, national delivery focused organisations. If taken, CSR 07 will have truly delivered a step change in the prospects of the sector.

Annex A

Local and Community Sector Task Force

Terms of reference

Aim

To ensure that central, regional and local government put in place a framework which allows neighbourhood and community groups to manage the wind-down of the Single Regeneration Budget and to ensure there are opportunities for them to access the range of substantial sums of Government investment available.¹¹

In particular:

- i) to consider the relevant sections of the 2004 Spending Review White Paper relating to the voluntary and community sector (VCS) and to consider how they might be applied as part of a wider vision for building a strong and healthy VCS;
- ii) to develop key messages and a communication strategy for improving partnership working between regional stakeholders (including relevant sub-regional and local agencies) based on a common understanding of the role and tasks of each and the linkages between them; and to incorporate this as practical outcomes into the 10 year Regional ChangeUp plans and any other appropriate mechanisms;
- iii) to recommend how regional stakeholders – RDAs, Regional Assemblies, GOs, VCS and others – can promote relevant and effective activity and measure this activity appropriately in line with national, regional (where they or other mechanisms exist) and local compacts; and linked into key regional strategies (for example, Regional Economic; Spatial Development; Skills strategies etc.);
- iv) to recommend how to maximise and measure the contribution of RDAs and other regional and local stakeholders to increasing the proportion of public services delivered by the VCS and the extent to which communities and community organisations are able to influence decisions by statutory agencies;
- v) to assist the development of strategies to minimise the impact of the wind-down of SRB and changes to EU structural funds on the VCS, particularly at community and neighbourhood level;
- vi) to develop an action plan for implementing any recommendations over which the Taskforce has direct influence.

¹¹ SR 04 White Paper, section 5.45

Annex B

The membership of the Task Force was:

Mark Blake	NCVO
Toby Blume	Urban Forum
Sylvia Brown	ACRE
Andrew Campbell	DCLG
Dave Clarson	DTA
Neil Cleevly	NACVS (now NAVCA)
Lindsay Coombs	Regional Coordination Unit
Mohammed Haroon/Frank Hamill	DfES
Ben Hughes	BASSAC
Amanda Little	London Development Agency (for the RDAs)
Tony Medawar	DTI (later LDA)
Kathryn Packer	DEFRA
Matthew Pike/Rosie Edwards	Scarman Trust
David Rayner	DCLG
Pat Samuel	HM Treasury
Robert Strachan	GONE
David Tyler	Community Matters/Community Sector Coalition
Richard Weatherill/Richard Clarke	Home Office
Steve Woollett	South West Forum (on behalf of RVSNs)

Annex C

List of funding schemes identified on www.governmentfunding.org geared at the community sector at local level

Name of scheme	Date due to end	Value (£m)
Adventure Capital Fund	None	14
Local Network Fund for children & young people	March 08	40
Parenting Fund	March 08	14
Victims Fund	March 06	1.25
Children, young People and Families Grant Programme	n/a	20
Connected Fund	Closed	0.25
Connecting Communities Plus	March 09	18
DEFRA Rural Social and Community Programme	March 08	13.5m for 2 years
Ethnic Minorities Innovation	Closed	3
Faith Communities	Closed	5
Living Spaces	Closed	30
National Offender Management Service Grants	March 08	0.5
Opportunities for Volunteering	None	6.9
Purposeful Activities	Closed	1.5
Refugee Community Development	Closed	1
Section 64 grants	None	17.8
Special grants programme	n/a	2.25
Community champions	March 08	9
Community Learning chests	closed	6
Neighbourhood Renewal Community Chests	closed	25
total		225.45