



Status of Local Authority Funding for Local Infrastructure – December 2024

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Summary

Local VCSE organisations are experiencing recurrent and ongoing funding reductions from Local Authorities. Local Infrastructure Organisations [LIOs] are seeing this first hand. NAVCA gathered information from member LIOs as a route to better understand the picture across the country, and the cumulative impact on the health and capacity of the VCS. The survey is not comprehensive but offers an overview of some of the systemic problems that LIOs and the VCSE sector are encountering.

Top tier local authorities including counties, with significant adult social care and children's services costs, seem to be more likely to be making significant cuts to infrastructure and /or VCSE funding. These councils are also larger funders than second tier councils and so the impact of these cuts is greater.

Within this survey areas with a lower socio-economic profile were more likely to experience local authority cuts to local infrastructure and the VCSE than councils in more affluent areas. Note there are inevitably exceptions to this observed trend.

Funding for local infrastructure organisations [LIOs] and wider VCSE sector can be thought to be easy cuts to make when local authorities are under financial pressure.

District local authorities often fund very small amounts for infrastructure [usually less than £30K sometimes less than £10K annually]. These sums on their own are insufficient to provide sustainable local infrastructure support but may represent key income for LIOs when other sources are cut.

The long-term impact of a difficult financial environment for local councils has resulted in councils using various sources of funding for both local infrastructure and VCSE grants. This means that funding is sourced from either time-limited central government pots with a fixed end date, or costs moved to budgets that would not be expected to normally fund infrastructure, such as adult social care. This increases the risk to LIOs and VCSE organisations of losing funding when pressures increase on the adult social care budget or when funding streams end. The risks of cuts are higher when infrastructure is funded from additional or alternative budgets rather than seen to be core council expenditure.

Many councils have made cuts to both infrastructure and VCSE funding over several or many years before cutting funding entirely, illustrating that this is a long term and systemic problem leading to the erosion of the strength, diversity and capacity of the whole VCSE sector.

In some areas there are increased risks of closure for VCSE organisations reliant on local authorities for funding, particularly where 100% cuts have been made. For other VCSE organisations smaller year on year cuts to funding [salami slicing] result in closure once other sources of funding including reserves have been exhausted.

LIOs are also at risk and several LIOs have been notified of or have already experienced 50-100% cut in funding from the local council either in the 2024-25 financial year, or to start from April 2025, with further cuts from April 2026. The scale and short notice of some of these cuts [four months before the start of a new financial year] along with no or at best minimal consultation poses an existential threat to the existence of the LIO. Councils do not seem to have considered what the alternative is for the VCSE sector and statutory partners if the LIO closes.

When decisions are taken on funding, they are usually taken on a piecemeal basis with an equalities impact assessment carried out on the specific cut rather than considered across the system as a whole. This is particularly problematic when different council departments are working in silos from each other, resulting organisations receiving funding cuts from multiple council sources.

Many local authorities are waiting for the announcement of the local government financial settlement due later in December 2024 before confirming budgets for 2025-26. Whilst this is understandable it means that financial planning for LIOs and VCSE organisations is pushed even closer to the start of the new financial year.

For LIOs particularly, obtaining sufficient funding to provide high quality local infrastructure services is an annual problem as the council proposes cuts each year. The work needed to reapply for funding each year and counter the risk of cuts consumes many weeks of work. For some councils cutting funding to the LIO is an option every year.

After many years of austerity, the financial challenges of some local authorities are so severe that decisions are needing to be made to cut funding for VCSE organisations and LIOs significantly or entirely. However, as councils move out of financial constraints the VCSE sector and local infrastructure that are core to recovery for the council and its residents, will

be either missing or greatly diminished. It is important to act now so that to ensure that LIOs and VCSE organisations remain to contribute when needed most.

Recommendations for local authorities include:

- recognise the VCSE sector and local infrastructure as key partners in the delivery of council objectives, seeing them as an equal partner
- prioritise communication and engagement, consult early and extensively and be open to changing plans and priorities as a result
- commit to building and maintaining effective working relationships with the VCS, convened, facilitated and enabled by LIOs
- move towards multi-year and realistic levels of funding that reflect full cost recovery
- understand that participation by LIOs and VCSE organisations in consultations, forums and boards has a cost associated with it and needs to be funded.

Recommendations for LIOs and VCSE organisations include:

- demonstrate the outcomes and value of the work you do with local authorities and with the wider community
- commit time to building and maintaining effective working relationships with the local council at all levels. Wherever possible participate in relevant local forums and boards and prioritise high quality communication.

Introduction

A survey of NAVCA members was carried out in November 2024 to identify the location and extent of cuts to funding for local infrastructure organisations [LIOs] and the wider VCSE sector. 57 responses were received, a 31% response rate. The respondents represented a reasonable geographical spread across England and type of local authority [district, county, unitary etc].

Responses covered 79 different councils, 25% of the 315 local authorities in England, excluding combined authorities. Whilst this is a comparatively small sample and therefore care should be taken in drawing conclusions on the numbers and types of councils in financial difficulty, the qualitative information on processes and practices indicates examples of both good and poor practices and where there are systemic issues that need to be addressed.

Type of Council

Table 1 shows the frequency of each type of council recorded in the survey.

LIOs reported on 71% of county councils [71%], 29% of unitary authorities, 25% of metropolitan districts and London boroughs, and 18% of districts.

Table 1: Type of local authority

Type of Authority	Number in survey	Total Number	Percentage of Councils
County	15	21	71%
District	29	164	18%
London Borough	8	32	25%
Metropolitan District	9	36	25%
Unitary	18	62	29%
Total	79	315	25%

[Note that total figures exclude combined / mayoral authorities, town and parish councils.]

Table 2 shows the number of LIOs participating in the survey reporting the financial status of a local authority. Responding LIOs could select multiple descriptors of the financial status of the local authority. 84% of LIOs responding had experienced cuts to infrastructure funding in previous financial years, and 70% funding cuts to the wider VCSE sector. 26% of LIOs were working through further cuts currently or for the first time, and 17% consulting on cuts to the VCSE.

Table 2: Numbers of LIOs working in different status local authority areas

Financial Status of Local Authority	Number of LIOs	Percentage of LIOs in Survey
Have already made cuts to funding of infrastructure in previous financial years	48	84%
Have already made cuts to funding of VCSE in previous financial years	40	70%
Consulting on budget cuts to infrastructure currently	15	26%
Consulting on budget cuts to VCSE currently	10	17%
Stated at risk of issuing a s.114 notice	13	23%
Issued a s.114 notice	2	3%
Not aware of / no cuts currently proposed to infrastructure or VCSE funding	9	16%

These figures give an indication of the extent of the financial stress being experienced by local authorities in England and the associated impact on the VCSE and LIOs. They also demonstrate that not all councils are in financial difficulty or that if they are, cuts to infrastructure and VCSE are not currently being considered.

13 out of the 15 county councils in this survey have either already made or are consulting on making cuts to infrastructure or VCSE funding. The other two county councils have no plans to cut infrastructure or VCSE funding. Given that this survey covers only one quarter of councils in England, the numbers of counties we have been made aware are cutting funding, is a strikingly high proportion of the total. This may suggest significant systemic issues for county councils, particularly as they are responsible for the provision of adult social care and children's services.

Of these two county councils have recently decided to make 100% cuts to local infrastructure funding from April 2025. In one case this will result in the loss of a core grant of c.£100K which risks the closure of the LIO. In another case £465,000 will be lost to 13 LIOs in the county.

District councils tend to fund comparatively small amounts for local infrastructure, and whilst there are exceptions, funding of £10-25K is typical, in some cases as little as £5-8000 per annum, this is not enough to enable effective infrastructure provision. Although district council funding may help sustain an organisation if a county council cuts funding, a typical district council does not have the resources available to it to make up the shortfall or fund at a more realistic level. In circumstances where a district council continues to fund after a county council has cut funding, this poses the question of what the district council values that the county council does not, or is it simply that pressures of adult social care and children's services are absent from district budgets so there is more flexibility?

District councils also operate on small budgets compared to top tier councils, so that what might be considered to be a small budget shortfall of £1M may have disproportionate effects on funding for VCSE organisations and LIOs, particularly if the sector is perceived to be easy to cut. As a result, smaller district LIOs may also be heavily reliant on service delivery to sustain their existence and cross-subsidise infrastructure provision.

Top tier councils of unitary, metropolitan districts and London boroughs are all experiencing similar issues to county councils. For LIOs and VCSE organisations in these local authority areas there were several examples of in year cuts to budgets made with little or no consultation and implemented very quickly. In one instance an in year cut of 50% was imposed without consultation, although a lesser amount was eventually cut as the council had made a technical error in not giving enough notice. Other LIOs report a 50% cut in funding from April 2025, despite the LIOs concerned being able to demonstrate the outcomes of their work for the council, this has counted for nothing.

In one top tier council consulting on cuts for first time with a large projected deficit over three years, all contracts that fall due for renewal in 2025-26 are the subject of review. This consists of two elements: what are the implications of non-renewal; and what are the implications of funding cuts of 10%, 15% or 20%. This will be a rolling programme.

Where top tier councils are also planning to make cuts to VCSE and local infrastructure budgets, in some instances health systems in the local area are also looking to reduce funding particularly to LIOs. Although this is not the case everywhere, where it does occur this double loss of funding will have a significant impact.

Commonly for all council types, budgets have been frozen for several years, in one case this was 11 years, another 10 years. This means that full cost recovery is impossible and the increasing cost of infrastructure or VCSE service provision has to be cross subsidised from other sources including reserves.

One significant problem appears to be frequent small or medium sized cuts, 5 -10% per year in consecutive years. A 5% cut may be *uncomfortable but manageable* in one year, but

unsustainable when repeated. Others report larger cuts of 15-25% from April 2025, following on from smaller cuts or standstill funding in previous years, compounding long term poor funding.

Some top tier councils have been able to commit to multi-year funding, but mostly at a fixed rate without an inflationary uplift and in at least two instances, with amounts tapering towards the end of the period. Other issues identified include:

- a reduction in contract term or a move to an annual renewal of funding agreement
- a move away from grants to contracts
- increased deliverables without an increase in funding
- potential for in year cuts within the contract term.

Some top tier councils have taken decisions to bring VCSE support services in house with the intention to reduce costs. Where this has happened there has been evidence of the erosion of trust, with some VCSE organisations unwilling to source support from the council, leading to reduced capacity within the sector as a whole. There is also evidence of duplication of support and services that are already provided by one or more VCSE organisation, wasting limited council resources. Why does the council think that it is able to deliver effective infrastructure support services over an organisation embedded within the VCSE sector itself?

Examples of good practice

Survey participants reported several examples of good practice in council resourcing of both local infrastructure and the VCSE sector. Common attributes of good practice by councils included:

- working with the VCSE sector as an essential partner
- taking a partnership approach based on good working relationships
- having advocates for local infrastructure and the VCSE sector within the council, particularly senior officers and Cabinet members
- multi-year funding to give greater surety of income and few cliff edges at its end
- open and proportionate procurement practices
- outcomes based funding with co-designed KPIs
- starting early discussions with the LIO and VCSE sector representatives when there are financial problems, with the aim to restructure funding and find system efficiencies, rather than simply cutting VCSE / infrastructure budgets
- publishing principles for reviewing funding agreements / contracts with VCSE in advance and opening a dialogue that looks at system delivery.

The LIO has a key role to play in supporting the VCSE sector in negotiations with a council in financial difficulty. For example, in Birmingham which has issued a section 114 notice, BVSC has worked with the council to avoid substantial cuts to children's and public health services provided by VCSE organisations and facilitated extensive discussions on how the City Council and sector can work together on strategic activities and service delivery.

In some council areas [top tier and district] funding to the VCSE has increased as the sector is seen as a core partner, and in one instance been index linked for the next five years. In other areas infrastructure contracts have been extended on a multi-year basis. All these examples are from more affluent areas and where councils are under reduced financial pressures.

Examples of poor practice

The survey has identified at least three top tier councils including one county council that have conducted a survey of VCSE organisations and statutory partners as part of a local infrastructure recommissioning process, without notifying the LIOs that the survey was going to take place or working with them to understand their perspective. Whilst it is important that funders can obtain an independent assessment of the effectiveness of local infrastructure provision for key stakeholders, this poor communication erodes trust and working relationships.

One top tier council cut all core funding to the LIO and volunteer centre in 2023-24, bringing the local infrastructure function in house to deliver capacity building, develop a set of online resources, and a council led VCSE strategy. Although grants to VCSE remain at previous levels, the grant function within the council has created a disproportionate application process so that the first round of small grants was underspent by around £250K as the VCSE sector did not have the capacity to engage with the process. The underspend was not carried forward to the next financial year and so was lost to the sector. Additionally, there is a lack of trust

Annual funding rounds do not allow for long term planning or organisational development. As one CEO of an LIO commented:

“We are vulnerable every year, regardless of what happens [with the budget].”

Other specific examples of poor practice reported include:

- in year cuts to project delivery
- short term notice of large reductions in funding e.g. three months or less prior to the start of the financial year
- poor communication with LIOs and the VCSE sector even when working relationships have previously been excellent
- decisions on funding cuts effectively taken prior to first conversations with LIO and VCSE sector, with limited further discussions possible
- multiple small cuts made across different departments and budgets within a council working in silos, that results in a large loss of funding to a VCSE organisation
- decisions taken on funding without reference to evidence requested by the council such as outcomes, KPIs, social value indicators or social return on investment
- limited or no public consultation on proposals for cuts
- cuts made without full processes including equalities impact assessments
- no inflationary uplifts over several years for the same grant or contract

- locally agreed Compacts or third sector strategies are ignored by councils when they choose e.g. in relation to procurement processes, consultations or decision making on funding cuts
- decision making effectively rests with a few council officers whose views are not challenged by elected members
- where VCSE organisations rent premises from the local council rents are also increased when funding is reduced, leaving the VCSE organisation as a net contributor to council budgets and others at risk of closure as they are unable to meet the additional costs
- long term underfunding where VCSE organisation or LIO have to take on additional work from the council to increase income to try to boost financial sustainability
- in two tier council areas competition with the VCSE sector and LIOs from district councils competing for the same sources of funding, particularly from health and wellbeing budgets.

One LIO reports that a decision on removing the grant for local infrastructure entirely was based upon the views of two council officers who assumed that support freely available online was sufficient for VCSE organisations. The elected members tended to take the advice of the officers, rather than other evidence, including the wider functions of LIOs to connect, convene and advocate.

“All too often, it appears that commitment to the VCS and what support for the VCS should look like can all come down to the views of a single individual – rather than there be an agreed approach across the local authority. If the lead officer involved believes there to be merit in infrastructure, the grant specification will accommodate it – but if not, it can take a huge amount of pressure, influence and persuasion to effect any change to that viewpoint. Councillors, who ultimately make the final decision, are guided by the recommendations of their officers, and don’t necessarily understand the role that second tier organisations have on a local level.”

There are many potential unintended consequences for local councils in behaving this way which include:

- public services which cannot be delivered
- increased pressure on other services provided by the council or health systems that are not funded
- a breakdown in trust
- increased costs of delivering services and activities as only business will take on the work
- the closure of key VCSE organisations with associated impacts on trust in communities
- increased dependency on statutory services
- loss of institutional knowledge
- the closure of the LIO which leads to a weakened and unsupported VCSE sector.

In one unitary authority 18 VCSE organisations were asked about their experiences of procurement and commissioning of services. Eight specific issues were identified that needs to be addressed to change the balance of power in commissioning of the VCSE sector.

1. The financial envelope has remained the same – there has been no uplift in funding for several years.
2. Where the council have made cuts the commissioning team have no experience of the voluntary sector resulting in poor quality commissioning practices.
3. Live tenders that have run out of date, new tenders have been recycled from old tenders but not updated to current need, with no discussion.
4. Unrealistic KPI's in tenders that are not be achievable; not reflective of the service user's experience or needs; or lack understanding of the service being commissioned.
5. No relationships with the commissioning team and the VCSE sector, so that organisations are much being 'done to' rather than 'with.'
6. Quarterly reports from VCSE organisations in receipt of funding from the council had not been read for two or more years, so there was no awareness of what was being delivered. Commissioners then repeatedly asked the VCSE organisations for information in the monitoring reports.
7. The council thinks it has commissioned a whole organisation rather than a 'service' – with an associated unrealistic set of expectations.
8. When re-commissioning on the open market existing contracting organisations have been asked to tender for lower sums and to make up the shortfall by applying for external funding from grant making trusts etc.

The proposed Civil Society Covenant gives the opportunity to develop approaches which address these sorts of poor practices in commissioning, partnership working and service provision through culture change and expectations of minimum levels of engagement and relationships. This is urgently needed. Given the long term chronic underfunding of local government any decisions of councils that lead to poor practices, duplication, closure of VCSE organisations and a reduction in activities and services provides residents with extremely poor value for money.

Systemic issues identified

This work has identified core systemic issues for LIOs, VCSE organisations and local councils that need to be urgently addressed.

"Most difficult is the lack of consultation with the sector or the general public, along with delays in decision-making until the New Year, which makes budgeting a nightmare."

1. The inability of VCSE organisations and LIOs to plan long term when funding is only given [in whatever form] for one year, with recommissioning on an annual basis.
2. The risk of relying on either a single source of funding as a LIO or on very small amounts from multiple sources as smaller grants are easier to cut.
3. Councils are well aware that some grants and contracts are insufficient for full cost recovery by VCSE organisations or the LIO yet continue to work on this basis and VCSE

organisations desperate for funding still take on the contract. This is unsustainable for both and fundamentally weakens the individual VCSE organisation and sets expectations that other VCSE organisations will accept contracts on the same basis.

4. Inflationary uplifts are rare, and some amounts remain unchanged for many years, yet the deliverables are unchanged or even increase.
5. Maintaining the same grant amount over a multi-year period reduces its value through inflation, limiting the capacity to address increasing costs and demands.
6. The expectations of commissioners exceed what is paid for within the contract.
7. Funding for LIOs is rarely made from core council expenditure and may more usually come from other budgets such as public health, adult social care or time limited central government funds for particular work streams.
8. Frequently cuts in funding for both infrastructure and VCSE are 5-10% which could be thought of as unlikely to affect an organisation significantly. However, repeated small cuts over several years or small cuts from several sources coupled with increasing demand and costs and no uplifts in grants / contracts from other sources, can quickly lead to significant financial difficulties.
9. In year cuts to agreed funding arrangements can lead to immediate redundancies, closure of services and the risk of closure for the VCSE organisation or LIO.
10. Decision making by councils without communication and consultation leads to the breakdown of partnerships and loss of effective working relationships, which may take a long time to rebuild.

Recommendations

For local authorities:

1. Recognise the worth of the VCSE sector and local infrastructure as key partners in the delivery of council objectives, seeing them as an equal partner, with unique and valuable contributions to make to shared objectives.
2. Prioritise high quality communication and engagement, consult early and extensively and be open to changing plans and priorities as a result.
3. Commit to building and maintaining effective working relationships with the VCS, convened, facilitated and enabled by LIOs. For effective examples see:
<https://www.local.gov.uk/publications/working-local-infrastructure-organisations-engage-smaller-vcfse-organisations-good>
4. Adopt co-design / co-production approaches to delivery of services and activities by the VCSE sector, working with the LIO to facilitate this.
5. Use open and transparent procurement and commissioning processes, especially with the VCSE sector that foster collaboration and partnership working rather than competition.
6. Wherever possible, move to multi-year funding for LIOs and the VCSE sector which is already offered by many councils.
7. Expect to fund on a full cost recovery basis using realistic and achievable deliverables.

8. Understand that participation by the VCSE sector and LIOs has a real financial cost associated with it which needs to be covered for the VCSE organisation to remain sustainable.
9. If providing funding for delivery by a VCSE organisation or LIO, the amounts offered must be realistic to reflect the services and outcomes provided, rather than giving small perhaps, token amounts.
10. Whilst finances for local authorities have been pressured for many years, repeated small annual cuts is destabilising for VCSE organisations. Aim to communicate well, facilitating discussion about restructuring or reconfiguring what is provided as well as looking to reduce costs.
11. Wherever possible avoid funding core service provision such as local infrastructure from time limited central government funding streams or tangential budgets such as adult social care.
12. Aim to restore VCSE budgets when the financial situation of the council improves to rebuild the sector and restore the outcomes for local residents that come from VCSE activity.

For the VCSE sector and LIOs:

- Be able to demonstrate the outcomes and value of the work you do with local authorities and with the wider community. Ensure that councils know what they are getting for their money and how it benefits local residents.
- Prioritise high quality communication and engagement with the council, participate in consultations and seek to have a well-informed dialogue with council staff and elected members bringing the voice of the wider VCSE and marginalised communities to the fore. Build relationships across the council at multiple levels.
- Commit time to building and maintaining effective working relationships with the local council. Wherever possible participate in relevant local forums and boards.
- When responding to tenders avoid the temptation of over-delivery where the costs of delivery exceed the amount of funds available.