

Keeping it simple

how to work effectively with the third sector

*A discussion paper and evidence review
for local authorities*

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The Institute for Local Governance

The Institute for Local Governance (ILG) is a research and knowledge exchange partnership comprising the region's Universities, local authorities, police and fire and rescue services, and other public sector agencies. It is funded on a subscription and research contract basis.

Since its establishment the ILG has sourced over 60 research projects valued at over one million pounds for its partners and delivered by the North East Universities (see appendix). The ILG has itself undertaken thirteen research projects including two Research Council contracts. In addition it has levered a further quarter of a million pounds from non partnership sources for brokered projects.

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1 Introduction

For local authorities, working with the third sector is often complicated and can be challenging economically, politically and even emotionally.

Third Sector Organisations (TSOs) work within the realm of civil society. As such, they are independent organisations which are able to define their own social objectives and determine their approach to practice. More than this, TSOs often want to influence or shape the priorities of local government and can seek to do so through formal consultation processes or by direct lobbying and campaigning.

The third sector rarely speaks with one voice. This is because individual TSOs come in many shapes and sizes and have diverse interests. Inevitably, the eagerness of TSOs to achieve great things for their chosen beneficiaries produces a competitive social marketplace where the demand for resources generally outstrips its supply.

There are many sources of income and support available to TSOs locally and nationally. But often, it is the local authority that TSOs look to first for support. In the current climate of considerable economic restraint on local authorities, this can put pressure on the relationships between local authority officers and the leaders of TSOs.

But it is not a one-way relationship. Local authorities increasingly look to the third sector to help them define priorities and subsequently to deliver services to meet local needs. However, as large complex organisations with significant statutory obligations and a political mandate to make decisions about local priorities and strategies to tackle them, local authorities often want to organise things their own way.

This can result in local authority officers devising structures and processes to marshal the energy and resources of the third sector in ways that complement their own activity. More often than not, such interventions result in significant investment in third sector development – which may be welcomed by some TSOs but not others. Indeed, investment in structures and processes almost inevitably produce constraints which may exclude, alienate and annoy some people in the third sector and provoke complaint.

When such problems have been experienced, local authorities often look at mechanisms to avoid or alleviate them in future. Sometimes this means that more information is sought on what the current situation is, and more structures and processes are produced to tackle issues. Often well meaning attempts to make things better produce unintended consequences that make issues *more* complicated and make relationships *more* fraught.

It's never going to be a perfect world. Public sector and third sector interests and priorities will always differ to some extent and so there will always be some areas of tension. Taking a step back to look at the relationships between the public sector

and third sector, as we have done over the last few years – we have come to the conclusion that, actually, most relationships are generally quite straightforward and productive. Whilst at the same time, we recognise that, ironically, it is the (much more rare) difficult experiences that get most of the attention and consequently shape the terrain.

Differences in opinion about what ‘constitutes’ the third sector and what it can achieve produce confusion. Often terminology used by one sector is interpreted differently by the other. But, no less important, differences of opinion *within* the third sector and *within* the public sector also shape expectations and relationships. We have examined some of the fault lines that produce inter-sector discord and propose some remedies to alleviate problems.

The overarching remedy that we propose is to keep things simple. But that can’t happen until some of the complexity is stripped away. We try to do this by drawing upon research evidence and understanding gained from working with third sector organisations and public sector bodies for many years.

But we are not promising the earth: this is a discussion paper - not our final word. Its publication will be followed by formal events to discuss its findings and proposals. And in practical terms we will be using its findings over the next few months to help develop strategies to improve inter-sector relationships in a range of contexts for a number of local authorities. When all of that work is complete, we’ll refine our findings and recommendations.

1.1 What is the aim of this report?

This report has four aims.

- Firstly, we have written the report to help local authorities get a better understanding about the structure and dynamics of the third sector. The report includes a lot of new evidence on local authority and third sector interactions to strengthen this understanding. But it is not the purpose of the report to present research findings as such; rather, its aim is to present some ideas to help local authorities to *think about* their relationships with the third sector in a new way.
- Secondly, the report aims to present data about local authority and third sector interactions in a generalised way rather than relating everything we say to particular places. We know that interactions between the public sector and third sector can sometimes be quite challenging. But it is important that these challenges, which sometimes feel specific to a certain area, are more commonly experienced that might be expected – irrespective of the location. We show that learning about sector inter-relationships, in short, can be shared.
- Having worked with three local authorities over a period of time, we recognise that officers are eager to build strong relationships with the third sector and invest time and resource in strengthening those links to produce good outcomes for communities and individual beneficiaries. But resources are limited and there is only so much that can be done. So the third aim of the

report is to consider the scope for and limits to local authorities' involvement with the third sector.

- The third sector is keen to make a positive difference for the communities of place or interest for whom they work. Local authorities are often eager to harness this enthusiasm and commitment by helping to develop the capability of the third sector to achieve its potential. But with resource limitations, local authorities need to know how and where to invest in that potential. This report helps to explain where investment can produce the best results.

1.2 What evidence is being used?

Our account draws on a wide range of evidence collected over the last eight years across Cumbria, North East England and Yorkshire and the Humber.

- For the ***Institute for Local Governance***, four interrelated, but separate research projects, on third sector and public sector relationships have been undertaken. In 2012 and 2013 a study was carried out by Tony Chapman for Northumberland County Council to examine the strategies to produce a conducive environment for the development of socially enterprising activity and promote social growth. In County Durham, Fred Robinson began a study on asset transfer which commenced in 2012 and will be completed in 2014. In 2012-13, a project was undertaken for Stockton-on-Tees Council by Tony Chapman to explore ways of assessing the value of investment by the Council on the third sector. These three studies in County Durham, Stockton-on-Tees and Northumberland explored complementary issues, making it possible to test ideas in similar and different contexts.¹ Previous to these studies, another project for the ILG, led by Tony Chapman, was undertaken on the role of place-based budgeting (previously known as Total Place) in 2011. This study explored the importance of collaborative governance and partnership working in the delivery of integrated services. The research involved content analysis of evaluation reports from 20 Total Place initiatives and concluded with a seminar for TSO and public sector officers.²
- The ***Northern Rock Foundation Third Sector Trends Study (NRF TST)***. This seven-year study (now in its sixth year) has produced a number of insights on sector relationships in a changing social, political and economic environment in North East England and Cumbria. The study has examined in depth: the configuration of critical success factors that TSOs need to attend to in order to be successful in their work; the role of infrastructure bodies in contributing to sector success; and, the relationship between TSOs' planning and practice ethos and the productive application of varying sources of income. In addition to qualitative research, the study has included major

¹ In Northumberland, additional research work has been undertaken since 2011 on the initiation and review of operation of new consortia arrangements for infrastructure support in the county. This work is also of assistance to the present project as there may be some scope to integrate aspects of sector intelligence gathering activity in Stockton-on-Tees drawing upon recent experiences in Northumberland. A second study for the ILG on the role of TSO organisations in the delivery of Total Place initiatives was undertaken in 2010 by the present author with colleagues from the TSO in Stockton-on-Tees. This work considered patterns of collaborative governance which were aligned closely to commissioning and procurement models presented by the Audit Commission. Details on the project can be found at this address: http://www.tees.ac.uk/sections/Research/social_futures/research53.cfm.

² The report from can be found at this web address: <http://www.tees.ac.uk/docs/docrepo/Research/Total%20Place.pdf>

quantitative surveys of the sector in 2010, 2012, to be repeated in the summer of 2014.³

- The ***Involve Yorkshire and Humber Third Sector Trends study (Yorkshire and the Humber TST)***. This research began in 2008 as a smaller-scale sister project to the NRFTST. The quantitative study replicated analysis of Guidestar data on registered TSOs in the region by Southampton University. In 2013 a quantitative study was undertaken to update previous NRFTST analysis. Tony Chapman carried out this study, funded by Joseph Rowntree Foundation and Involve Yorkshire & Humber which involved an online survey with 1,000 organisations. The study also partly replicates analysis from an earlier study for York and North Yorkshire Infrastructure Consortium on the Third Sector undertaken in 2008 (which in turn was a replication of an earlier study by Leeds Metropolitan University in 2000).
- For ***One North East***, then the Regional Development Agency, a study of public sector and TSO relationships in Tees Valley was undertaken in 2008. This involved a series of seminars with public sector and third sector participants from Darlington, Hartlepool, Middlesbrough, Stockton-on-Tees and Redcar and Cleveland. The study explored internal and external perceptions of sector strengths and weaknesses. It produced new insights on the cultural conditions under which collaborative governance can operate successfully.⁴
- For ***Garfield Weston Foundation***. A study of the situation of the third sector in North East England by Professor Cathy Pharoah of the Centre for Charitable Giving and Philanthropy and Tony Chapman which involved a survey and a series of interviews with key stakeholders about the current funding situation in the region. The study, carried out in 2013-14 was particularly concerned with the role of non-statutory funding for TSOs arriving from charitable foundations and provided valuable insights on the shifting balance between statutory and charitable foundation funding to the third sector.⁵

In addition to these studies undertaken by the present authors, two further sources of data are drawn upon in this report to produce comparative evidence.

- ***National Third Sector Study (NTSS)*** conducted by Ipsos/Mori for the Office of the Third Sector in 2008 and 2010 in every local authority in England. The data from these surveys has been re-analysed for Cumbria and for each local authority and sub-region of North East England and Yorkshire and the Humber. Many of the questions used in the NTSS were partly or fully replicated in the Northern Rock Foundation Third Sector Trends study and in the Involve Yorkshire & Humber Third Sector Trends study so that comparative analysis could be undertaken.

³ Full access to reports from the NRFTST is available at this address: <http://www.nr-foundation.org.uk/resources/third-sector-trends>.

⁴ This research was published in the following article: Chapman, *et al.* (2010) 'Trouble with Champions: local public sector-third sector parships and the future prospects for collaborative governance in the UK', *Policy Studies*, 31:6, 591-613.

⁵ The report by Pharoah, *et al.* (2014) was published in March 2014 and is available from: http://www.garfieldweston.org/_common/updateable/documents/2576d2e1-eb88-4a3d-b48c-525cd6fd82a3.pdf

- **National Council for Voluntary Organisations (NCVO) Almanac 2013**
data collected from Charity Commission sources are analysed annually by NCVO at a national level. David Kane of NCVO kindly provided data broken down by each of the three northern regions: North West England, Yorkshire and the Humber, and North East England.

1.3 Regional context

This report also draws on geographical evidence from Cumbria in North West England, North East England and Yorkshire and the Humber. Hereafter, this area will be referred to as the '**northern England**'. The area under scrutiny is spatially, socially and economically varied.

- **Cumbria** is located in the former Government Office region of North West England. The county occupies 18% of the land area of the region and has a population of 499,800. The County is varied spatially with the industrial towns of Barrow in Furness and Workington in the south and west and Carlisle which is close to the Scottish border. Much of the county is rural, particularly the districts of Allerdale and Eden. The County is governed by a two tier local authority structure. The upper tier, Cumbria County Council, are located centrally in Kendal. There are six district councils: Allerdale, Barrow-in-Furness, Carlisle, Copeland, Eden and South Lakeland.⁶ The interests of the third sector are represented by Cumbria Council for Voluntary Service (CVS). This organisation was created by amalgamating the six former district CVSs' in anticipation of Cumbria becoming a single tier authority in 2007.⁷ Cumbria has established a county-wide Local Enterprise Partnership (LEP) to support social and economic growth of the area. While there is no Board representation for the third sector on the LEP, one of its key objectives is defined as follows: 'Strengthening Cumbria's social fabric through pursuing the Big Society agenda to unlock the energies and resources of our communities in delivering innovative solutions to local issues'.⁸
- **North East England** is bordered to the west by Cumbria and to the south by Yorkshire and the Humber. It is a varied region, spatially, with major urban areas in the sub-regions of Tyne and Wear and Tees Valley. Northumberland is a largely rural county with significant former industrial settlements in the south east which have suffered from economic decline. County Durham sits at the heart of the region with a varied mix of rural areas interspersed with former mining villages and industrial towns. With a population of 2,596,000, North East England is the smallest of the former English regions and the second smallest spatially.⁹ Following the abolition of the Government Office for the North East and the RDA *One North East*, two LEPs have been established in the north and south of the region. The North East LEP (known

⁶ For a more detailed discussion of the spatial, social and economic characteristics of Cumbria in a regional context, see Young, R. and Sly, F. (2011) Portrait of the North West, *Regional Trends 42*: London: Office for National Statistics.

⁷ Burnby, D. (2007) *Anatomy of a merger – the Cumbria experience: How the county's five district CVS became one*, Sheffield: NAVCA. http://davidburnby.co.uk/wp-content/uploads/2008/09/anatomyofamerger_db1.pdf

⁸ Cumbria LEP ref <http://www.cumbrialep.co.uk/what-we-do/>

⁹ See Worthy, A. and Gouldson, I. (2010) Portrait of the North East, *Regional Trends 42*, London: Office for National Statistics

as NELEP) covers Northumberland and County Durham and all five unitary authorities from the former Tyne and Wear metropolitan county.¹⁰ Tees Valley Unlimited¹¹ covers the area of five unitary local authorities: Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton-on-Tees. Neither of the LEPs in North East England have direct third sector Board representation. The regional body which represents third sector interests is Voluntary Organisations Network North East.¹² The Association of North East Councils¹³ (ANEC) represents the interests of the 12 local authorities in the region.

- **Yorkshire and the Humber** is a large region with a population of 5.2 million in 2011, including a significant proportion of ethnic minorities in the metropolitan areas.¹⁴ The region, until the abolition of the Government Office and RDA, *Yorkshire Forward*, was divided into four sub-regional administrative and economic areas which are used in the analysis undertaken in this report. These sub-regions include two largely urban areas: *West Yorkshire* which is the most densely populated, and *South Yorkshire*, the second most densely populated sub-region. *Humber*¹⁵ has a large rural area to the north and industrial areas to the south which have experienced significant economic restructuring. *North Yorkshire* is the largest of the four sub-regions by area. It is a largely rural and in many places a relatively affluent area with its major urban settlements in York, Harrogate and Scarborough. There are four LEPs in Yorkshire and the Humber region: York, North Yorkshire and East Riding LEP¹⁶; Leeds City Region LEP¹⁷; Sheffield City Region LEP¹⁸; and, Humber LEP¹⁹. The spatial coverage of these LEPs is complicated to some extent by overlapping boundaries.²⁰ There is currently no direct third sector representation on the Boards of these four LEPs. The regional body which represents third sector interests is Involve Yorkshire & Humber.²¹

As a whole the area being studied, as the above outline indicates, is a large area which is spatially and economically varied. Consequently, it may be tempting to assume that generalisations can neither be made about the structure and dynamics of the Third Sector, nor about the needs of its beneficiaries. However, as evidence

¹⁰ Details on the role of NELEP can be found at this address: <http://www.nelep.co.uk/>

¹¹ Details on the role of Tees Valley Unlimited can be found at this address: <https://www.teesvalleyunlimited.gov.uk/>

¹² VONNE's website can be found at this address: <http://www.vonne.org.uk/home/>

¹³ ANEC's website can be found at this address: <http://www.northeastcouncils.gov.uk/>

¹⁴ For a more detailed portrait of the region see Kay, I. (2010) Portrait of Yorkshire and the Humber, *Regional Trends* 42, London: ONS, and ONS (2012) *Regional Profiles: Key Statistics - Yorkshire and The Humber*, London: ONS, http://www.ons.gov.uk/ons/dcp171780_275367.pdf.

¹⁵ Humber is a former sub-region of the former Yorkshire and the Humber administrative region. The area includes four unitary authorities: East Riding of Yorkshire, Hull, North East Lincolnshire and North Lincolnshire. While there have been some controversies surrounding the naming of this sub-region, the term Humber is adopted as this is currently used by the Local Economic Partnership, see: <http://www.humberlep.org/>.

¹⁶ York, North Yorkshire and East Riding LEP website address: <http://www.businessinspiredgrowth.com/about-the-lep/who-we-are/>

¹⁷ Leeds City Region LEP website address: <http://www.leedscityregion.gov.uk/about/lep/>

¹⁸ Sheffield City Region LEP website address: <http://www.sheffieldcityregion.org.uk/>

¹⁹ Humber LEP website address: <http://www.humberlep.org/>

²⁰ This interactive map shows the boundary overlaps between the four LEPs in Yorkshire and the Humber: <http://www.yorkshirecities.org.uk/about/local-enterprise-partnership-areas>. The individual LEP website addresses are all available on this interactive map.

²¹ Involve Yorkshire & Humber website can be found at this address: <http://involveyorkshirehumber.org.uk/>

from the Third Sector Trends studies in Cumbria and North East England, and in Yorkshire and the Humber will demonstrate, there is much evidence to show that similar experiences are often shared in places with differing social, political and economic circumstances.

1.4 How is the report organised?

The report is divided into three substantive chapters.

- Chapter Two considers the policy and economic context within which local authorities and third sector organisations are currently working.
- Chapter Three provides an evidence review on the structure and dynamics of the third sector and examines the extent and characteristics of inter-sector relationships.
- Chapter Four provides a portrait of current third sector activity and presents analysis on sector finance.
- Chapter Five examines the extent of engagement in public service delivery, the scope for public sector investment in TSO development, and the way to assess sector impact.

The concluding section of the report presents a summary of key findings and offers points for discussion and debate.

2 Economic and policy context

This section of the report explores, firstly, the economic and policy environment within which the public sector is currently working; and secondly, how changed government policy and investment has transformed the context within which third sector and public sector relationships are framed.

2.1 The economic and policy context

The fiscal environment within which local authorities operate has been transformed over the last few years. All local authorities have faced some reductions in their funding from government. Recent analysis has shown that areas suffering from deep multiple deprivation have been particularly badly affected by government cuts when compared with more affluent areas.²² As shown in Figure 1.1, some of the poorest districts and local authority areas in Cumbria, North East England and Yorkshire and the Humber have been particularly hard hit.²³ Similarly, IPPR North have recently published analysis of *per capita* public sector spending in the English regions: it was shown that:

‘...a proportional cut necessarily means those regions with the highest expenditure receiving the largest cut. But now the three northern regions are shown to be hit harder than the remaining regions: the North East loses £135 per head; the North West £125 per head and Yorkshire and the Humber £113 per head. From this angle, the South East becomes one of the least affected regions, losing £97 per head.’²⁴

Proportionate levels of cuts in public sector employment have also been analysed recently by the Institute for Fiscal Studies. As Figure 1.2 shows there are disproportionately high levels of public sector employment in most local authorities in northern England and so, in all likelihood, they will have to make bigger reductions in staff numbers than in other local authority areas.

²² Watt, N. (2014) ‘Local government cuts hitting poorest areas hardest, figures show: cuts average 25.3% in 10 most deprived areas of England, and 2.54% in 10 least deprived areas’, *The Guardian*, Thursday 30 January; see also, Robinson, F. Houston, M., Braidford, P. and Allinson, G. (2014) *Challenging Times: prospects for Local Government in North East England*, Newcastle-upon-Tyne, Association of North East Councils. .

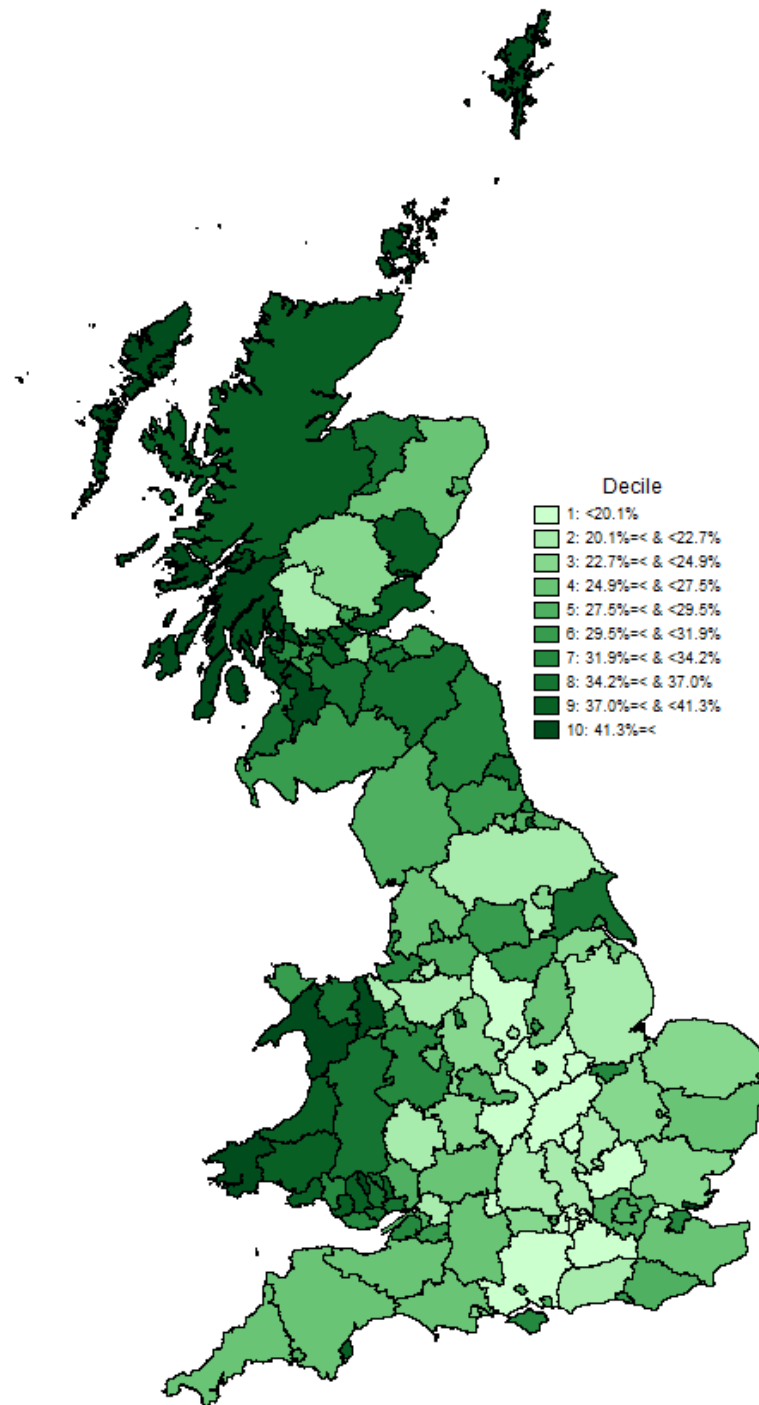
²³ The current UK Government does not recognise these formal regional boundaries and abolished key agencies which operated at a regional level. This led to the closure of government offices for the regions in March 2011 and the regional development agencies (RDA) in March 2012, see: House of Commons Library (2013) *The Abolition of Regional Government*, 27th March. However, the boundaries provide a useful basis for comparative measurement with other data sets on the structure and functions of the Third Sector in the region including the National Third Sector Study (NTSS) and previous Third Sector Trends studies of Cumbria, North East England and Yorkshire and the Humber by Kane and Mohan in 2010.

²⁴ Cox, E. Henderson, G. and Raikes, L. (2014) *Rebalancing the books: how to make the 2015 Spending Review work for all Britain*, Newcastle: IPPR North, p. 23.

Figure 1.1 Levels of cuts to per capita local authority spending in sub regions of Cumbria, North East England and Yorkshire & the Humber ²⁵	Index of Multiple Deprivation 2010 (1 = Most Deprived)	Cumulative Area Change from 2010/11 in Year Change to 2014/15 (per capita member of local population)
Cumbria		
Barrow-in-Furness	32	-£158.58
Copeland	78	-£116.51
Carlisle	109	-£87.05
Allerdale	111	-£102.47
Eden	211	-£93.94
South Lakeland	242	-£94.27
Northumberland	135	-£143.16
Tyne and Wear		
Newcastle upon Tyne	40	-£217.96
Gateshead	43	-£206.74
Sunderland	44	-£219.25
South Tyneside	52	-£262.24
North Tyneside	113	-£142.29
County Durham	62	-£160.80
Tees Valley		
Middlesbrough	8	-£234.21
Hartlepool	24	-£267.82
Redcar & Cleveland	48	-£207.21
Darlington	75	-£100.56
Stockton-on-Tees	100	-£150.78
West Yorkshire		
Bradford	26	-£200.39
Wakefield	67	-£127.66
Leeds	68	-£130.04
Kirklees	77	-£113.48
Calderdale	105	-£130.90
South Yorkshire		
Doncaster	39	-£208.63
Barnsley	47	-£168.07
Rotherham	53	-£150.12
Sheffield	56	-£198.47
Humber		
Hull	10	-£228.36
North East Lincolnshire	46	-£209.20
North Lincolnshire	120	-£111.15
East Riding of Yorkshire	202	-£85.44
North Yorkshire and City of York		
Scarborough	85	-£88.34
Ryedale District	213	-£71.50
City of York	234	-£65.85
Selby	235	-£68.54
Craven	246	-£73.56
Richmondshire	261	-£73.15
Hambleton	264	-£70.32
Harrogate	282	-£79.80

²⁵ Adapted from Rogers, S. (2013) The England cuts map: what's happening to each local authority and council? *The Guardian*, 121th January: <http://www.theguardian.com/news/datablog/interactive/2012/nov/14/local-authority-cuts-map>.

Figure 1.2 **Percentage of local workforce in the public sector (deciles, 2010 to 2012)**²⁶



Research findings on regional productivity, as measured by Gross Value Added (GVA), suggests that many local authorities in northern England may face a double bind: that their own funding is being progressively reduced but that this is not compensated at a fast enough rate by private sector growth. IPPR North demonstrate that there are wide disparities between London and northern England in productivity terms when measures

²⁶ Jonathan Cribb, J., Disney, R. and Sibiet, L. (2014) *The public sector workforce: past, present and future*, London: Institute for Fiscal Studies, IFS Briefing Note BN145, p. 32.

of GVA are considered. However, it should be noted that productivity varies significantly *within* each of the regions of the north.

- In **North East England** the lowest GVA is in County Durham (£11,661) compared with the highest (£19,592) in Darlington.
- In **North West England** the lowest GVA is in Wirral (£11,167) compared with the highest in Warrington (£25,047).
- In **Yorkshire and the Humber** the lowest GVA is in Barnsley, Doncaster and Rotherham (£13,806) compared with the highest in Leeds (£22,224).²⁷

2.2 Tackling social and economic challenges

Local authorities in northern England are, with somewhat diminished resources, working hard to tackle challenging social problems produced by economic recession. Before the 'credit crunch' in 2008, local authorities received higher levels of funding to tackle social issues from a range of initiatives produced by the previous New Labour government. Councils in the 88 English local authorities with the most intense levels of multiple deprivation were particularly well served in this respect (of which, including former districts of Northumberland and County Durham) there were 25 areas in northern England.²⁸ In addition to the Neighbourhood Renewal Fund, many of these areas also benefitted from a number of other government initiatives.²⁹

The previous government aimed to produce sustainable communities through its neighbourhood renewal strategy; underlying this was a strong belief in collaborative governance. Consequently, from 1997-2010, the New Labour government invested heavily in initiatives to get public sector and third sector organisations working together successfully at the local level to tackle problems associated with multiple deprivation and economic decline.³⁰ A belief that the public sector and the third sector needed to work hand in hand³¹ was one of the key factors which led successive government to require local authorities to establish Local Strategic Partnerships (and subsequently, Local Area Agreements and Multi Level Agreements which were performance managed through a series of national indicators). Commitment was further bolstered by the agreement of national and local compacts between the public sector and third sector.

The government sought to create an environment within which public sector and third sector partnership working and delivery could flourish. Equally, the government

²⁷ Cox *et al.*, *ibid*, p. 26.

²⁸ Social Exclusion Unit (2001) *A New Commitment to Neighbourhood Renewal National Strategy Action Plan*, London: Cabinet Office, The districts of Cumbria receiving Neighbourhood Renewal Fund included Barrow in Furness and Allerdale; in Northumberland, Wansbeck was eligible for the fund; and in County Durham districts included Derwentside, Easington, Wear Valley and Sedgefield. All unitary authorities in Tyne and Wear were eligible for the fund as is the case in the four unitary authorities in the former Cleveland County Council area. In Yorkshire and Humber, eligible areas included Barnsley, Bradford, Doncaster, Hull, Kirklees, Leeds, Rotherham, Sheffield and Wakefield.

²⁹ Harris, M., Cairnes, B. and Hutchinson, R., 2004. "So many tiers, so many agendas, so many pots of money": the challenge of English regionalization for voluntary and community organization'. *Social Policy and Administration*, 38(3). 325-340.

³⁰ Labour Party, 1997. *Building the Future Together: Labour's policies for partnership between government and the voluntary sector*. London: Labour Party.

³¹ For academic analyses of these developments, see Craig and Taylor (2002), Kelly (2007), Haugh and Kitson (2007), Davies (2008), Carmel and Harlock (2008), Birch and Whittam (2008).

invested substantially in the development of the third sector through a range of infrastructure support initiatives such as the *Capacity Builders* and *Future Builders* programmes. The thinking behind these initiatives was that TSOs (drawing upon their presumed ability to capitalise upon 'added value' by producing 'innovative practices' and exploiting their connectedness with 'hard to reach communities'), could be persuaded to become more businesslike in practice, build capacity to take on contracts to deliver public services and become committed to inter- and intra-sector partnership working.³²

The previous government was also worried about the dearth of reliable evidence on the structure, functions, productivity and effectiveness of the third sector. Much public money was invested in filling these knowledge gaps through the work of the Office of the Third Sector which was based at the heart of Whitehall in the Cabinet Office, and subsequently through the establishment of an independent Third Sector Research Centre at Birmingham University.³³ Some of the evaluative work on large-scale interventions produced unwelcome findings. Research on the effectiveness of the *Capacity Builders*, for example, produced only limited evidence that the programme had achieved its principal objectives. Similarly, the efficacy of investing in partnership working and collaborative governance were called into question by a series of critical reports.³⁴

Questions about the efficacy of government attempts to shape the activity of the third sector were raised in the run up to the 2010 general election in a number of influential reports.³⁵ And as a consequence, following the establishment of a coalition government formed by the Conservatives and Liberal Democrats in 2010, there was a shift in policy direction. While the coalition government conceded that the third sector would have to play its part in shouldering the burden of a reduction in public spending, it was claimed that this should not be at the expense of a thriving third sector. As Prime Minister, David Cameron then argued: by reducing the size of government, the 'Big Society' would emerge.

*'The Big Society agenda is not a Government programme; it is a call to action. The agenda contains a great deal of opportunity for the voluntary and community sector to do more and have a greater say. We want to work closely with the sector to help ensure organisations can seize these opportunities.'*³⁶

Pete Alcock, Director of the Third Sector Research Centre, explained the context within which Big Society thinking had emerged.

'The Big Society was intended to be contrasted with the big state that New Labour had advanced, and among other things was intended as an

³² See, for further detail: Cabinet Office (2007), HM Treasury (2006), Office of the Third Sector (2006a, 2006b), Home Office, (2004a, 2004b, 2005), Kelly (2007).

³³ TSRC was funded by ESRC, Cabinet office and Birmingham University up to March 2014, after which the centre's core funding will come solely from Barrow Cadbury Trust. While the centre will be funded at a lower level than in the past, it is expected that the research and policy activity will be maintained to 2018.

³⁴ See, for example: National Audit Office (2009) *Building the Capacity of the Third Sector*, London: NAO. Wells, P. et al. (2010) *Evaluation of Future Builders, Final Report*, Sheffield, CRESR

³⁵ See, for example, Norman, J. (2010) *The Big Society: the anatomy of the new politics*, Buckingham: University of Buckingham Press; Blond, P. (2010) *Red Tory: how left and right have broken Britain and how we can fix it*, London: Faber and Faber.

³⁶ Office for Civil Society (2010) *Building a Stronger Civil Society: a strategy for voluntary and community groups, charities and social enterprises*, London: Cabinet Office, p.12.

*endorsement of the positive and proactive role that voluntary action and social enterprise could play in promoting improved social inclusion and 'fixing Britain's broken society'. By 'returning' power from the state to the citizen, social change could be put back in the hands of people and communities.*³⁷

This represented a shift in emphasis away from the former Labour government's attachment to the rhetoric of the 'third-way' with government-led 'joined-up working' by the public, private and third sectors at its core - to an alternative model where civil society itself takes the lead.³⁸

The Big Society agenda generally accepted that partnership working could help to strengthen the performance of what were now called 'Civil Society Organisations'.³⁹ But there was little enthusiasm for maintaining the structures which had been built to foster such relationships. Consequently, local authorities were no longer required to maintain local strategic partnerships, the duty to establish Local Area Agreements was abolished, and funding to sub-regional partnerships, formerly provided by RDAs, ended with their abolition.⁴⁰

2.3 Summary

The policy and funding environment has clearly changed quite significantly over the last few years. This does not necessarily mean that the third sector faces a fundamental crisis. As the next section of this report shows, local third sector organisations tend to be funded from a variety of sources, not just government and local authorities. Furthermore, new sources of funding are emerging, including programmes supported by the European Union and National Lottery which could play a significant role in maintaining sector activity and impact. In an improving economic situation, government may decide to invest in new programmes to tackle social issues – and especially so if, following the election of 2015, there is a change in government. The next section considers the strengths and weaknesses of inter-relationships between the public sector and third sector in order to make observations on how the third sector's potential may be harnessed in the context of significant change in the economic and policy environment.

³⁷ Alcock, P. (2010a) 'Building the Big Society: a new policy environment for the third sector in England', *Voluntary Sector Review*, 1:3, p. 380.

³⁸ There is a significant body of analytical commentary which explores the practicalities of achieving collaborative governance (Atkinson 1999, Carmel and Harlock 2008, Office of the Third Sector 2006a, Cabinet Office 2008; Ansell and Gash 2007, Bode 2006). For some commentators, who adopt a pluralistic and broadly positive stance, engaging in collaborative governance produces a win-win situation for the public sector, third sector and the beneficiaries of the services that are provided (for an analytical review of this literature see Ansell and Gash, 2007). Sometimes the 'can-do' enthusiasm of advocates can, perhaps, be overstated: 'This collaborative governance system can work anywhere as long as several key principles are adhered to: transparency; equity and inclusiveness; effectiveness and efficiency; responsiveness; accountability; forum neutrality; and consensus-based decision making.' (National Policy Consensus Center, 2010). Other observers are unconvinced that such claims are practicable, achievable or desirable. Indeed, Carmel and Harlock (2008) assert that collaborative governance is, in reality, a sophisticated form of state control, where the third sector is the object of governance rather than its equal partner. They argue that government has attempted to institute the third sector as a 'governable terrain' through 'discourses, strategies, and administrative and policy changes broadly conceptualised as 'governance'.' (2008: 156).

³⁹ For a full explanation and justification for the use of the term Third Sector, see Alcock, P. (2010) *Big society or civil society? A new policy environment for the third sector*, Birmingham: Third Sector Research Centre.

⁴⁰ For a detailed account of these policy changes see: Sandford, M. (2013) *The Abolition of Regional Government*, London: House of Commons Library.

3 Making sense of public sector and third sector relationships

This section of the report has three objectives:

- To determine which factors affect the quality of relationships between the public and third sectors and how this shapes the way that the two sectors understand each other.
- To present data on the TSOs' current perspective on the quality of inter-sector relationships and outline what their future expectations are for support from the public sector.
- To suggest a conceptual approach which public sector officers might employ in making sense of their relationship with the third sector in a range of contexts.

3.1 Public sector and third sector relationships

Arising from a lengthy period of austerity, most local authorities have had to make difficult decisions about how they interact with, offer support to and work with the third sector. Such decisions have invariably been met with consternation or protest by TSOs, users of their services, the bodies that represent third sector interests, and influential local individuals. When concerns are voiced about reductions in spending, there is often a failure to appreciate that the scope for discretionary spending by local authorities has been much reduced.

The confluence of reduced scope for investment (where there is no statutory requirement to do so) and the concomitant rise in need or demand for social support can, in short, produce a difficult political climate for local authorities to work with the third sector because unpopular decisions may have to be made. The consequences of such strategic decisions for inter and intra-sector relationships can be far reaching and manifest themselves in unpredictable ways.

It is useful, in broad terms, to outline some of the key decisions which local authorities may have had to make over the last few years:

- Local authorities may have needed to change contractual arrangements with those TSOs which deliver services on their behalf or, in some cases, withdraw from some areas of provision where there is no statutory requirement to make that provision.
- Local authorities may have rethought the extent to which they can or want to invest in collaborative governance arrangements that included members of the Third Sector – often resulting in the diminution or cessation of funding for networks, partnership boards and so on.

- Local authorities may have reduced or withdrawn investment for local infrastructure support for the third sector via Councils for Voluntary Service (CVS), Voluntary Development Agencies (VDA) and so on – especially so in areas which moved from two-tier councils to single-tier unitary authorities.
- Local authorities may have reduced or withdrawn community grant funding for smaller TSOs in their area and stopped or limited their support to sector development through in-house or commissioned training, mentoring or the provision of advice and information.

A period of austerity intensifies third sector pressure on the public sector. But even when the fiscal climate was more generous, before the period of economic turbulence beginning in 2008, relationships between the public sector and third sector could often feel like a ‘demanding relationship’.⁴¹ It is useful briefly to consider why this may be the case from the perspectives of both the public sector and third sector by outlining what sectors expect of (or hope for) from each other.⁴²

Local authority expectations of the Third Sector

- To achieve easier access to the local third sector through a single entry point (such as a CVS or similar representative body) in order to minimise cost and effort in coordinating activity.
- To achieve a measure of procedural clarity, compliance and continuity in the way that local authority officers and TSOs or their representatives interact to minimise cost and effort.
- To develop a ‘marketplace mentality’ where TSOs are engaged in delivery of services through grants, service level agreements or contracts and that ‘businesslike’ practice is adhered to by organisations with which the local authority chooses to work.
- To develop an environment where there is a high degree of intra and inter-sector partnership working and, where appropriate, collaborative governance – but that the local authority is maybe recognised as a lead partner in such relationships.
- To develop methodologies to measure the outcomes and impact of public sector investment in third sector activity which are widely and continuously used and the value of which is generally recognised.
- For the third sector to recognise, once appropriate periods of consultation have been undertaken, that the local authority has a democratic mandate and legitimate authority to define local priorities and shape strategies to tackle them.
- An expectation that the third sector, which is governed on a voluntary basis and depends heavily upon voluntary labour, ‘adds value’ to the financial investments the public sector may channel to achieve particular objectives.

⁴¹ See Chapman, et al. (2008) *Trouble with champions*. *Ibid*.

⁴² The following analysis is based on in-depth analysis of third sector and public sector interactions in the course of undertaking the Northern Rock Foundation Third Sector Trends Study. Initial analysis of such interactions were reported in Chapman and Robinson et al. (2009) *A Mosaic, Jigsaw or Abstract ?* Newcastle: Northern Rock Foundation.

Third sector expectations of the local authority

- That the independence of the third sector as a whole and its individual TSOs should be respected and that the right of the third sector to challenge and campaign to tackle issues which it believes to be important is accepted as legitimate.
- That third sector opinions should be called upon, listened to and acted on; and that the special contribution TSOs can make to tackle particular problems (in a way that may be different from, better than or additional to local authorities) should be recognised.
- That local authorities (and other public sector organisations) should have sufficient trust in the third sector to invest money to achieve objectives without too many monitoring or procedural strings attached.
- That the local authority should fully recognise the 'added value' the local third sector brings to communities of interest and place and take this into account when considering grant or contract opportunities which may also be open to private sector organisations or national third sector organisations.
- That the local authority should invest in the third sector's development but be prepared to allow the third sector itself to define the areas of priority, approaches to improvement and delivery of support through investment in local or regional infrastructure organisations.
- That procedural frameworks for the allocation of contracts or grants should be transparent, proportionate and fair to local TSOs when in competition with external TSOs or private sector companies (often referred to as a 'level playing field').
- That the local authority (and other public sector bodies) inform the third sector in a timely fashion of new commissioning opportunities and that investment in such commissions or other such interventions are for periods of reasonable duration.
- That the local authority recognises that a full-cost recovery approach to granting or commissioning is adopted so as to ensure that TSOs' core costs can be met and not just the costs of operational delivery.

Widely held expectations such as these can produce uncertainties and tensions between the public and third sectors which are often difficult to identify, recognise, talk about and ultimately resolve. Indeed sets of expectations can be contradictory and beyond resolution.

- ***On the third sector side***, for example, strong claims are often made for public sector bodies to create a 'level playing field' in commissioning arrangements on one hand, whilst the local third sector can also, conversely, seek preferential treatment over external TSOs or private sector businesses.
- ***On the public sector side***, for example, there is often a lack of clarity about the scale and scope of local authority investment in third sector activity while,

conversely, transparency is demanded about the capacity, capability and impact of third sector activity when engaged with public sector priorities.

A key purpose of this report, therefore, is to present a new way of 'thinking about' these relationships. Before ideas are offered on how this might be done, it is useful first to show what TSOs think about their relationships with the public sector now, and what their expectations are for the future.

3.2 Third sector views about public sector relationships

Recent studies in Cumbria, North East England and in Yorkshire and the Humber have collected data on third sector perceptions of the public sector in a range of contexts.⁴³ Figure 3.1 presents summary data on these perceptions, from which broad conclusions can be drawn. Data are presented for the nine sub-regions of northern England to show how many TSOs 'strongly agree' with each of six statements.

- Between 22% and 37% of TSOs strongly agree that ***the public sector values the work of their organisation***. Agreement appears to be stronger in the metropolitan areas of Tyne and Wear (33%). West Yorkshire (33%) and South Yorkshire (36%); but less so in two of the predominantly rural areas (Cumbria 22% and Northumberland 25%, but *not* North Yorkshire where 37% strongly agree).
- The extent to which ***the public sector is perceived to understand the nature and role of TSOs*** also varies between sub-regions, but to a lesser extent (in a range of 14% to 22% offering strong agreement). The strength of agreement is shown to be a little greater in metropolitan or predominantly urban sub-regions, but differences are neither pronounced nor consistent.
- Relatively few TSOs strongly agree that ***the public sector respects TSOs' independence***: in a range from 10% to 19%. Strength of agreement is greater in most metropolitan or predominantly urban areas (with the exception of Tees Valley at 10%).
- The percentages of TSOs which strongly agree that they feel ***informed by the public sector on issues that affect them*** are quite low: ranging from just 5% in Cumbria to 14% in three of the Yorkshire and Humber sub-regions.
- The extent to which TSOs strongly agree that they ***feel involved appropriately in developing policy on issues which affect them*** is also limited: ranging from just 2% to 11%. Responses in Yorkshire and the Humber tend to be more positive than in Cumbria and in most sub-regions in North East England (with the exception of Tyne and Wear at 8%).
- The evidence shows that few TSOs strongly agree that ***the public sector acts upon their opinions and responses to consultation***: ranging from just 2% to 8%.

⁴³ Much more detailed analysis of these data are available. For Cumbria and North East England, see Chapman and Robinson (2013) *The Crystal Ball*, *ibid*; and for Yorkshire and the Humber, see Chapman (2014) *Third Sector Trends in Yorkshire and Humber 2014*, *ibid*.

Given that sample sizes in sub-regions are not large, it is not wise to make too much of the differences between sub-regions - although it is apparent that respondents in Yorkshire and the Humber were generally more positive about inter-sector relationships in the 2013 study.⁴⁴ To some extent, these differences may have been produced by differences in the proportions of organisations of varying sizes (with smaller organisations being somewhat more numerous in, for example, the rural areas of Northumberland and Cumbria). Figure 3.2 presents data on 'larger' TSOs which employ staff to provide a clearer indication of strength of feeling in organisations which are the most likely to come into regular contact with public sector organisations.⁴⁵

⁴⁴ It is not clear why these differences between the two regions occur. It is unlikely that differences are entirely due to variations in the quality of relationships but are more to do with sample structures. The Cumbria and North East England study was based on mailed questionnaires to all registered TSOs in the region rather than a self-selected sample from on-line questionnaires distributed via local infrastructure organisations (LIOs), Involve Yorkshire & Humber and local authorities. Mailed questionnaires also tend to get a stronger response rate from less committed respondents and this may also have contributed to differences. On balance, it is felt therefore, that the Cne data are likely to be the most representative.

⁴⁵ The NRFTST studies demonstrate that 'smaller TSOs' with no employees and those 'larger TSOs' with employees operate in distinctive ways. The key indicator used to define the smaller organisation is TSOs with income below £25,000 a year. Larger TSOs are those with income above £50,000 (the point at which most organisations do employ staff).

Figure 3.1

Third sector perceptions of public sector attitude⁴⁶ (percentages of TSOs strongly agreeing with each statement)

	Cumbria (2012)	Northumb- erland (2012)	Tyne and Wear (2012)	County Durham (2012)	Tees Valley (2012)	West Yorkshire (2013)	South Yorkshire (2013)	Humber (2013)	North Yorkshire & York (2013)
They value the work of your organisation	21.7	25.3	33.0	26.1	23.2	33.3	35.9	31.5	36.9
They understand the nature and role of your organisation	14.1	15.2	19.0	15.9	11.4	21.7	17.6	20.8	18.1
They respect your organisation's independence	13.2	12.0	17.9	19.0	10.1	18.5	16.2	18.5	16.9
They inform your organisation on issues which affect you or are of interest to you	5.2	6.9	11.7	10.3	7.9	14.4	12.0	14.4	13.8
They involve your organisation appropriately in developing and implementing policy on issues which affect you	2.2	3.8	8.0	5.3	5.4	8.4	10.4	11.1	10.4
They act upon your organisation's opinions and/ or responses to consultation	2.2	3.3	5.3	4.2	4.7	7.1	7.6	7.4	7.3

⁴⁶ The Yorkshire and Humber data have been weighted to bring the structure of the sample in line with the larger NRFTST data. This means that the number of smaller organisations (turnover under £50,000 a year has been increased substantially in each income category proportionately with the NE and Cumbria data).

Figure 3.2 Organisations which 'strongly agree' with the following statements about relationships with the public sector.	Larger TSOs which employ staff in Cumbria & North East England (2012)	Larger TSOs which employ staff in Yorkshire & the Humber (2013)
They value the work of your organisation	38.6	48.1
They understand the nature and role of your organisation	20.7	24.3
They respect your organisation's independence	17.7	19.9
They inform your organisation on issues which affect you or are of interest to you	11.9	14.2
They involve your organisation appropriately in developing and implementing policy on issues which affect you	7.9	11.0
They act upon your organisation's opinions and/ or responses to consultation	5.1	7.5

It is evident from these data that a sizeable proportion of organisations felt strongly that they were valued and understood by people in public sector organisations. A more important summary point, however, is that strong feeling about positive relationships were somewhat muted in relation to 'feeling informed' (11-14%), 'involved' (8-11%) and 'opinions acted upon' (5-7%) by the public sector.

Figure 3.3 takes a look at inter-sector relationships from a different point of view: by considering the extent to which TSOs expect the public sector to support them in the next two years. In this figure, percentages are for TSOs which either 'agree' or 'strongly agree' with each of four statements. These data provide a useful contextual counterpoint to the judgements which have been made about the quality of relationships as shown in Figure 3.1.

Reliance on free support from the local infrastructure organisations

Local infrastructure support organisations (LIOs) are generally funded from a mix of sources (including the local council, the Big Lottery and also charitable foundations. By implication, therefore, high expectations of future support from such organisations will have an effect on attitudes about and behaviours towards public sector organisations in future.

- Micro TSOs (with income below £5,000 a year) do not generally expect to become much more reliant on LIOs. The proportion in Yorkshire and the Humber that do expect to become more reliant is higher than in Cumbria and North East England (17% and 13% respectively).
- Smaller TSOs (with income between £5,000 and £50,000 a year) are only slightly more likely to expect that they will become much more reliant on LIOs.

The percentage in Yorkshire and the Humber is somewhat larger than for micro TSOs (rising from 17% to 25%).

- About 24% of medium-sized TSOs in both regions (with income between £50,000 and £250,000 a year) expect their level of reliance on LIOs to increase significantly compared with just 13-14% of the largest TSOs.

Reliance on free support from the local council

TSOs' expectations of significantly increased direct reliance on local council support largely mirror the responses to questions about support from LIOs.

- Micro and smaller TSOs in Yorkshire and the Humber indicate considerably higher levels of expectation about local council support than in Cumbria and North East England.
- About 17-18% of medium sized TSOs expect that their reliance on local authority support will increase significantly over the next two years.
- Only 10-13% of the largest TSOs expect that they will become more reliant upon local authorities for free support over the next two years.

These data indicate that many smaller TSOs (in Yorkshire and the Humber) and medium sized TSOs across northern England feel that their reliance on free local authority support over the next two years will increase significantly. Whether such free support can be provided in the current economic climate is in doubt.

Increased reliance on grants from the public sector to meet core costs

Given that government funding for public sector spending is known to be reducing, it would be surprising if TSOs expected to become *much more* reliant on public sector organisations to meet their core costs. The evidence presented in Figure 3.2 shows that the majority of TSOs recognise this; but a significant minority expect, nevertheless, that their dependence on public funding will increase.

- Between 12-17% of micro TSOs and 15-21% of smaller TSOs expect that they will become much more reliant on grants from public sector organisations to meet their core costs.
- About 22% of medium sized TSOs expect that their reliance on grants to meet core costs will increase significantly; for the largest organisations the percentages are between 16-18%.

What cannot be determined from these data is whether TSOs' assessments of future reliance are 'proportionate' or 'absolute'. A *proportionate* increase would indicate that downward pressure on other sources of funding would make reliance on public sector contributions feel more important. An *absolute* increase in reliance, by contrast, would indicate raised expectations about increased levels of existing support from public sector bodies. A safe interpretation may be that TSOs feel that it is a mix of both factors.

Increased reliance on contracts or sub-contracts to deliver services

To what extent do TSOs hope to get involved in contract working to fill a gap left by the loss of other sources of funding?

- As would be expected, micro and smaller TSOs do not have high expectations about delivering public sector contracts (in the range of 9-12%). As shown in Section 4 of this report, few TSOs of these sizes are involved in such work now.
- Between 16-21% of medium sized TSOs expect that their reliance on contracts to deliver public sector services will increase significantly. Larger TSOs are the most likely to believe this, ranging from 20-23% of TSOs.

Figure 3.3 What do TSOs expect third sector reliance will be over the next two years on the following factors? (percentage of TSOs that 'agree' or 'strongly agree')	Micro £0-£5,000		Smaller £5,000 - £50,000		Medium £50,000 - £250,000		Largest £250,000 or more	
	NE&C 2012	Y&H 2013	NE&C 2012	Y&H 2013	NE&C 2012	Y&H 2013	NE&C 2012	Y&H 2013
Much more reliant on free support from local infrastructure organisations to help them.	12.5	17.1	13.4	24.6	23.0	23.8	12.9	14.0
Much more reliant on free support from the local council to help organisations	11.3	14.6	10.6	20.9	16.8	18.4	10.3	13.2
Much more reliant on grants from the public sector to support core costs	12.1	17.9	15.3	20.9	21.8	22.1	17.7	16.4
Much more reliant on contracts/sub-contracts from the public sector to deliver services	8.9	9.6	7.0	12.3	16.3	20.5	20.2	23.2

In Section 4 of the report, more analysis on which TSOs are most likely to engage in contract working is provided. The key point arising from this analysis, however, is to state that expectations about increasing reliance on contracts are quite high – and especially so for small to medium sized organisations which are generally less likely to be involved in such work at present.

The above analysis shows that there is much optimism about future levels of dependence on public sector support – whether this constitutes free support from LIOs or local authorities, or via grants for core funding or contracts to deliver public sector services. There is a risk, in the current economic climate, that many TSOs may be *over optimistic* in this respect and that this may have a knock-on effect on the quality of sector relationships.

But it is a mixed picture. There is evidence of optimism *and* pessimism, as shown in Figure 3.4.

- Many TSOs think that their reliance on volunteers will increase – and especially so in medium and larger sized organisations (between 38-58%), but few think that reliance will fall (between 6-10% of these TSOs).
- Many TSOs believe that their reliance on contracts to deliver services will increase (between 30-41% of medium and larger TSOs) compared with 16-23% of TSOs which think reliance will fall.
- Between 31-45% of TSOs think that their income will increase substantially over the next two years compared with 22-34% who think that income will fall.
- Around a quarter of medium or large TSOs think the number of paid staff will increase over the next two years compared with 15-30% of TSOs which think staff numbers will fall.

Figure 3.4

Expectations about organisational situation over the next two years (for those TSOs to which the questions are applicable)	Micro £0-£5,000		Smaller £5,000 - £50,000		Medium £50,000 - £250,000		Largest £250,000 or more	
	NE&C 2012	Y&H 2013	NE&C 2012	Y&H 2013	NE&C 2012	Y&H 2013	NE&C 2012	Y&H 2013
TSOs showing indications of optimism								
Believe that number of volunteers will rise	11.5	33.8	21.2	35.6	38.6	47.4	46.1	58.1
Believe that contracts held will rise	23.3	43.6	24.5	43.8	29.3	38.0	35.4	40.9
Believe that income will rise	11.0	26.8	24.6	33.5	35.9	36.9	31.2	43.0
Believe that number of paid staff will rise	8.0	29.7	14.1	27.0	22.6	23.7	22.0	25.7
TSOs showing indications of pessimism								
Believe that income will fall	15.7	13.1	14.9	19.9	22.1	26.2	34.2	29.7
Believe that number of paid staff will fall	2.7	10.9	7.3	9.8	14.4	22.9	29.3	29.7
Believe that contracts held will fall	4.7	12.8	12.7	11.2	16.0	20.1	22.6	19.4
Believe that number of volunteers will fall	10.8	12.6	8.6	14.4	7.2	9.6	10.3	6.0

The above analysis suggests a mixed picture. There is some evidence to show that third sector attitudes vary according to the characteristics of the locality within which they work. Similarly, attitudes vary by size of organisation – presumably due to the likelihood of closer contact with public sector organisations (especially amongst larger TSOs). Such differences may have consequences for the way that individual TSOs plan for the future (as will be shown in Section 4) and perhaps as importantly

for this report, may impact on their perceived dependence upon and expectations of the public sector to support them.

3.3 Making sense of the public sector's relationship with TSOs

The above analysis shows that making generalisations about inter-sector relationships can be difficult. This may arise partly from potentially unreasonable expectations held by people in the third sector about what the public sector can or should do for them. Similarly, it may suggest that problems can arise if the public sector holds expectations about what the third sector's priorities *should* be.

There is no point in pretending that relationships between sectors can ever be perfect. They cannot be, because there are differences of interest, responsibility, resource, capability and power involved in the mix.

The third sector is a competitive environment where TSOs are eager to achieve more than their resources allow. Consequently, strategic priorities cannot easily be agreed upon. Indeed, the third sector can rarely speak with one voice, and even if its representatives do so, it cannot be guaranteed that individual TSOs will not break rank if they feel that it is in their interests to do so.

The public sector is constituted of many organisations working at local, regional or national level – and the prospect of them working in the same way is neither likely nor, from individual organisations' point of view, necessary or even desirable.

In 2008 a study was undertaken in Tees Valley to explore these potentially fractious inter- and intra-sector relationships. The research demonstrated that the circulation of negative stories about inter-sector and intra-sector relationships could produce an environment where public sector officers felt that all relationships were potentially difficult. In turn, in isolated cases, this led officers to avoid involving third sector organisations in the development of strategies or the offer of operational opportunities on the grounds that it would cause more trouble than it was worth.

The research demonstrated that members of the third sector were well aware that they could promulgate such negative feelings.

There was widespread recognition that external impressions of the third sector were undermined by a tendency of members of the sector to argue publicly about 'internal issues'. As one participant stated: 'When we come together we look like a disparate band. Individually we're all good, but collectively, what do we look like?' Or as other participants remarked: 'We must look quite ridiculous to outside agencies because all we do is argue amongst ourselves', and 'The more we debate publicly, the more we show ourselves up'.⁴⁷

But people in the third sector also recognised that they were sometimes set up to fail when expectations of them were unreasonable or simply unachievable. Indeed, one participant in the study asked the question: 'Are we channelled into being as bad as we are?'

⁴⁷ Chapman, T. et al. (2010) *Trouble with Champions*, *ibid* p. 619.

The research in Tees Valley on inter-sector relationships demonstrated that in many cases, public sector officers who had direct responsibility for dealing with the third sector could recall difficult situations or incidents which to some extent soured relationships at least temporarily.⁴⁸ There is strong evidence to suggest that such difficulties are not confined to this area. Often such friction is felt personally – and especially so when it affects other third sector relationships or causes political difficulties within the local authority.

Problematic inter-relationships can sometimes *feel* more fraught than they need be and such feelings can, in turn, produce negative consequences for other relationships. This report is less concerned with the incidence of conflicts so much as the *impact* they have on more general perceptions of inter-sector relationships. Given the nature of different roles there will always be, in short, some level of discord.

Rather than ‘anticipating problems’ in *every* context, it is better to identify where the ‘hot spots’ are likely to be. On the basis of such an understanding, allowances can then be made for the fact that a certain amount of discord is inevitable – but that it is not necessarily always particularly damaging.

Recognising where things *generally run smoothly* with the third sector is important too. There is much evidence to show that for the most part TSOs work well with public sector bodies; especially so when clear parameters have been laid down on what each party can reasonably expect of the other – often through the use of formal contracts, well-crafted service level agreements or conditions applied to grant funding.

We now present a conceptual framework to help public sector officers think critically about their relationship with the third sector in a range of contexts.

3.4 A conceptual framework on inter-sector relationships

A conceptual model has been devised to help public sector officers develop a better understanding of the dynamics of their relationship with the third sector. The model has been developed to help answer the following questions:

- What is the difference between the public sector’s relationship with the third sector as a whole and its relationships with those TSOs with which it works directly?
- Does the public sector work with TSOs in different ways depending upon the context and purpose of the relationship?
- Does the public sector fully recognise the boundaries or limits of its involvement with the third sector?
- When ‘supporting’ the third sector, is the public sector attempting to shape TSOs in an image of its own choosing which may not be achievable by, or acceptable to them?

It is necessary to provide some caveats about the purposes of the model:

⁴⁸ Chapman, T. et al. (2008) They have God on their side, *ibid.*

- This is not a taxonomy of organisational types or relationships. No attempt is made to define types of organisations so that they can be mapped against certain criteria and decisions be made on when and where to invest in TSOs or issue grants or contracts. Instead, it offers an understanding of the context within which relationships are established and the expectations that such relationships embody.
- It is not the purpose of the conceptual model to ‘answer’ specific strategic or operational questions for a local authority. Local circumstances will differ from place to place or from issue to issue. Instead its purpose is to provide a framework for ‘thinking about’ issues in order to help recognise their relative importance in the context of other issues.
- This not a ‘tool kit’ or ‘ready-reckoner’ to provide simple solutions to specific problems. No attempt is made to categorise, stratify and value successes and failures. Instead, it is a conceptual device to help place problems in context and keep difficult issues in proportion. It also, as importantly, aims to foreground things that are going well.
- It is not a performance management system to gauge in precise terms the ‘impact’ of investment in the third sector and produce metrics to monitor, evaluate and communicate successes and failures. Such an objective would be too ambitious because the range of relationships is too broad. What it can do, however, is to explain where performance management might be appropriate and where it might not.

A good way of considering where things are going well (and identifying where problems are likely to emerge) is to separate, analytically, different aspects of local authority contact with the third sector. Figure 3.5 presents this diagrammatically. The purpose of the diagram is not necessarily to show where the bulk of local authority time and money is discharged to the third sector, but to explain its purpose:

- Where the local authority pays TSOs to deliver services (it is ‘**buying**’ these services);
- Where the local authority is **investing** in ‘third sector development’ or in communities with money or in-kind support to TSOs;
- Where a local authority earns money from the third sector by ‘**selling**’ space, goods and services;
- Where the local authority *chooses not to* engage with TSO activities (**‘passing’**).

The boundaries between these four quartiles are not impermeable. It is possible for example, for a local authority to be investing in communities *and* investing in organisational development whilst *also* buying services from a TSO.

The diagram also indicates that the choices local authorities make about buying, selling, investing and passing are not entirely under their own control. Choices are limited by the available resources and can be constrained by statutory obligations.

Similarly, lines can be drawn between those activities which the local authority feels that it *needs to do* (some of which are constrained by statutory requirements or the need to raise income) and those which it *wants to do* (that is, it chooses to invest in some activities but not in others).

Figure 3.5 Conceptual framework on local authority and third sector relationships

	Areas of local authority strategic and statutory commitment	Areas where local authority chooses not to make financial commitment
What does the local authority need to do?	‘BUYING’	‘SELLING’
What does the local authority want to do?	‘INVESTING’	‘PASSING’

Buying

No attempt can be made to enumerate, in precise terms, the actual proportion or volume of spend in this quadrant. Indeed, many local authorities find it difficult fully to account for the amount of money they use to buy services from the third sector. To get overly distracted by such an exercise would be to miss the point. The key point is that the purchase of services from TSOs is undoubtedly the principal area of financial transaction.⁴⁹

This is an area where problems can easily be resolved. In the last resort, resolution can be achieved through legal process as relationships are formal and contractual. But only rarely is that point reached. Instead, problems are generally dealt with through informal means.

Activity in this quadrant can be complicated, especially at the point of contracting TSOs to undertake work and when individual TSOs contracts end. Consequently, some key questions should be considered by local authority officers:

- What is the balance between buying services where the local authority has a *statutory obligation* to deliver, and services that it wants to buy for other strategic reasons?
- To what extent is the commissioning process fully understood by all relevant parties and does it achieve the objective of successfully targeting those organisations from the third sector (or private sector) which can deliver?

⁴⁹ NCVO estimate that purchasing services through contracts, SLAs and some grants accounts for about 83% of local authorities transactions with the third sector.

- What mechanisms are used to inform and communicate (to those TSOs which may be interested in doing such work) the local authorities' recurrent, changing, emerging or concluding opportunities.
- What methods are used to determine if TSOs have the right level of commitment, capacity and capability to deliver services?
- How prescriptive are current procurement processes in different areas of contracted service delivery and is there scope for more flexibility to produce higher quality outcomes (i.e. more impact) from the services which have been bought?
- What measures are used to show that services bought have achieved the appropriate outcomes?

It is not necessary to over-labour the discussion of best practice in contracting: this is a well trodden path.⁵⁰ It is more important to focus on how to prepare the ground so that more TSOs have the interest and capability to do such work. This usually involves a measure of investment from local authorities or other agencies.

Investing

A local authority can choose to expend resources on the third sector for different purposes. Three specific areas of sector investment are defined.

- ***Investment in sector intelligence and relationships*** refers to investment, firstly, in gaining better intelligence and understanding of the structure, strengths and dynamics of the third sector at a local level; and secondly, investing in sector inter-relationships through, for example, the establishment of a council of interest, community networks, policy generation and consultation exercises, and so on. The outputs of such investment are tangible if the objectives sought are demonstrably achieved (such as maintaining up to date listings of local organisations, the effective and regular communication of information, the provision of fora for networks or communities of interest, etc.). The impact of such investment may be less tangible in the immediate term and measurement of success in the investment may come down, ultimately, to a judgment on how much better relationships *feel* after a reasonable period of time of investment.
- ***Investment in TSO development*** refers mainly to investment in the development of the capability of larger TSOs to do their work. The purpose of investment is to encourage such organisations to deliver services for the local authority, usually by formal contract, either individually or in collaboration or partnership with other TSOs or private businesses. The impact of such investment is measurable in as much as it is possible to identify whether *more* TSOs enter the marketplace and demonstrate their capability successfully to do the work for which they have been contracted.
- ***Investment in maintaining sector strengths*** refers mainly to investment in the capacity of smaller TSOs, which generally work entirely on a voluntary

⁵⁰ A useful overview of the National Audit Office approach to good commissioning and procurement can be found at this web address: <http://www.nao.org.uk/successful-commissioning/general-principles/principles-of-good-commissioning/>

basis for communities of place or interest.⁵¹ Such TSOs usually need relatively modest financial resource and practical support to sustain existing levels of activity or engage in new activities for the benefit of the community. The impact of such investment may be difficult to measure as the work of such organisations is more rarely aimed at achieving ‘transformational change’ in communities (whatever their grant applications may say!). Instead, they contribute to more intangible benefits such as providing the ‘social glue’ to cement community wellbeing.

Drawing analytical distinctions between purposes of investment is important so that local authorities can pin down, in their own minds, what they might reasonably be expected to achieve from the time and money they put in. Several examples of this are discussed in Section 5 of this report when considering factors such as ‘innovation’, ‘investment readiness’, ‘partnership working’ and so on.

Calls for investment in development by TSOs can vary depending upon their size and mission. The situation is often more complicated than this, because some TSOs pursue a range of objectives such as: providing sector intelligence and building sector relationships; effectively undertaking contracts to achieve specific outcomes; and, making a contribution to the social glue through their community engagement activities. It is not a simple question of choosing ‘horses for courses’.

Selling

Local authorities can ‘sell’ services, space and facility or products to the third sector. This includes, for example:

- the renting or leasing of local authority property to TSOs for general or specific social purposes;
- the selling of back-office services (such as pay-roll; marketing, communications and printing; information technology; human resources management; health and safety services. etc.);
- the selling of discrete services (such as contract catering and event management; property maintenance and security; transportation, warehousing and logistics; training, etc.); and,
- the selling of loans for TSO organisations (for purposes such as working capital, investment capital, etc.).

These categories are less clear cut than they look. Sometimes it is hard to draw a distinction between *investment in* and *selling to* TSOs. Such lack of clarity may produce discord in inter- and intra-sector relationships. But they can, potentially, be ironed out quite easily if terms of reference are clearly stated.

⁵¹ It is important to recognise that many, if not most, smaller TSOs in the locality are generally concerned with working with communities of interest or place at a relatively informal level. Most are unlikely to be in a position to, or want to, scale up their activity and formalise their organisation to such an extent that they may be in a position successfully to tender for public sector contracts. This does not preclude the possibility, of course, that smaller organisations may maintain this value position whilst also working with other larger organisations that hold contracts with public sector bodies.

The following questions might therefore usefully be considered by local authorities:

- When a local authority sells services, facilities or products to TSOs (such as accommodation, services, loans, etc.), in what circumstances should they be offered below market values (thereby blurring the line between 'selling' and 'investment').
- What justification is given for a mix of investment and selling and what measures might be adopted to show that a mixture of sales and investment produce adequate levels of return on investment?
- Are there other opportunities that local authorities may develop in this arena where there is an identifiable market (or political appetite) for such offers?

As noted above, the boundaries between the four quadrants in Figure 3.5 can be blurred. An example is the transfer of community assets from the public sector to the third sector. In one sense, such transfers might be considered as a way in which local authorities are 'divesting' themselves of responsibilities or 'selling off' assets. But in another sense, such transfers can be considered as community 'investments' (bolstered, quite often, by significant 'financial investment' in the development of the capability of those TSOs which choose to assume responsibility for such assets). Furthermore, once assets have been transferred, it is possible that the local authority may want to buy back space and facilities from the TSOs which control these assets.

Passing

TSOs work in a competitive social marketplace where demand for human and financial resource to do good work will always run far ahead of its supply. Local authorities are but one of many sources of money to support the work TSOs do (others include, for example, government departments and agencies, the National Lottery, charitable foundations, private sector business, public giving and so on). But it does not always feel that way, because local TSOs often look first to the local authority for money and are perplexed, disappointed and perhaps angry when such resource is not given.

Local authorities are not in a position to meet the high expectations of the third sector to provide money, facility or support to work across the whole range of potential activity. This situation may be worsened, but is certainly not caused by the current period of austerity. Even when the availability of resources was significantly greater (during the period of Labour government) TSOs' demands could not be met.⁵²

Consequently, local authorities inevitably face a situation where some TSOs may feel disgruntled about the levels of support they receive (or the refusal of the local authority to support them at all). To repeat an earlier point, a local authority is a democratically accountable body which has legitimate authority to make decisions on local priorities - but this situation is not always respected by TSOs which are eager to pursue particular causes. When a local authority chooses *not* to invest in particular causes, however reasonable their justifications for not doing so, this can produce significant animosity.

⁵² See for example: Johnstone, E. and Streather, J. (2006) *INVEST 2006 Campaign* The 'Heineken' Factor: reaching the parts that Government can't reach The role and contribution of voluntary and community organisations to regeneration in the North East of England, Newcastle: Invest 2006 Campaign, Newcastle-upon-Tyne, VONNE.

A measure of discord is inevitable, but how can it be dissipated? And where it cannot, how can the negative impact of such discord be minimised so that good relationships between the local authority and the third sector *in general* are not compromised? Some interesting questions present themselves for local authorities to consider.

- Is the local authority fully clear about the procedural mechanisms to decide which issues are supported and who is involved in this process? Are these mechanisms communicated openly and clearly to TSOs which may seek financial or other forms of support?
- Can strong 'influencers' in a local authority or the TSO shape judgments on what areas of activity are supported or not supported? Is this process transparent and how is the process managed to minimise the risk of complaint?
- What are the potential consequences for a local authority of not supporting calls for resources by TSOs in terms of the potential for investment of staff time in managing difficult relationships? How is the necessary time devoted to handling such conflicts understood in cost-benefit terms?
- Does the system of collaborative governance involve the third sector appropriately so that questions can be raised (and answered) about areas where a local authority chooses to, or chooses not to support the third sector's priorities and objectives?
- Should the local authority invest in the provision of a signposting service for TSOs to find other sources of support for activities that they want to do but which the local authority does not want to support – or is this somebody else's responsibility? What are the resource implications and political risks associated with not providing such a service?

National and local compacts deal successfully, in principle, with many of these issues already - but often they sit gathering dust and are only drawn upon in the last resort to support complaints. Currently, many local authorities are refreshing compacts in consultation with the local third sector. This is a laudable activity, providing that the principles are adhered to in day-to-day practices, and not only when things have gone wrong.⁵³

3.5 Summary

The above discussion has presented some ideas and questions to help local authority officers think about the relative importance of their interactions, transactions and investment in the third sector. On its own, however, the model lacks analytical strength. Only with a good understanding of the structure and dynamics of sector inter-relationships can the value of the model be realised.

⁵³ In the qualitative research underpinning the NRFTST research, in a series of 50 in depth interviews with leaders of TSOs in two phases in 2009-10 and 2012-13, local compacts were not mentioned once without prompting. This shows how little emphasis is placed on their value.

The purpose of the next section, therefore, is to present some evidence to examine what the characteristics of the third sector are, and to get a clearer understanding of inter-sector relationships, interactions and expectations.

4 A portrait of the third sector

Prior to the discussion of public sector / third sector relationships, it is necessary to provide some evidence to describe the activity of the third sector. This section begins with a discussion of key sector characteristics – focusing particularly on its culture, structure and dynamics. Following this, analysis is presented on sector finance.

4.1 Key characteristics of the third sector

Where is the third sector located?

The third sector, broadly defined, occupies a position which is associated with - but is separate from - the state, the market place (or the private sector) and private life. Often this is referred to as 'civil society'. Civil society serves the common good or public interest; it provides informal mechanisms for conflict resolution, problem solving and co-operation. As an entity, civil society is sustained through the existence of relationships which are built on trust and reciprocity rather than formal or legal constraints. Civil society therefore provides an arena within which voluntary social action can flourish, often to the benefit of society as a whole but also to the benefit of individuals and interest groups which both gain and can inject social capital into civil society through their association.

Most commentators agree that while civil society is separate from the state, the state is necessary to maintain and protect the 'realm of freedom' within which civil society can operate. The state *...necessarily reflects sovereign, compulsory and coercive authority. Civil society, on the other hand, embraces those areas of life in which individuals are free to exercise choice and make their own decisions; in other words, it is a realm of voluntary and autonomous associations.*⁵⁴

Local authorities, it is often argued by people in the third sector, have a responsibility to create a conducive environment for the third sector to flourish. And more often than not, that results in calls from the third sector for money to help make that happen.

Is the third sector a single entity?

It is generally recognised that the third sector is diverse in terms of its members' values, its institutional structures and individual TSOs' practices and strategic objectives.⁵⁵ This diversity defies attempts by the sector itself, government or academics to bring all component parts of the sector together, theoretically or pragmatically, into some kind of whole.

It is not surprising that members of the public sector sometimes interpret diversity as 'disorganisation' and especially so if they want to make sense of the third sector as a

⁵⁴ See: Heywood 1994, p.43.

⁵⁵ See: Alcock, 2010.

coherent entity with a clearly worked model of its structure, functions, interactions and boundaries as they believe it 'ought' to be.

Similarly people in the public sector often hope to identify 'one door' through which they can access information or representative views about the sector. Achieving these objectives has proven to be difficult.⁵⁶

Organisational diversity in the third sector is recognised and largely accepted as a fundamental characteristic of the third sector by its members.⁵⁷ By definition, this makes it difficult to reach collective agreement about those characteristics of the sector that unify it. Indeed, it is apparent from the NRFTST that there is much more agreement about what the sector *is not*, rather than what it *is*.

It is difficult to conceptualise local level third sector dynamics in holistic terms for two principal reasons:

- Firstly, because it is hard to determine where the connections and interactions are which hold the sector together. The NRFTST study shows that the third sector cannot be conceptualised as some kind of jigsaw where the component parts of the sector fit together.⁵⁸ Instead, relationships within the third sector are generally fluid, shallow and ephemeral.
- Secondly, conceptualising TSOs into discrete categories is also problematic: it is not feasible to produce meaningful 'types' of TSOs with distinct objectives, practices and values, objectives which can be analysed separately. This is because TSOs which, ostensibly, have the same legal form or organisational structures, do not necessarily share similar approaches to practice, or serve the same groups of people.

An influential model of the boundaries of the third sector locates the position of the third sector in relation to the state, market and private life.⁵⁹ This conceptual model helps to produce a degree of coherence from the inherent diversity within the third sector by describing how values and practices are different from other sectors. Qualitative evidence from the NRFTST shows how members of the local third sector differentiate themselves from people in other sectors:

- Differentiation from the **private sector** is claimed by stating that people in the third sector are 'value driven' rather than 'profit driven'; that they are less competitive and put the value of their beneficiaries first; that they can work better in partnership because of shared values; and, that they 'add value' to society (rather than to shareholders) in a way that private sector organisations cannot.
- Differentiation from the **public sector** is claimed by stating that they are not 'hidebound' by bureaucracy and consequently are more innovative and flexible; that they are closer to the communities they work with than the public sector could be; that they involve their beneficiaries in their work; and, that

⁵⁶ See: Chapman and Robinson, *et al.*, 2009; Chapman, *et al.* 2010; Chapman and Robinson, 2011.

⁵⁷ Although, ironically, there is still much argument about its boundaries and the term 'third sector' is contested.

⁵⁸ (see: Chapman and Robinson, *et al.*, 2009; Chapman, *et al.* 2010; Chapman and Robinson, 2011)

⁵⁹ This analysis is based on ground breaking work by Pestoff, V. A. 1992. 'Third sector and co-operative services: from determination to privatization', *Journal of Consumer Policy*, 15:1, 21-45; and then revised by Evers, A. and Laville, J. L. 2004. 'Defining the Third Sector in Europe' in A. Evers and J.L. Laville (eds.) *The Third Sector in Europe*, Cheltenham: Edward Elgar Press.

their 'independence' allows them to challenge inequalities and campaign for groups in a way that the public sector does not.

- Finally, members of the third sector make a claim that it does not occupy the same territory as private life. Instead, the third sector works in the realm of **civil society**, bringing people together from many walks of life to achieve shared objectives, rather than pursuing personal interests or the interests of private societies or clubs.

Drawing comparisons with other sectors helps to reinforce claims over (or even a monopoly of) particular values and practices. In reality, such values are not actually exclusive to the third sector. Many people in the public sector and the private sector can and do make a contribution to society which is above and beyond their personal or organisational interests. Nevertheless, these acknowledged defining features do provide the glue to bring the people of the third sector together and make them feel that they are, whilst working independently from each other, part of something different and something special.

	Micro	Smaller	Medium	Largest	
Figure 4.1					
Highest level of operation of TSOs in Yorkshire and the Humber (2013)	£0-£5,000	£5,000 - £50,000	£50,000 - £250,000	£250,000 or more	All TSOs in sample
Neighbourhood / village only	40.0	34.8	12.7	4.0	23.0
In one local authority area (or former county council district) only	38.8	37.1	52.5	45.8	43.4
In more than one local authority / district area	8.3	10.9	15.2	22.5	14.2
At regional level (e.g. Yorkshire and the Humber)	6.3	8.2	9.0	10.8	8.6
Across more than one region in the North of England	0.4	1.5	2.5	3.6	2.0
Operate nationwide	3.3	4.1	5.7	11.6	6.2
Operate internationally	2.9	3.4	2.5	1.6	2.6
N=	240	267	244	249	1000

What is the 'local' third sector?

In local authorities a distinction is often drawn between the 'local third sector' and the wider third sector and, particularly, large national third sector organisations. But is this distinction valid? Data from northern England shows that smaller TSOs are more likely to operate at the local level than the largest organisations. But the situation is not clear cut. As Figure 4.1 shows,

- About 65% of medium sized and half of larger TSOs operate within one local authority's boundaries.

- Micro or small TSOs tend to operate at neighbourhood/village level (35-40%) or within the local authority area (37-39%) but about 20-25% operate on a wider level.

These findings are significant for policy makers as they demonstrate that sector intelligence collected within local authority boundaries will always be partial. Similarly, if TSOs based within the local authority are working across boundaries, it follows that many TSOs operating within the area will be based elsewhere. These findings are important because they show that investment in the *local* third sector is also likely to serve the interests of other areas (and vice versa). It also shows that there is a case for collecting data across wider geographical areas in consistent ways (as is the case with NRFTST and YHTST studies) to get better sector intelligence.

Who does what?

While it is difficult to make reliable generalisations about 'types' of third sector organisations, it is possible to distinguish between TSOs in useful ways. In this report, three different approaches are adopted. The *first* is by organisational size and structure:

- **Smaller TSOs**, which rarely employ people, are relatively informal in structure, are sustainable with minimal income, and are volunteer led and run.
- **Larger TSOs** which are voluntarily led, but nearly always employ full-time and/or part-time staff, are more formal in their structures and are more reliant on income to keep going.

The *second* is by considering the main service functions of larger TSOs. Larger TSOs often deliver a range of services but it is useful to focus on their main area of activity as this is often a good predictor of their organisational ethos and approach to practice.

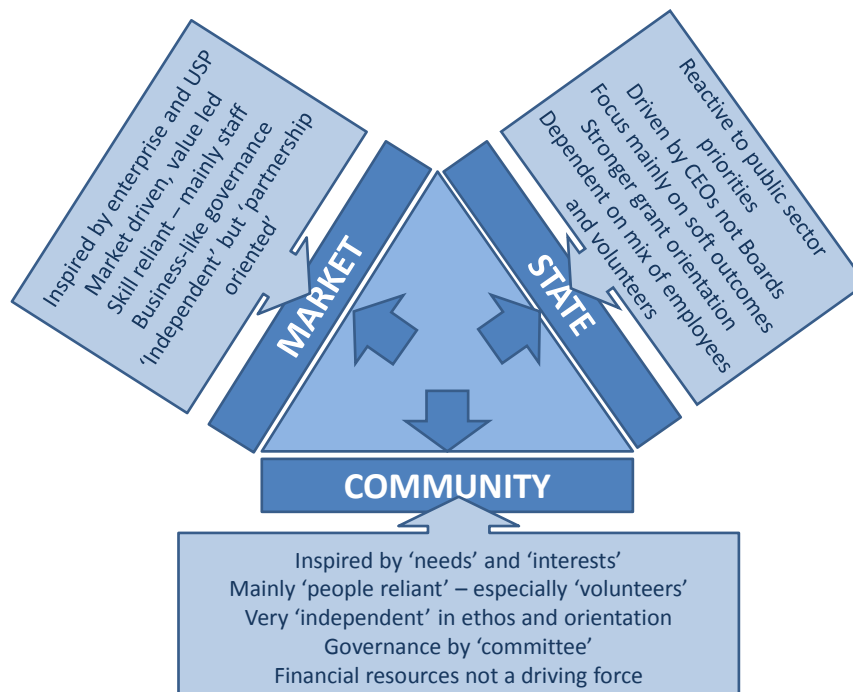
- **Primary services**: organisations whose *main function* is to provide 'front-line' services to individual beneficiaries such as providing accommodation, delivering care services, community transport, providing specific training, and so on.
- **Secondary services**: organisations whose main function is to provide direct support services to individual beneficiaries such as advocacy, information, advice and guidance.
- **Tertiary services**: organisations whose main function is to provide services which have direct impact on beneficiaries, but this usually occurs through intermediaries. Three types of tertiary services are defined:
 - Provide indirect support services to beneficiaries (e.g. research, policy analysis, campaigning)
 - Provide grants to the voluntary and community sector as a Foundation or Trust
 - Provide infrastructure support to the voluntary and community sector

Thirdly, we consider organisational ethos. In the NRFTST and YHTST studies, distinctions were drawn between larger TSOs with differing policy and practice

culture or ethos. Organisations with a particular ethos are not fundamentally different from those with another ethos. Rather, it is a nuance in organisational culture which affects patterns of investment in capability, the ability to be enterprising, and so on.

- **Community driven ethos.** These are organisations that are not only *for* the community but also *of* the community. They are embedded in their community of place or interest, and reliant on its support. Many of these TSOs are quite small and they are often reliant on volunteers; they may endure over long periods of time.
- **Public-sector driven ethos.** These TSOs are aligned closely with the public sector or at least are much shaped by public sector agendas. Their objectives may thus have been defined by others, particularly through the operation of funding regimes. They may struggle at first to find the flexibility to respond when public sector financial or policy priorities change.
- **Market driven ethos.** These TSOs are business-like in their practice – they are clear about what product or service they offer – but still remain strongly attached to their social values. Sometimes such organisations are described as social enterprises because they are ‘value-led’ and ‘market driven’.⁶⁰ But many TSOs which operate with a market driven ethos do not like the term social enterprise.

Figure 4.2(a) **Organisational ethos**



⁶² Westall, A. (2001) *Value Led, Market Driven: social enterprise solutions to public policy goals*, London, Institute for Public Policy Research.

Figure 4.2(b) Inter-relationship between TSO practice ethos and beneficiary function (<i>Yorkshire and the Humber 2013</i>)	TSOs with public sector driven practice ethos	TSOs with market driven practice ethos	TSOs with community rooted practice ethos
Provides front-line services to beneficiaries (e.g. providing accommodation, care services, training etc)	39.8	58.1	40.5
Provides direct support services to beneficiaries (e.g. providing advocacy, advice and guidance)	43.0	25.0	38.9
Provides indirect support services to beneficiaries (e.g. infrastructure support, policy, research and campaigning, providing grants)	17.2	16.9	20.5
N=	186	124	560

As Figure 4.2(b) shows, 58% of TSOs which have a market driven practice ethos work directly with beneficiaries by delivering services such as social care, accommodation or training compared with 40% of those TSOs with a public sector driven or community rooted practice ethos. The fact that 43% of TSOs with a public sector driven practice ethos are delivering secondary services (such as information, advice and guidance) is quite revealing as these may be areas of delivery which are more vulnerable to local authority spending cuts.

Competition as a driver of sector dynamics

People in the third sector are generally hungry to achieve a great deal for their communities of place or interest – and so individual TSOs are driven by competition over resources of people, ideas and money. Consequently, the sector finds it hard to speak with one voice as is often expected by people in other sectors. The resource issue which undoubtedly attracts most attention is that of money. So the next section will provide a short analysis of the economics of the third sector.

4.2 How is the third sector financed?⁶¹

This sub section provides analysis of the financial situation of the third sector in order to provide an informed backdrop for subsequent analysis of sector dynamics and strengths.

Figure 4.3 presents NCVO regional data on sector income for 2011-12 financial year. These data show marked variations in the extent of sector dependence on different sources of income.

⁶¹ This section is adapted from analysis presented in the final report of the Involve Yorkshire & Humber Third Sector Trends Study report.

- Income from private persons, i.e. individual legacies, donations, fundraising and fees amount to between 34-38% of sector income.
- Income from the private sector is small in comparable terms, ranging from just 1.4% of sector income in North West England to 4.6% in North East England: the majority of this income is earned.
- Income from the Lottery is relatively limited, ranging from 1.4% in North West England to 3.6% in North East England.
- The Public sector is by far the largest source of income, ranging from 44% in Yorkshire and the Humber to 47% in North East England.
- The balance between grants and contracts from statutory sources varies significantly, with much more emphasis on grant funding in Yorkshire and the Humber (29%) compared with just 10% in North West England.
- Between 7-9% of income comes directly from the voluntary sector (usually through voluntary sector foundations). There is a reasonable balance between grant and earned income in Yorkshire and the Humber and North East England, but in North West England most voluntary income comes in the form of grants.
- Investment income is limited to between 3-6% of total income and is earned mainly by larger TSOs.

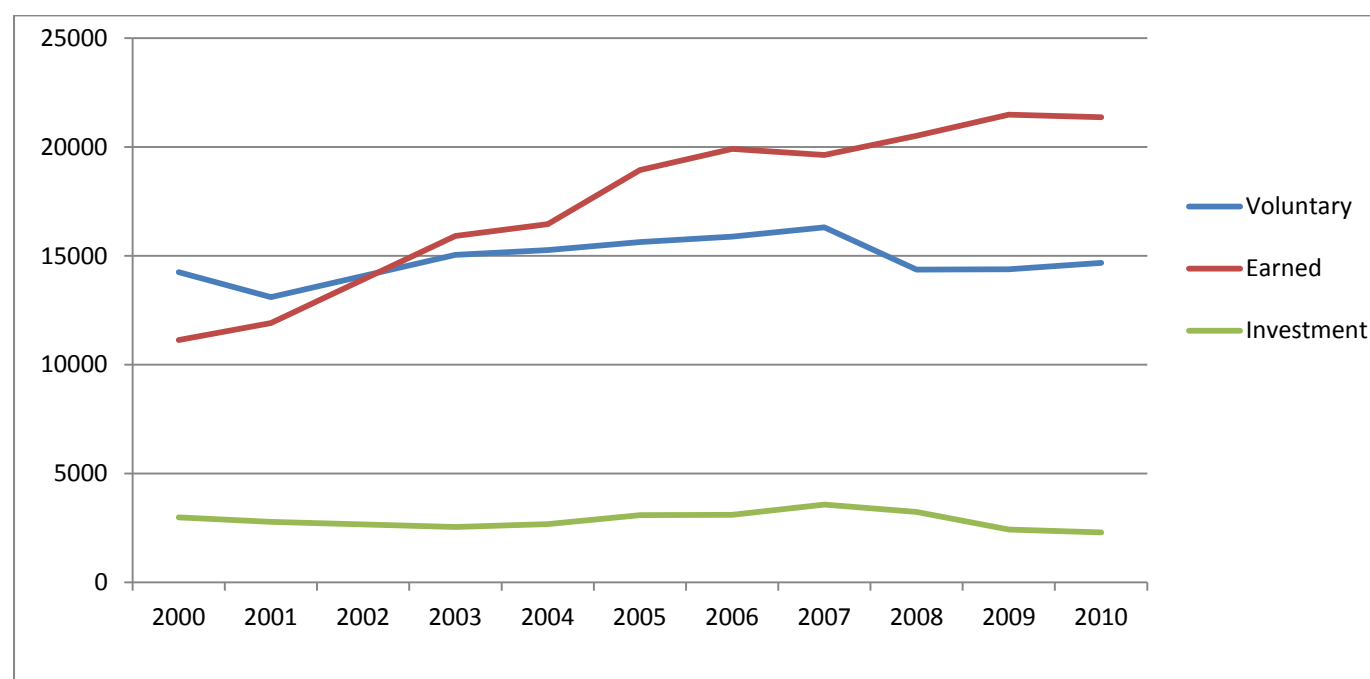
Unfortunately, regional data are not available on changing patterns of reliance on discrete income sources. However, data on income can be contextualised by considering the longer-term national trends in third sector income. Figure 4.4 shows trends in 'voluntary income' (i.e. *grants, endowments and gifts* from individuals, public sector, private sector, foundations, lottery etc.) 'earned income' and 'investments' between these financial years 2000-2001 to 2010-2011.

These data show that the balance between voluntary income and earned income has shifted quite considerably over time. Voluntary income has remained broadly similar rising from £14.2bn to £14.6bn. Earned income, by contrast, has risen more dramatically from £11.1bn to £21.3bn – a rise of 91%.⁶² Investment income has remained fairly stable, but has reduced from £2.9bn to £2.1bn.

⁶² Earned income includes 'contracts' to deliver public sector services. The sharp rise in earned income may mask, to some extent, some anomalies in the way that public sector funds to deliver services have been redefined over time. There is some good evidence to suggest that the terms 'grants', 'contracts' or 'service level agreements' are subject to redefinition from time to time even if the services they pay for are, ostensibly, much the same. See: Macmillan, R. (2010) *The third sector delivering public services: an evidence review*, Working Paper. University of Birmingham, Birmingham, UK; Matthew Jackson, (2010) 'Matching rhetoric with reality: The challenge for Third Sector involvement in local governance', *International Journal of Sociology and Social Policy*, Vol. 30 Iss: 1/2, pp.17 – 31.

Sources of income: North East, North West and Yorkshire and Humber compared (NCVO data)	Income (£millions)			% income from each source		
	Yorkshire and Humber	North East England	North West England	Yorkshire and Humber	North East England	North West England
<i>Donations</i>	165.2	101.1	416.9	27.7	34.7	42.9
<i>Legacies</i>	31.5	6.9	42.7	5.3	2.4	4.4
<i>Fees for services</i>	247.0	120.5	347.9	41.4	41.4	35.8
<i>Fundraising</i>	153.6	62.8	165.0	25.7	21.5	17.0
Individuals total	597.2	291.4	972.4	37.0	34.4	37.9
<i>Donations (private sector)</i>	10.4	19.1	11.0	17.4	49.1	29.5
<i>Earned</i>	49.1	19.8	26.2	82.6	50.9	70.5
Private sector total	59.4	38.9	37.2	3.7	4.6	1.4
National lottery total	32.6	30.7	35.4	2.0	3.6	1.4
<i>Grants</i>	206.8	66.0	122.7	29.0	16.6	10.3
<i>Contracts and fees</i>	505.2	332.4	1,066.8	71.0	83.4	89.7
Statutory sources total	712.0	398.3	1,189.6	44.1	47.0	46.3
<i>Grants (voluntary sector)</i>	63.4	32.2	152.6	54.7	52.6	70.5
<i>Earned (voluntary sector)</i>	52.5	29.0	63.9	45.3	47.4	29.5
Voluntary sector total	115.9	61.2	216.5	7.2	7.2	8.4
Investments total	98.9	26.6	116.0	6.1	3.1	4.5
Total income	1,616.0	847.0	2,567.0	100.0	100.0	100.0

Figure 4.4 Third Sector income, UK: 2000-2011.⁶³



⁶³ Source: NCVO (2013) *Civil Society Almanac*: <http://data.ncvo.org.uk/a/almanac13/almanac/databank/income-2/>

The composition of earned income has changed. As Figure 4.5 shows, earned income from the private sector and voluntary sector has remained relatively stable over time and constitutes only a limited resource to the sector. Trading to individuals has been more turbulent, rising to a peak of £9bn in 2003. The most important change has been the vastly increased volume of earned income from statutory sources. This has risen from £4.5bn to £11.2bn in a decade, representing an increase of 151%.

Figure 4.5 Sources of earned income, UK: 2000-2011.⁶⁴

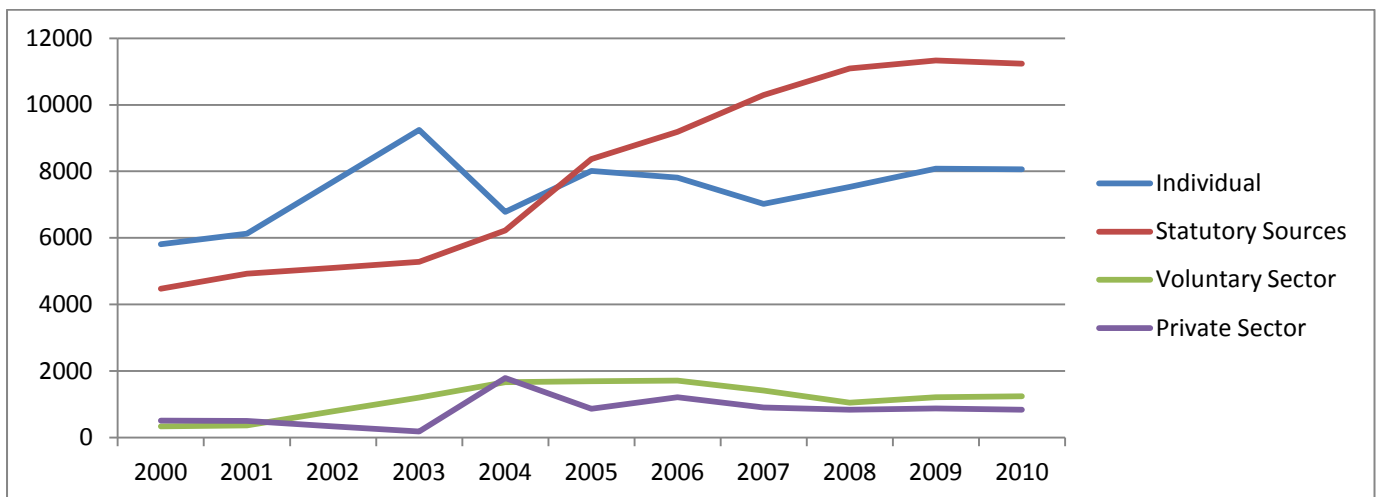


Figure 4.6 shows the different sources of income earned by TSOs of different sizes. Reliance on individual sources of income falls dramatically from 65% of all earned income in micro charities to just 31% for large charities. One of the reasons why 'major' charities have such a heavy reliance upon trading to individuals is their strong penetration of the charity marketing via charity shops, the use of direct advertising mailshots and online trading amongst other things. In Cumbria, North East England and Yorkshire and the Humber, however, there are relatively few charities of this kind⁶⁵ as most are located in London and the South East. Income from statutory sources rises proportionately as TSOs grow in size: from just 1% for micro organisations to 71% for the major TSOs. Voluntary sector earned income is of limited importance to all but the micro TSOs.

Looking at how much money is going into the third sector can be misleading unless it is understood that these cash flows do not amount to sector 'wealth', as such. Indeed, basic data on income fails to indicate how robust the third sector is in resource terms. Evidence from NCVO shows that some parts of the sector are more economically secure. Free reserves are indicated by the number of months' equivalent expenditure that is available to organisations. In 2010/11, it was calculated that the UK sector held £47.8bn in free reserves – providing an average

⁶⁴ Source: NCVO Civil Society Almanac: <http://data.ncvo.org.uk/a/almanac13/almanac/databank/income-2/>

⁶⁵ In Yorkshire and the Humber, for example, in 2010 the five largest charities were UFI Charitable trust (£192.5m income), The Family Trust Fund (£31.6m income), BTCV (£28.9m income), Camphill Village Trust (£27.8m income) and Foundation for Credit Counselling (£23.2m income), Source, Kane and Mohan 2010: 20).

financial cushion of 16.8 months of expenditure.⁶⁶ As Figure 4.7 shows, however, there is considerable variation in the average number of months of free reserves held. The average level of reserves is exaggerated by the substantial free reserves held by grant-making foundations and research foundations. For the rest of TSOs, the average reserve is closer to 9 months of expenditure. Infrastructure organisations are the least secure in this respect with an average of only three months held in reserves.

Figure 4.6

Percentage distribution of sources of income by size of TSO⁶⁷

	Micro	Small	Medium	Large	Major	Total	Number of charities
Individual	64.9	59.5	37.9	30.6	20.8	28.1	64,833
Statutory Sources	1.2	32.5	51.5	60.5	70.6	62.8	28,084
Voluntary Sector	33.3	6.2	8.4	5.7	6.0	6.4	17,718
Private Sector	0.5	1.8	2.2	3.1	2.6	2.7	5,648
Total earned income	£59.2	£618.8	£2,618.3	£5,914.6	£8,530	£17,740.8	

Is it possible to state what levels of reserves individual charities *should* hold in order to be regarded as a reasonably financially secure organisation? The Charity Commission makes the following observations:

There is no single level or even a range of reserves that is right for all charities. Any target set by trustees for the level of reserves to be held should reflect the particular circumstances of the individual charity. To do this, trustees need to know why the charity should hold reserves and, having identified those needs, the trustees should consider how much should be held to meet them. In more detail The charity's target level of reserves can be expressed as a target figure or a target range and should be informed by: its forecasts for levels of income for the current and future years, taking into account the reliability of each source of income and the prospects for developing new income sources; its forecasts for expenditure for the current and future years on the basis of planned activity; its analysis of any future needs, opportunities, commitments or risks, where future income alone is unlikely to be able to meet anticipated costs; and its assessment, on the best evidence reasonably available, of the likelihood of each of those needs that justify having reserves arising and the potential consequences for the charity of not being able to meet them. Trustees who hold reserves without attempting to relate their need for reserves to factors such as these will have

⁶⁶ At the deep point of the recession in 2008/9 the equivalent reserve period fell to just 12.8 months. See: <http://data.ncvo.org.uk/a/almanac13/almanac/voluntary-sector/assets/how-much-does-the-voluntary-sector-hold-as-reserves-2/>

⁶⁷ Source: recalculated in percentages from raw financial data: NCVO Civil Society Almanac: <http://data.ncvo.org.uk/a/almanac13/almanac/databank/income-2/>

difficulty in satisfactorily explaining why they hold the amount of reserves that they do.⁶⁸

Figure 4.7 Free reserves held by areas of TSO operational activity (2010-2011) expressed as number of months' expenditure	Number of months expenditure held in reserves
Grant making foundations	59.8
Research foundations	58.1
Village halls	24.1
Religion	20.8
Housing	18.3
Health	17.6
Scout groups and youth clubs	14.2
Parent teacher associations	12.4
Education	11.3
Development	8.2
Environment	8.0
Culture and recreation	7.0
Social services	6.9
International	4.9
Law and advocacy	4.7
Playgroups and nurseries	4.5
Employment and training	4.1
Umbrella bodies ⁶⁹	3.3

Source: NCVO UK Civil Society Almanac 2012 <http://data.ncvo.org.uk/a/almanac13/almanac/voluntary-sector/assets/how-much-does-the-voluntary-sector-hold-as-reserves-2/>

While it is not wise to impose fixed expectations on levels of reserves TSOs should hold, it is clear from the analysis that many organisations are operating within just a few months of closure – which puts increased pressure on income generation activity over other strategic planning priorities or building organisational capability.

Having now presented a brief overview of sector structure, dynamics and finances, we return to the job of examining key themes and issues which are of concern to people in the public sector when considering whether they want to buy services, invest in sector capability or impact, sell services or facilities to the third sector, or pass on demands the third sector may make.

⁶⁸ For more detailed exploration of these issues by the Charity Commission, see: <http://www.charitycommission.gov.uk/publications/cc19.aspx#c1>

⁶⁹ Umbrella bodies are more commonly known as 'infrastructure organisations' in the Third Sector academic, policy and practice literature. In this report, the latter term is used.

5 Working with the third sector

Working with the third sector can sometimes feel, to public sector officers, like a challenging relationship. Could it be that these challenges can be exaggerated if expectations about inter-sector relationships are unrealistically ambitious? This section tries to help remedy the situation by discussing a range of themes and issues which constantly recur in debates about inter-sector expectations and relationships. Some of these themes and issues have been ‘knocking around’ for so long now that they have taken on a life of their own. But the repetition of myths or falsehoods doesn’t make them true!

What’s in a word?

Sometimes such themes and issues have been encapsulated in just a few words, such as ‘innovation’, ‘sustainability’, ‘partnership’, ‘enterprise’, ‘added value’, ‘joined-up working’, ‘scaling up’, ‘collaborative governance’, ‘consortium working’, ‘social return on investment’ and such. In other cases, themes and issues are just emerging now. Examples include; ‘social growth’, ‘investment readiness’, ‘social investment’, ‘payment by results’ and so on. The problem is that these words have different meanings to different people and debates can become cluttered with misconceptions, contradictions and confusion.

As if this situation were not difficult enough, there is another dimension to consider: *change*. Often ideas about inter-sector expectations and relationships change over time – but the words don’t change. ‘Partnership’ is a good example. It has maintained its status as a ‘warm’ word and its practice valued. But during the last government, partnership was thought to be something which should be incentivised through investment and be *managed*. For the present government, it is something which should be produced organically from within the third sector. If partnership is worth having, it is claimed, that people will invest in it themselves. There are elements of truth on both sides of the argument.

Another example of change is when a term originates from one sector and is then adopted by another – but its meaning is transformed in the process. An example is ‘added value’. The term emerged from the third sector and was used to show that the practices of TSOs were special and ‘better than’ those which the public or private sector could produce. Subsequently ‘added value’ was adopted and *called for* by the public sector as a matter of course in commissions – resulting (many in the third sector now claim) in demands of ‘more for less’.

Because the situation is complicated, we call on people in the public sector to be careful about what they wish for. We don’t want people in the public sector to feel disappointed with their colleagues in the third sector if there is no real cause for that to be the case. But neither do we want people in the public sector to feel bamboozled or bullied into accepting things by people in the third sector which are not reasonable or realisable.

This section dissects a number of themes and issues in order to clarify their meaning where that is possible, or show where no clarity does or *can* exist. The issues are ordered under three of the four broad headings adopted in the NRFTST to assess TSO effectiveness: 'enterprise', 'capability' and 'impact'. The fourth heading, 'foresight' has already been discussed in Section 3 of the report.

The section aims to help clarify what is possible, not to say that nothing works. But before that, a brief summary of the characteristics of the third sector is presented to contextualise the more analytical discussion which follows.

5.1 An enterprising third sector

As noted in Section 2 of this report, successive governments have been keen to encourage the third sector to deliver public services by contract. Often such demands have been wrapped in the terminology of 'enterprise', by which it is often meant that TSOs need to become more professionalised and businesslike in their practice. Underlying this broad enterprise heading, several other terms have entered common usage which need to be explored in order to find out how many organisations in the third sector can or want to enter this domain of 'enterprising practice'. Four aspects of enterprising capability are considered: **contract readiness, partnership bidding, scaling up activity** and **investment readiness**.

Readiness to enter into contracts to deliver services

A lot of money was invested in the third sector by the last government to encourage TSOs to tender for contracts to deliver public services. Much of this investment could, arguably, be described as 'blanket investment' rather than being targeted at those organisations which were demonstrably ready to do such work.

As Figure 5.1 shows, actual delivery of contracts or interest in delivering contracts is still quite limited:

- Many TSOs are not interested in delivering contracts as such work is not considered to be relevant to their mission (53% in Cumbria and North East England and 37% in Yorkshire and the Humber).
- Many TSOs perceive barriers to contract working, feel that they need more information or extra support before they can do it (16% in Cumbria and North East England and 26% in Yorkshire and the Humber).
- Only 7% of TSOs in Cumbria and North East England and 10% in Yorkshire and the Humber are actually delivering contracts and a further 4-6% are bidding.

It cannot be assumed that larger TSOs are interested in delivering services by contract.

- Most medium and large TSOs are aware of contract opportunities, but many TSOs say such work is not relevant to their mission (39% of medium sized and 25% of larger TSOs in Cumbria and North East England; 26% medium sized and 11% larger TSOs in Yorkshire and the Humber).
- Many medium sized and larger TSOs say that they perceive barriers to involvement, that they need support, or need more information – but it is by no

means certain that they would engage in such work if these perceived restrictions were tackled.⁷⁰

- Larger TSOs are by far the most likely to be engaged in contract working now: 30% in Cumbria and North East England and 41% in Yorkshire and the Humber. But relatively few medium sized TSOs are (just 8% in Cumbria and North East England and 14% in Yorkshire and the Humber).
- A sizeable proportion of larger TSOs in Cumbria and North East England (16%) and Yorkshire and the Humber 19% are bidding for contracts but have not yet been successful. It would seem likely that this is the group of TSOs most able to benefit from investment in their capability.

Attention to limits on the level of interest or capability of involvement in contract working must not, therefore, be neglected in public sector strategies for service delivery which seek to engage the third sector.

Contract working is, in short, a minority sport in the third sector. And while there are indications that many TSOs may become interested if there were fewer perceived barriers, more support and information – it can by no means be certain that they would actually start bidding. So investment in contract readiness would only be sensible if a strong interest in bidding could be evidenced. Universal investment in building contract readiness would clearly be a waste of resource.

Partnership bidding for public service contracts

In recent years there has been strong pressure from local and national government to encourage partnership working within the third sector. Encouragement for partnership working has been driven by interest in the delivery of bigger contracts so as to produce economies of scale.⁷¹

If partnership working is to be encouraged, a clearer understanding of the proportion of TSOs which are willing to become engaged in such work needs to be known. Figure 5.3 presents data on the extent of participation in partnership working in northern England.⁷² It is clear from Figure 5.2 that

- Relatively few TSOs have been successful when tendering to deliver contracts through partnerships: 12% in Cumbria and North East England and 19% in Yorkshire and the Humber have been successful and between 7-8% have tendered but not yet been successful
- A further 13% in Cumbria and North East England and 21% in Yorkshire and the Humber are considering partnership working

⁷⁰ It is very likely that attempts have been made in most local authority areas to tackle such barriers, in principle at least, through the establishment of local compacts, funding of LIOs to provide information, and providing support directly or through intermediaries. Many TSOs might, actually, be using these perceived barriers as an excuse not to engage with such activity rather than just stating openly that they don't want to. What proportion of TSOs who blame other factors but do not *really* want to engage is a matter for speculation.

⁷¹ For more analysis of public sector third sector partnerships, see: Office of the Third Sector, (2006a); Alcock, P. (2010); Alexander, D. (2010); Deakin, N. (1995); Ansell, C. and Gash, A. (2008); Carmel, E. and Harlock, J. (2008).

⁷² Data for Yorkshire and the Humber have been weighted so that the sample resembles that of Cumbria and North East England more closely. The data are still not directly comparable however as the Yorkshire and the Humber sample is 'self selected' while the Cumbria and North East England data is based on responses to paper questionnaires – thereby producing a more representative sample.

- 68% of TSOs in Cumbria and North East England and 53% in Yorkshire and the Humber are not interested in tendering for contracts in partnership
- Lack of interest in partnership working is strongest in the more rural sub-regions of Cumbria, (77%) Northumberland (71%) and North Yorkshire (60%),

These data refer to the third sector as a whole. It is useful to consider whether organisations of different sizes are more likely to work in partnership as shown in Figures 5.3 and 5.4. When medium sized and larger TSOs are disaggregated, it is clear that interest in partnership working is somewhat stronger among larger organisations.

- The largest TSOs are almost twice as likely to have been successful in partnership bidding when compared with medium sized TSOs.
- In Cumbria and North East England about half of medium sized TSOs are not considering partnership working compared with a quarter of the largest TSOs
- In Yorkshire and the Humber about 28% of medium sized TSOs are not considering partnership working compared with just 9% of the largest TSOs.

These data indicate that it is the 'larger' organisations which tend to be successful in partnership bidding and that they are much more likely to be interested in such work, even if they are not yet doing it.

What these data show is that it cannot be assumed that 'everyone wants to work in partnership' – not even the largest organisations. So, we conclude that if investment is made to encourage TSOs to engage in such work, it should be targeted investment rather than blanket coverage.

Figure 5.1 Willingness and readiness to engage in the delivery of public services by contract	Cumbria	Northum- berland	Tyne and Wear	County Durham	Tees Valley	West Yorkshire	South Yorkshire	Humber	North Yorkshire	Whole NE sample	Whole Yorkshire and the Humber sample
We are not aware of these opportunities	23.6	21.4	18.7	19.9	17.2	21.1	22.7	17.4	18.8	20.9	20.8
We are aware of these opportunities but they are not relevant to our organisations objectives	57.8	58.1	47.3	53.0	49.0	34.3	39.1	40.3	40.0	52.5	37.4
We are aware of these opportunities but need more information	2.8	5.2	4.6	3.8	2.1	5.9	6.3	11.7	5.8	3.8	6.9
We are interested in this option but would need extra support to do this	3.8	3.3	5.6	8.1	7.6	12.6	6.3	7.7	11.2	5.2	9.8
We are interested in this option but feel there are barriers in the tendering process	4.0	4.8	8.1	5.9	6.2	9.7	10.2	9.1	9.6	6.1	9.6
We are already bidding to deliver public sector services	1.3	3.3	5.6	4.2	8.3	5.7	6.7	6.7	5.0	4.0	6.0
We are already delivering public sector services for which we have tendered	6.8	3.8	10.1	5.1	9.7	10.6	8.8	7.0	9.6	7.4	9.6

Figure 5.2 Partnership bidding for contracts in last two years	Cumbria	Northum- berland	Tyne and Wear	County Durham	Tees Valley	West Yorkshire	South Yorkshire	Humber	North Yorkshire	Whole NE sample	Whole Y&H sample
Yes, have been successful	8.8	10.3	15.0	13.6	13.4	20.3	19.4	19.1	13.8	12.0	18.8
Yes, but not yet been successful	3.3	7.3	8.8	3.4	10.2	8.7	10.0	7.4	5.4	6.5	8.2
No, but we are considering this	9.3	11.2	17.9	12.9	15.3	18.8	20.4	25.8	20.4	13.2	20.5
No, not considering this option	78.6	71.2	58.3	70.1	61.1	52.2	50.2	47.7	60.4	68.3	52.5

Figure 5.3 Interest in contract working	Cumbria and North East England 2012 £50,000 - £250,000	Cumbria and North East England 2012 £250,000+	Yorkshire & Humber 2013 £50,000 - £250,000	Yorkshire & Humber 2013 £250,000+
We are not aware of these opportunities	14.5	5.5	7.0	2.0
We are aware of these opportunities but they are not relevant to our organisation's objectives	39.1	25.3	25.8	10.8
We are aware of these opportunities but need more information	7.6	6.3	8.2	3.6
We are interested in this option but would need extra support to do this	12.0	5.5	16.8	6.4
We are interested in this option but feel there are barriers in the tendering process	14.5	11.5	17.2	17.7
We are already bidding to deliver public sector services	4.0	15.8	11.1	18.5
We are already delivering public sector services for which we have tendered	8.3	30.0	13.9	41.0
N=	276	253	244	249

Figure 5.4 Percentage of organisations or groups which have been involved in partnership bidding (unweighted data)	Cumbria and North East England 2012 £50,000 - £250,000	Cumbria and North East England 2012 £250,000+	Yorkshire & Humber 2013 £50,000 - £250,000	Yorkshire & Humber 2013 £250,000+
Yes and have been successful	18.2	35.3	27.5	54.8
Yes and have not yet been successful	13.7	16.2	18.0	12.4
No, but we are considering this	17.5	23.3	26.6	24.0
No and we are not considering this	50.5	25.2	27.9	8.8
N=	291	266	244	250

Scaling up organisational capacity to deliver services

Investment in TSOs to 'scale up' activity is commonly called for by government and think tanks. But qualitative evidence from the NRFTST shows that most

organisations which may have the potential to do so are not interested. They are driven primarily by local interests and want to remain true to this mission. Scaling up often means a movement towards more professionalised and business-like practice which is not a motivational driver for many boards and CEOs in smaller to medium sized locally based organisations. This does not necessarily mean that TSOs in the local third sector may not want to participate in consortium or partnership bids where they can use their particular skills and interests.

Indications of interest in scaling up activity are slight. Qualitative evidence from the NRFTST qualitative longitudinal study of 50 organisations shows that only two of the 50 organisations had made serious attempts to scale up their activities. In one case this was achieved through a merger; and in the other, primarily through partnership working with other national charitable organisations. Figure 5.5 demonstrates the extent to which TSOs have been taking active steps to change the way they do things that indicate an interest in scaling up activity. The following findings can be noted for Yorkshire and the Humber:

- The larger TSOs are, the more likely that they have taken action to strengthen their position to scale up activity. For example, only 11% of micro TSOs in Yorkshire and Humber have changed their practices compared with 48% of the largest TSOs.
- The top priority for the largest TSOs was to increase earned income (63%), followed by changing practices (48%), and working more closely with other TSOs (46%). Only 11% of TSOs had taken steps to take over a service from another organisation, and only 10% had taken steps to merge with another TSO.
- Over half of medium sized TSOs had taken steps to increase earned income, but only 34% had changed their practices or taken steps to work more closely with another TSO. Fewer than 5% had taken steps to take over a service from another TSO and 6% towards a merger.
- Micro and small TSOs were much less likely to have taken steps to change anything, suggesting either a measure of stability or conservatism in this part of the third sector – particularly so for the micro organisations.

The following findings can be noted for Cumbria and North East England.

- The larger TSOs are, the more likely that they have taken action to strengthen their position or to scale up activity. For example, 3% of micro TSOs have changed their practices compared with 38% of the largest TSOs.
- The top priority for the largest TSOs was to increase earned income (55%), followed by changing practices (38%), and working more closely with other TSOs (30%). Only 8% of TSOs had taken steps to take over a service from another organisation, and 6% had taken steps to merge with another TSO.
- About 38% of medium sized TSOs had taken steps to increase earned income, but only 21% had changed their practices or taken steps to work more closely with another TSO. Just 4% had taken steps to take over a service from another TSO and 5% towards a merger.

- Micro and small TSOs were less likely to have taken steps to change the way they do things, suggesting either a measure of stability or conservatism in this part of the third sector – and particularly so for the micro organisations.

These data provide clear indications on the willingness of TSOs to take steps to change their practices. Clearly, many TSOs are doing so – and especially the largest organisations. But even amongst these organisations there are strong indications that there is limited taste for radical change – such as merging or taking services from other TSOs. We have argued that investment in scaling up needs to be made when TSOs have at least started that journey and organisations already have enjoyed a measure of success in that domain. These data provide some useful clues on the possible size of the scale of active interest in change.

Figure 5.5 Journeys of change: the extent to which TSOs have changed their practices in the last two years in the following ways (as a percentage of all TSOs in a particular size bracket)	North East England and Cumbria (2012)				Yorkshire and the Humber (2013)			
	Micro £0-£5,000	Small £5,000 - £50,000	Medium £50,000 - £250,000	Large £250,000 or more	Micro £0-£5,000	Small £5,000 - £50,000	Medium £50,000 - £250,000	Large £250,000 or more
Taken steps to increase earned income	13.1	29.7	38.1	54.9	18.3	31.5	50.2	63.3
Taken steps to change practices	3.2	9.7	21.4	38.4	11.3	23.2	34.0	47.6
Taken steps to work more closely with another TSO	9.7	14.5	29.6	41.0	15.4	22.8	34.8	46.2
Taken steps to take over a service from another TSO	1.7	2.5	4.1	8.2	0.4	2.2	4.5	10.8
Taken steps to merge with another TSO	1.3	2.9	5.4	5.6	1.7	3.4	6.1	10.0
N=	473	559	294	268	240	267	243	248

Investment readiness

Current government policy on third sector engagement in public service delivery has focused increasingly on encouraging TSOs to borrow money so that they can scale up their activity and engage in social investment initiatives (which generally expect TSOs to take a measure of ‘risk’ in contracts which adopt ‘payment-by-results’ clauses). A great deal of investment in such initiatives has been made in recent years, including the establishment of Big Society Capital whose mission is to channel funds to TSOs through social investment intermediaries.⁷³

While there is now significant scope to ‘supply’ investment to TSOs, there have been few attempts to examine the level of ‘demand’. Some early attempts to assess the size of the marketplace produced somewhat ambitious findings – although it was accepted that they were based on limited empirical evidence.⁷⁴ The first study to examine market interest in detail, using a large sample is the Involve Yorkshire & Humber Third Sector Trends study (although there are indicators from the NRFTST study which are also presented here).

As Figure 5.6 shows, amongst the medium and larger TSOs few organisations (between 1-3%) say that loans were amongst the most important sources of finance for their organisation. Indeed, about 80% of medium sized and about 70% of larger TSOs say that loans are not applicable to them.

Figure 5.6 How important are loans to your organisation?	Cumbria & North East England 2012 £50,000 - £250,000	Cumbria & North East England 2012 £250,000+	Yorkshire & Humber 2013 £50,000 - £250,000	Yorkshire & Humber 2013 £250,000+
Most Important	3.1	1.6	1.3	1.6
Important	1.2	6.5	3.4	6.4
Of some importance	2.7	4.5	4.6	9.6
Least Important	13.1	15.9	7.1	12.0
Not applicable	80.0	71.5	83.6	68.3
N=	260	246	249	249

One of the factors which may limit TSOs’ interest in taking loans or engaging with social investment interventions is limited equity. As Figure 5.7 shows, many TSOs have no fixed assets or substantive long-term investments. Even the largest TSOs (with income above £250,000 in the previous year) are asset poor: 52% of the largest TSOs do not own property outright and 54% have no long-term investments.

⁷³ See, for recent discussions on the scope and potential for developing investment readiness: Brown and Swersky (2012); Gregory, *et al.* (2012); Social Investment Taskforce (2010); Mulgan, 2007; and Shanmugalingam *et al.* 2011.

⁷⁴ See, for example, Joy, I. and Keen, S. (2012) Investment Readiness in the UK, London: New Philanthropy Capital.

Indeed, as Figure 5.8 shows, levels of free reserves held by TSOs are limited, especially so for smaller TSOs. But even amongst the largest organisations, 20% have no reserves or less than £10,000. Clearly, if TSOs are on a financial knife edge, they are unlikely to be interested in taking the risk of applying for loans – and the likelihood is that if they did make such an application, lenders would be unlikely to agree.

Figure 5.9 presents data from Yorkshire and the Humber on the extent to which organisations actually borrowed money over the last two years. For the sample as a whole it is evident that:

- Few organisations have borrowed money in the last two years (about 6%) of the sample
- Larger organisations, with incomes above £250,000 per annum are the most likely to borrow money, but 83% have not done so in the previous two years.
- Of those organisations that do borrow money (i.e. as investment capital) to invest in new activities or services, most are larger organisations, but only 6% of the largest organisations in the sample have done so.
- The second most popular reason for borrowing money is to buy property with a mortgage, but only 2% of TSOs have done so, and these are mainly the largest organisations.
- Some TSOs borrow money to bridge a gap in their cash flow, but this only applies to 1% of the sample and just 3% of the largest organisations.

These findings further call into question the viability of social investment models, but it is early days and there may yet be scope to move more TSOs into the investment readiness zone. But clearly, any attempt to engage TSOs in such activity should be preceded by realistic appraisals of their interest, capability and financial security.

As a long term-objective, local authorities may want to explore the value of developing TSOs' potential in this respect – but it would probably involve bespoke support to organisations which have sufficient equity to take the associated risks and a strong interest in the potential of investment to achieve social benefit. Generalised support would probably be met with limited interest and actual take-up of opportunities minimal.

Figure 5.7 Approximate value of property and investment assets (<i>Yorkshire and the Humber 2013</i>)	VALUE OF PROPERTY OWNED OUTRIGHT				VALUE OF INVESTMENTS			
	Micro £0-£5,000	Small £5,000 - £50,000	Medium £50,000 - £250,000	Large £250,000 or more	Micro £0-£5,000	Small £5,000 - £50,000	Medium £50,000 - £250,000	Large £250,000 or more
No assets/reserves at all	84.3	66.0	69.0	51.5	86.1	73.3	69.4	53.7
Less than £10,000	10.2	10.0	8.2	3.4	10.0	14.9	7.3	2.2
£10,001 - £25,000	0.4	1.5	3.9	0.4	2.6	4.7	5.6	3.5
£25,001 - £50,000	0.8	1.5	2.6	0.9	0.0	2.0	7.8	4.8
£50,001 - £100,000	3.0	3.5	2.2	3.8	0.9	2.0	5.2	6.2
£100,001 - £250,000	0.8	8.5	6.9	9.4	0.0	1.6	3.0	8.4
£250,001 - £1,000,000	0.4	6.9	5.6	13.6	0.0	1.2	1.3	13.7
£1,000,001 - £5,000,000	0.0	1.5	1.3	12.3	0.0	0.4	0.4	6.2
£5,000,001 plus	0.0	0.4	0.4	4.7	0.4	0.0	0.0	1.3
N=	236	259	232	235	230	255	232	227

Figure 5.8 Approximate cash reserves in current account (Yorkshire and Humber 2013)	Micro £0-£5,000	Smaller £5,000 - £50,000	Medium £50,000 - £250,000	Largest £250,000 or more
No assets/reserves at all	29.5	19.3	16.0	11.2
Less than £10,000	67.5	61.4	28.6	9.9
£10,001 - £25,000	1.7	14.0	21.4	11.6
£25,001 - £50,000	0.0	3.4	21.0	14.9
£50,001 - £100,000	0.0	1.5	9.2	19.0
£100,001 - £250,000	0.4	0.4	3.8	15.7
£250,001 - £1,000,000	0.4	0.0	0.0	14.5
£1,000,001 - £5,000,000	0.0	0.0	0.0	2.9
£5,000,001 plus	0.4	0.0	0.0	0.4
N=	234	264	238	242

Figure 5.9 Percentage of organisations or groups which have borrowed money from a financial institution (such as a bank, building society, local authority or a credit union) for any of the following purposes in the last two years	Micro £0-£5,000	Smaller £5,000 - £50,000	Medium £50,000 - £250,000	Largest £250,000 or more
We have not borrowed money in the last two years	99.1	98.1	94.3	82.9
We have borrowed money mainly to invest in the development of new activities or services (e.g. any form of investment capital)	0.0	0.8	2.6	6.4
We have borrowed money mainly to bridge a gap in our cash flow (e.g. any form of working capital)	0.9	0.8	1.3	2.6
We have borrowed money mainly to buy a property (e.g. a mortgage)	0.0	0.0	1.3	6.4
We have borrowed money for a mixture of purposes	0.0	0.4	0.4	1.7
N=	225	257	228	234

5.2 Investing in third sector capability

Building the capability of the third sector is a common strategic objective of local authorities. Investment, as noted in Section 3, can be driven by a need to improve sector intelligence and interactions, or develop the capability of individual organisations so that they can do things differently or scale up their activity. This section looks at some of the pitfalls and advantages of investing in these ways.

Improving third sector intelligence

Local authorities usually expect that third sector intelligence held by local infrastructure organisations (LIOs) should be current and of reasonably good quality (especially so if they provide significant levels of core funding to such organisations to collect this material in order to represent sector interests adequately).

Usually, however, good quality sector intelligence is neither collected nor maintained for a number of interrelated reasons:⁷⁵

- Often there are several LIOs offering support in one area (and also from outside the area) which maintain lists of organisations. But these lists are generally far from complete and listings of TSOs are rarely shared or pooled.
- LIOs often claim that they cannot access sufficient resources to design, establish and maintain listings of local organisations. But it may also be the case that such organisations are not willing to employ their own resources to do such work as they do not consider the task to be sufficiently important.
- Inconsistency in approaches to gathering data on TSOs by competing infrastructure bodies means that, even if there was a will to do so, combining incompatible data would undermine the quality of intelligence.
- Establishing and maintaining up to date intelligence is costly because local TSOs are often unwilling or not motivated to cooperate with such requests for information, and especially so when they are small unincorporated organisations (often called ‘under the radar’ organisations).
- Infrastructure organisations which do make an effort to collect such information by undertaking surveys or interviews are often insufficiently skilled and under-resourced to do this work which can result in framing over-ambitious objectives which may result in low response rates, incomplete or unusable evidence.
- LIOs often collect data on the local third sector for campaigning rather than intelligence purposes. Consequently, the reliability of data and objectivity of reporting can be seriously compromised.
- Also, LIOs have limited reach into the sector. They are often focused on the TSOs that join as members or those that come to them because they are in trouble. This means that contact lists are partial and, quite possibly, skewed.

Failure of infrastructure organisations to collect and maintain good statistical intelligence on the local sector is, therefore, explicable. But there is also strong evidence to suggest from the NRFTST that many LIOs also struggle to present

⁷⁵ These findings come from the NRFTST: see Mohan 2010, *Entering the lists. Under the radar*, at <http://www/nr-foundation.org.uk/third-sector-trends>.

examples of good practice in their areas.⁷⁶ A lack of clear understanding of sector composition and strengths can seriously undermine arguments for investment, and especially so if contradictory messages are delivered by different LIOs.

Perhaps sector intelligence should not be collected exclusively at the local level, because much of the third sector works beyond local authority boundaries (as shown in Section 3). It is better to produce good quality comparable sector intelligence from time to time at a wider level by using tried and tested techniques such as those developed in the NRFTST and YHTST studies. Such work can be undertaken relatively inexpensively providing that certain pit-falls are avoided and some key requirements are met. These can be summarised as follows:

- That LIOs, local authorities and other public sector bodies which are interested in knowing about the third sector invest time and energy in promoting such studies to ensure the maximum response rate.
- Sensible and realistic expectations on the scale, depth and quality of information are incorporated into the study.
- That the study is undertaken by an independent body so that the objectivity of analysis is not compromised by political factors (although interest groups will be in a position to use findings to make arguments of their choosing).

The final round of the NRFTST study will take place in Cumbria and North East England in the summer of 2014, so attempts will be made to elicit the support of LIOs, local authorities and other interested public sector bodies – providing 8 years of retrospective (and 2 years of prospective data on sector change).

Developing innovation in practice

Innovation has become a widely used term by commissioning bodies when setting out their requirements. Innovation is often used in a ‘flattering’ or ‘aspirational’ way.

- From a third sector point of view, the term is flattering because it suggests that TSOs are flexible, agile and inventive and can achieve things which the public sector or private sector organisations are less good at doing.
- From a commissioning organisation’s point of view (and this can include public sector, private sector or charitable foundations) innovation is used in an aspirational sense – requiring that contracted work is delivered more efficiently, is of better quality, can be done more cheaply, or is interesting and newsworthy.

Consequently, when ‘innovative practice’ is called for in tender briefs commissioners and TSOs may not be interpreting the term in the same way. But do TSOs believe that they are innovative in their practice?

- About 97% of large TSOs agree or strongly agree that they produce ‘innovative solutions’ (53% ‘strongly agree’), compared with just 21% of the micro TSOs.
- About 10% of the micro or small TSOs do not think that they offer innovative solutions, compared with just 3% of the largest organisations.

⁷⁶ See, Chapman, T. and Robinson, F. *et al.* (2009) *A Mosaic, a Jigsaw or an abstract*. Newcastle-upon-Tyne: Northern Rock Foundation

Qualitative research in the NRFTST shows that innovation, in practice terms, is not a driving force even amongst the largest TSOs. Instead, the main emphasis is on the delivery of continuous good practice. Innovation, where it does occur, tends to be associated with new ways of working with other organisations to deliver a service (but probably the same service) in a new context.⁷⁷ Many people have told us that the biggest test of innovation is their ability to think of a way of communicating what they already do in ‘an innovative way’- to win a contract or grant.

Woolliness about what innovation means has been rectified to some extent by work undertaken by the Third Sector Research Centre where discrete definitions of innovation have been produced.⁷⁸ Essentially, three separate definitions of innovation have been identified.

- **Product or service innovation**, where organisations have developed a new approach to service to tackle a particular issue.
- **Positioning innovation**, where organisations change their practices so that an existing approach to the delivery of a service is offered to new constituencies of users.
- **Paradigm innovation**, where organisations use original enterprising practice to produce sufficient surpluses to tackle social issues that they think is important.

We would add to this list:

- **Innovation in inter- and intra-sector working**, where organisations work together in new ways to achieve complementary and better outcomes.

Commissioners often implicitly allude to one, some or all of these forms of innovative practice discussed above. But more often than not, they are not adequately separated. By using more nuanced definitions of the types of innovation that is required, commissioners may be able to identify multifaceted benefits of issuing contracts. As noted below, this will also help commissioners to establish realistic and reasonable objectives for impact measurement.

Figure 5.10 Do TSOs produce innovative solutions to tackle social problems (<i>Cumbria and North East England data 2012</i>)	Micro TSOs	Small TSOs	Medium TSOs	Large TSOs	All TSOs
Strongly agree	20.5	22.9	40.0	52.5	34.4
Agree	70.2	66.7	52.8	44.6	58.0
Disagree	6.0	10.2	6.8	2.9	6.8
Strongly disagree	3.3	0.3%	0.4	0.0	0.7
N=	151	315	250	242	958

⁷⁷ Issues surrounding innovation in funding and partnerships, rather than front-line delivery practices, have been investigated by other researchers. See for example: Lyon, F., Sepulveda, L., Vickers, I. McMullin, C. and Gregory, D. (2013) Process of social innovation in mutual organisations: The case of social enterprises leaving the public sector, London. NESTA.

⁷⁸ Chew, C. and Lyon, F. (2012) *Innovation and social enterprise activity in third sector organisations*, Third Sector Research Centre Working Paper 83.

The following recommendations are offered for consideration by commissioners:

- If TSOs can produce continuous good practice based on their professional experience and judgment – and they can demonstrate that the outcome of such practice is valuable - then ambitious requirements for product and service innovation by commissioners as an end in itself need to be tempered to some extent.
- If commissioners require that innovation is used to deliver services to new or different beneficiaries, then there needs to be a clear specification of who these beneficiaries are and what methods of impact measurement are to be adopted to determine if they are actually reached (see Section 4.5 below on reaching socially excluded groups). It is well known that the cost of reaching the most socially excluded people is higher, so if the objective is specifically to help these people, such costs would need to be incorporated into the commission.
- If the commissioners' objective is to produce change in the way that TSOs work (or paradigm innovation) then that investment needs to be targeted squarely at those organisations which have at least taken some successful steps in their journey of change (see Section 4.4 on investing in capability). It is reasonable to ask that any investment in organisational capability needs to be tested subsequently to see if change had occurred and been fully embedded within the organisation. TSOs would need to be willing to submit themselves to such scrutiny, therefore, as a condition of the commission.
- If the commissioners' call for innovation by building new or strengthening existing inter- or intra-sector relationships so that organisations can produce added value, then commissioners need to see evidence of the provenance, strength and future potential of investing in such relationships.

Supporting training and staff development

Most larger TSOs willingly commit to essential statutory training requirements, but many consider that investment in other forms of staff development are of secondary importance to operational delivery – as shown in Figure 5.11. The NRFTST shows quite conclusively that stronger TSOs tend to invest more seriously and continuously in staff training and development. The fact that they do so is generally indicative of strong organisational governance, which in turn shows clarity of mission, strategic foresight, belief in strengthening organisational capability and impact.

Government departments, local authorities and charitable foundations have invested heavily in sector development through training over recent years (as discussed in Section 2.2). There is plenty of evidence to show that training opportunities are generally welcomed by the third sector and take up is usually quite good. But qualitative data from the NRFTST shows that the desire to engage in training is often led by what is 'on offer' rather than connecting with strategic needs. The consequence is that the learning experience can be of limited value.

Strategies for investment in training, therefore, respond to 'existing' demand, and also recognise where that demand needs to be 'produced' in target organisations.

Figure 5.11 Ownership of training budgets by TSOs	Micro £0-£5,000	Small £5,000 - £50,000	Medium £50,000 - £250,000	Large £250,000 or more	Whole sample
NE&C with training budget	2.6	11.5	32.9	69.5	22.8
NE&C no training budget	97.4	88.5	67.1	30.5	77.2
2012 N=	453	550	289	266	1558
Y&H with a training budget	10.0	22.0	58.6	84.4	43.6
Y&H with no training budget	90.0	78.0	41.4	15.6	56.4
2013 N=	240	268	244	250	1002

Why do TSOs choose to, or choose not to, train and develop their staff or volunteers? It could be a lack of resource to train staff (although, in recent years, much training has been offered free to TSOs by local infrastructure bodies funded by, for example, local authorities, Capacity Builders, BASES and so on). Or perhaps TSOs think that investment in capability is a less important priority than getting more money in to do their work.

Light can be thrown on this issue by exploring the extent to which TSOs prioritise different kinds of training. Figure 5.12 assesses which areas of training are given high priority. Areas of training are listed in priority order (from *bidding for grants*, which has the highest priority, to *financial management* which has the lowest).

- Training to help TSOs become more effective at *bidding for grants* and *fundraising* is a top priority for 44% of TSOs. There is relatively little variation between organisations of different size.
- Training for marketing and publicity is prioritised by only 25% of the micro organisations. Bigger TSOs allocate similar levels of priority to this area of training (between 38% and 46%).
- Most micro TSOs, as would be expected, do not put a high priority on training for tendering and commissioning. The importance attached to training in this field increases from 21% for smaller TSOs to 46% for the largest TSOs.
- Micro, small and medium sized TSOs tend not to put a high priority on *strategic management*, *business planning*, *managing staff and volunteers* and *financial management*. What is surprising is that larger (and more complex organisations) do not generally prioritise these areas of training. Indeed, fewer than a third of the largest organisations put a high priority on such training.⁷⁹

⁷⁹ It may be the case that TSOs feel that their staff are fully developed and that no more training is required. We doubt this, however, as it is important to continually refresh and improve practice. Often, in our qualitative work, we have found evidence that staff have not been fully prepared to tackle issues, especially when the organisation moves into new areas of activity.

Figure 5.12

TSOs expressing high priority for a range of training objectives (Cumbria and North East England data 2012)

	Micro £0-£5,000	Smaller £5,000 - £50,000	Medium £50,000 - £250,000	Largest £250,000 or more	Whole sample
Bidding for grants	40.7	50.4	46.7	38.6	44.2
Fundraising	39.3	49.1	45.7	39.0	43.4
Marketing and publicity	25.2	39.8	45.9	38.1	37.3
Tendering and commissioning	10.4	21.2	39.8	46.6	29.5
Strategic management	14.2	20.1	32.7	31.9	24.7
Business planning	11.3	21.3	34.3	30.7	24.4
Managing staff / volunteers	13.3	18.7	19.7	30.6	20.6
Financial management	11.3	19.3	20.9	19.4	17.8

These findings show that larger organisations put more priority on training which is focused on income generation than they do on building organisational capability. As argued in a recent paper for the NRFTST study, this may be an error. Indeed, chasing money as an end in itself may actually undermine organisational wellbeing – and especially so if the organisation has insufficient capability to deliver the services for which the money was given or contracted.⁸⁰

Figure 5.13 compares the income fluctuations, over the last two years, of those TSOs which have or do not have a training budget.⁸¹ TSOs have been divided into smaller organisations, which do not generally employ staff, and larger organisations which usually do have employees. These data show that:

- 14% of smaller TSOs with a training budget had significantly rising income compared with 9% which had no training budget.
- Only 11% of larger TSOs *without* a training budget had significantly rising income, compared with 15% which *did* have a training budget.
- 26% of larger TSOs with a training budget had significantly falling income compared with 39% which had no training budget.
- 17% of smaller TSOs without a training budget had significantly falling income, compared with 12% which did have a training budget.

These differences are not pronounced, but a clear pattern is nevertheless indicated and suggests that investment in organisational capability may pay dividends rather than be a distraction from income generation activity.

⁸⁰ See Chapman, T. and Robinson, F. (2013) *On the Money*, Newcastle: Northern Rock Foundation.

⁸¹ It was not argued in *On the Money* that there is a direct causal relationship between having a training budget and organisational success. Instead, it was stated that well-governed organisations tend to invest in capability through such training while less well governed organisations do not. Furthermore, it was not claimed that rising or falling income levels over the last two years necessarily provides a concrete indicator of organisational success or failure. TSOs may have, for example, planned for anticipated significant changes to their budgets and managed that change successfully.

Figure 5.13 Relationship between investment in capability and organisational income fluctuations	<i>Smaller TSOs</i>		<i>Larger TSOs</i>	
	Does not have a training budget	Has a training budget	Does not have a training budget	Has a training budget
Income risen significantly in last two years	8.9	13.8	11.4	15.3
Income remained about the same in last two years	74.0	74.1	49.3	58.4
Income fallen significantly in last two years	17.0	12.1	39.3	26.3
N=	358	58	140	353

There is clearly an association between organisational willingness to invest in capability and organisational wellbeing, as shown in NRFTST reports. But there is a problem. The above analysis shows that TSOs put most of their emphasis on the development of capability in areas such as fundraising, winning contracts and grants, or being better at communicating successes (so that they are better placed for fundraising, winning contracts and grants!).

The urgency of TSOs to get money to do their work is understood and we are sympathetic about that. But the NRFTST research shows clearly that emphasis on 'bringing the money in' does not actually resolve deeper organisational problems that also require urgent attention.⁸²

With this in mind, it is clear that demand-led training, if taken literally by investors, would mean calls for support for the *wrong* areas of capability development. The next section therefore considers what the 'right' areas of demand-led investment in capability are. By implication, this means that TSOs need to be persuaded to want to develop their capability in areas which they currently neglect.

Investment in capability

As suggested in the above section, serious doubts have been voiced about the value of 'supply led' training following extensive evaluation research on major government and lottery programmes.⁸³ Organisations which are committed to sector development have started to shift emphasis towards 'demand led' support for organisations.

Demand led support has real advantages providing that TSOs know what they 'need' to do. Organisations which are well governed tend to have a clear understanding of their needs and invest more fully in development of their capability in areas such as strategic, people and financial management.

Good governance has been defined by the NRFTST study as follows:

⁸² Chapman and Robinson (2013) *On the Money*, *ibid*.

⁸³ Third Sector Research Centre and CRESR are jointly undertaking a major study of the existing evaluation literature on recent supply-led training initiatives. Funded by Big Lottery, the tender brief required the evaluators to consider the impact of previous initiatives on TSO capability rather than capacity building. The former term refers to the process of helping an organisation to become better equipped to do its work effectively (mirroring the findings from the NRFTST research on capability). The latter term refers largely to ambitions to 'scale up' the volume of activity of TSOs in existing or new areas. The report for Big Lottery is due for publication late 2014.

...good governance means that a TSO has sufficient resilience (in good times or bad) to organise its assets (of people, resources and ideas) and to achieve its mission (to have the desired impact on its chosen constituency of beneficiaries). By definition, this means that organisational success is not, in our view, about financial growth or even stability. It is about understanding the 'scale' of the TSO's operation and making good decisions about where the organisation is heading when times are good, middling or bad.⁸⁴

The NRFTST research has argued consistently, on the basis of intensive qualitative work over several years with 50 organisations, that overall organisational capability falls into four broad categories:⁸⁵

- The NRFTST study defines **foresight** as: 'the capability of an organisation as a whole to be able to anticipate change and develop strategic plans to accommodate to or exploit opportunities arising from change. Change is considered on three levels: change in the external economic, political and cultural environment; change in the organisation itself; and, change in beneficiary needs'.
- The NRFTST study defines **enterprise** as 'the organisation's capability to marshal its resources and prioritise its energies to achieve the objectives it sets itself in its strategic mission. Enterprise is the means by which the organisation successfully positions itself in order to generate, find or win opportunities which will ultimately benefit its beneficiaries'.
- The NRFTST study defines **capability** as the organisation's 'ability to employ, manage, and develop its resources in order to achieve its strategic objectives. All of the resources of the organisation are considered, including: its trustees, employees and volunteers; its financial resources; its property; and its relationships with partners, funders and other key stakeholders'.
- The NRFTST study defines **impact** as 'the organisation's capability to serve its beneficiaries effectively and to make a wider contribution to the community of practice within which it works, to the third sector in general, and to civil society broadly defined. Crucially, this involves the ability of the organisation to understand its impact and to be able to communicate this effectively to outsiders'.

For those TSOs which know what kind of support they need to become more effective, demand-led investment in capability will pay dividends. But work needs to be done to raise awareness of what constitutes effective organisational governance and practice to encourage those organisations which are not fully aware to understand what they need to do.

The first step is to provide opportunities for generalised support, which may be structured in such a way as to 'entice' organisations to consider entry into mentoring programmes.⁸⁶ But the essential points of principle are as follows:

⁸⁴ Chapman and Robinson (2013) *On the Money*, *ibid.* p. 27.

⁸⁵ A framework was first developed and used in 2010 for analysis of the first phase of the TSO50 case studies. Its purpose is explained in *What Makes a Third Sector Organisation Tick?* (2010). In our recent papers *The Crystal Ball* (2013) and *Walking a Tightrope* (2013), further development of this analytical framework has been undertaken, resulting in the development of closely defined statements on definitions and observations on good and poor organisational practice.

⁸⁶ The potential value of generalised training and development is not being discounted here. Generalised training for organisations of different kinds can be valuable to address issues such as: safeguarding, health and safety, employment law, information technology, financial management techniques, managing volunteers and so on.

- That TSOs recognise that bespoke support for capability development will involve a measure of practice review, audit and self-appraisal.
- That TSOs need to invest time and energy in the (often emotionally difficult) process of reflecting upon their previous, current and prospective policies and practice in relation to their mission and asset base rather than expecting someone else to do this for them.
- That TSOs recognise that such a process will involve full engagement with trustees and officers of the organisation and, to a greater or lesser degree depending on organisational size and structure, staff and volunteers and also beneficiaries.
- That TSOs agree to be open to scrutiny once investment has been given to see what a difference it has actually made to their capability to achieve impact through their work.

Before investment in support for organisational development is given, we strongly advise that a 'stress test' is undertaken to ensure that the organisation is sufficiently resilient, reflective and responsive to benefit from the investment.

Examples of stress tests may include:

- If the TSO does not have a current mission statement and business plan, the Board of trustees should allocate time to writing one so that they begin the journey of understanding fundamental developmental needs *before* they receive support. Guidance may be given on what a good mission statement is and what effective business planning could entail – but this should not be *done for them*.
- If the TSO does not undertake an annual critical review of its practices and achievements (above and beyond a more general financial statement as demanded by the Charity Commission) then it should do so. Guidance may be given on how such reviews can be undertaken – but it should not be done for them.
- If the TSO is interested in being helped to move into a new area of practice, then it should do some groundwork on the match between its current capability and that which may be required to enter a new field of activity. The TSO should also be willing to do a market appraisal of opportunities and get a good understanding of the practices of other organisations involved in the same or similar field locally or nationally.
- If the TSO wants help to work in partnership with other organisations, or merge with another organisation, then preliminary work needs to be done to evaluate the market opportunities, and assess the match between the two or more partner organisations in cultural, mission and practice terms before investment is called for to undertake independent scrutiny (or 'due diligence').

These are only four examples of many possible areas of investment in the development of organisational capability. It is not the point of the exercise to produce an exhaustive list of things organisations *might* want to do and can *choose* from. Rather, we are concerned with what the organisation, *itself*, wants to do and to ensure that it is *serious* in its intention by demanding that it starts the journey of development and improvement on its own.

5.3 Assessing the impact of third sector activity

This section provides an assessment of third sector strengths by showing the extent to which TSOs demonstrate the impact of their work. Three areas of practice are considered here:

- The capability to access hard to reach or socially excluded communities.
- The capability to involve beneficiaries in the design and appraisal of services.
- The capability to assess the impact of practice.

Accessing hard to reach/hear/help communities

Present and previous governments have been eager to communicate their belief that the third sector is particularly effective at reaching socially excluded or disadvantaged communities of interest or place. Because many TSOs are particularly adept at campaigning for and addressing the needs of particular constituencies of people in need of support, it is understandable that the third sector feels that it is well positioned in this respect.

It is often claimed that the third sector can ‘reach the parts other sectors can’t reach’, but such claims need to be evidenced. TSOs may often be good at establishing and maintaining valuable and productive relationships with needy people in communities of interest or place over time. Sometimes this may mean, for good reasons, that the same needy people are moved on from project to project as some funding streams end and others begin. Counting these service users as ‘new’ beneficiaries in monitoring or evaluation exercises can, perhaps, be questionable.

Commissioners need to be clear about the difference between *maintaining* services to existing needy clients and successfully *introducing* new needy clients to services. Both objectives, from the point of view of meeting social need are potentially valuable if service provision works well – but the achievement of each may require different levels of funding. There is a likelihood that, sometimes, existing users will be served at the expense of locating new users of the services who are remain inaccessible, invisible or unknown. Assessing when and how access to such communities is achieved needs to be carefully planned and reviewed therefore. Certainly, it is worth investment to see how such objectives are achieved rather than simply assuming it happens.

Bringing new people into a service area can be difficult if they are hard to find, hard to engage and hard to help. So the marginal costs of engaging people who are the furthest distance from the mainstream can be enormous to TSOs. For those people who can be carried forward from previous interventions, by contrast, the cost of helping them may be significantly lower. If such issues are not addressed, there is a risk that commissioners and delivery organisations will be tempted to collude in the production of mediocre outcomes by ticking boxes that ought not to have been ticked.

If TSOs are to demonstrate that they can connect effectively with hard-to-reach communities, then commissioners need to make good evidence-based appraisals of the relative ease or difficulty of engaging socially excluded service users and achieving particular outcomes before preparing specifications for tender. They also need to insist on the use by TSOs of appropriate methodologies to assess their achievements in delivering outcomes and impact that are sufficiently transparent, achievable and economical.

Beneficiary involvement

It has become commonly accepted that it is 'good practice' to engage beneficiaries in discussions about the purpose and approach to the delivery of effective services. Such engagement is often promoted at the *planning* stage of interventions to find out what beneficiary needs are; and at the *evaluation* stage where assessments are made on the achievement of an intervention's objectives.⁸⁷

TSOs generally say that they are particularly adept at beneficiary engagement and involvement. Government policy statements generally mirror such claims enthusiastically. But to what extent do TSOs actually engage with beneficiaries? Figure 5.14 shows that engagement is, in fact, quite patchy.

Small TSOs do not generally get involved with service delivery contracts so it is not surprising that relatively few organisations consult formally with their beneficiaries. Indeed, in many such small organisations or groups, the members of the group *are* the beneficiaries and any evaluation undertaken is informal and based on interpersonal appraisal and exchange. Because of this, they do not need to be included in much of the debate on beneficiary engagement.

Larger TSOs are much more likely to deliver services to people in communities of interest or place and it would be expected that they may be more interested in eliciting and appraising beneficiaries' viewpoints. The data presented in Figure 4.21 are disaggregated by TSOs with different policy and practice 'ethos' to examine the extent to which organisations connect with beneficiaries. The three types of ethos include organisations which are rooted in their communities, led by public sector agendas or are socially enterprising but value led.

- Most larger TSOs collect feedback from beneficiaries on the quality of their services – but socially enterprising organisations are the most likely to do so (87%).
- Only about 75% of TSOs have complaint procedures to tackle problems arising from actual or perceived service failure
- About 66% of TSOs have individual discussions with beneficiaries, but socially enterprising organisations are more likely to do so (71%).
- Participatory events are organised by about 60% of socially enterprising and community rooted TSOs, but only half of public sector driven TSOs do so.
- Surveys are used by about half of the community rooted and public sector driven TSOs compared with 61% of socially enterprising TSOs.
- Fewer than half of most TSOs use social media to communicate with beneficiaries; socially enterprising organisations are slightly more likely to do so (51%)
- The use of phone interviews with beneficiaries is relatively uncommon, with about 1 in 5 TSOs employing this method.

⁸⁷ There is a large literature available on the benefits of beneficiary engagement, involvement and subsequent evaluation of services.

Larger TSOs which employ staff					
Figure 5.14 TSOs consultation with service users (North East and Cumbria only)	Smaller TSOs which do not employ staff	Community driven practice and planning ethos	Public-sector driven practice and planning ethos	Market driven practice and planning ethos	
	Collect feedback from beneficiaries	46.8	84.0	80.4	86.8
	Have a formal complaint procedure	17.2	72.0	74.2	76.0
	Have individual discussions with beneficiaries	25.9	65.5	61.9	70.7
	Organise participatory events with beneficiaries	31.5	62.9	50.5	61.7
	Conduct surveys with beneficiaries	14.1	54.5	51.5	61.7
	Use social media (e.g. Facebook, Twitter) to communicate with our beneficiaries	10.0	49.1	46.4	50.9
	Conduct (phone) interviews with beneficiaries	3.3	20.0	18.6	21.6

These data can be interpreted in different ways. On one hand it might be stated that engagement with beneficiaries was strong – particularly in gathering feedback. But on the other, it might be felt that key opportunities were being missed, especially through participatory appraisal events. There is some evidence to suggest that TSOs with a socially enterprising ethos are the most committed to beneficiary engagement – which may be indicative of a stronger business-like ‘customer focus’, but it could be more to do with the areas of service delivery that such organisations are involved with.

Is beneficiary engagement as important to TSOs as is sometimes presumed by commentators? Qualitative analysis in NRFTST helps to throw light on the situation. It was found that the efficacy of beneficiary engagement depended upon the area of activity the TSO was engaged in. In some cases, it was apparent that beneficiaries were not always in a position to make sound judgements on what their best interests were whilst in others they could. We found that TSOs were generally adept at drawing a distinction between their ability to make reflective and informed judgement on needs which may run counter to the stated interests of beneficiaries. For the most part, we were confident that these judgements (usually incorporating some evidence from beneficiaries directly) were well intentioned, evidenced by continuous good practice and were sound.

The only potential weakness, as noted above when referring to people from socially excluded communities, was that if TSOs did not have access to the whole range of beneficiaries (and tailored their services to the people they knew about) they could overlook or underplay some people’s needs. Evaluation of the impact of beneficiary involvement should, in theory at least, draw upon the views of people who are inside and outside of the service domain if this point is taken seriously. But to ask that of evaluators would be unreasonable if the TSOs cannot or do not access such people.

Assessing impact

The ability to show impact of what is achieved by TSOs is desired by funding bodies, but this desire is often not always shared by TSOs. The evidence suggests that most TSOs will comply with requests to collect data on outputs and outcomes if clearly framed – but the impetus must generally come from the funding body. This point is strengthened to some extent by evidence presented in Figure 5.15 which shows that many TSOs will assess outputs and outcomes of work they do, but that entirely ‘self-determined’ assessment of organisational impact through social audits is more limited.

Evaluation is complex and can be expensive in some domains, but not necessarily in the majority of cases. Knowing what impact an organisation achieves is something that needs to be built into the culture of practice – and usually follows from close association between critical success factors such as good governance.

Proposals for investment in how to assess social impact may, therefore, fall on deaf ears unless TSOs have already accepted that this is important for them. NRFTST data suggest that relatively few organisations are yet in this zone, and those which are, often fail to do anything much about it. A minority take impact assessment seriously, but they are usually successful already in many other aspects of organisational development.

Figure 5.15 TSOs engagement with impact assessment measures (North East and Cumbria only 2012)		Larger TSOs which employ staff		
		Smaller TSOs which do not employ staff	Community driven practice and planning ethos	Public-sector driven practice and planning ethos
Collect data on outcomes for funders	14.8	65.1	66.0	70.1
Collect data on outputs for funders	14.8	64.4	67.0	71.3
Conduct a social audit	4.3	14.9	14.4	16.2
Conduct a Social Return on Investment (SROI) analysis	0.9	10.9	8.2	12.0

Source: Chapman and Fred Robinson (2013) *The Crystal Ball*, Northern Rock Foundation Third Sector Trends Study

Some TSOs resist or grudgingly accept that they must assess the impact of what they do. Others readily cooperate, especially so when an organisation was established with, or evolved a mission to deliver public services under contract. But even here, there are worries about the best way to assess impact. This is not surprising because there are a many research organisations, universities and think tanks offering a range of methods to help TSOs show the value of their work.⁸⁸ These range from ‘quick fixes’ which apply more or less flattering multipliers to the value of the income invested by clients, to extremely complex, time-consuming and expensive methodologies to assess the social return on investment.⁸⁹

Discussion of the benefits of competing methodologies can be set aside in order to address more fundamental questions about where assessment of impact is

⁸⁸ See Chapman et al (2012) *Ibid*.

⁸⁹ As noted in Evidence Box 4 most TSOs do not yet put a high priority on assessing the impact of what they do and many express reluctance to do so: see Chapman, Bell and Robinson (2012) *Measuring Impact: easy to say, hard to do*. Available at: <http://www.nr-foundation.org.uk/resources/third-sector-trends>.

important. It is recommended that such debates focus on three levels. The first two levels are relatively unproblematic where a wealth of experience in successful application has already been garnered. What is required, therefore, is to widen the appreciation of such practices and encourage other organisations to develop their work accordingly.

- **Impact of service delivery.** This area of impact measurement is the most advanced because for many years contractors have stipulated how they wish progress to be monitored. Often these approaches to measurement focus primarily on the outputs and outcomes of services. Providing that the objectives under scrutiny are measurable and that there is reasonable scope for objectives actually to be realised then impact assessment is viable.
- **Impact on change.** This area of impact measurement is more contentious, and can be complex and expensive as it usually addresses questions surrounding identifiable improvements in the lives or behaviours of targeted beneficiaries or transformational changes to communities. Transformational change is often wished for but rarely achieved. Sometimes failure is due to the generation of unreasonably ambitious objectives which could not be achieved apart from in exceptional cases.⁹⁰ Sometimes overall failure in achieving objectives is caused by unintended consequences of the intervention.⁹¹
- **Social and community impact.** Assessment may involve thinking of new ways to recognise, articulate and communicate (rather than to 'measure') the benefit of investment in TSO activity (and particularly from those small, local organisations that are mainly run by volunteers) which helps to hold communities together by contributing to productive inter-generational relationships, strengthening community trust, tolerance and cohesion. Investment in such work, which may not be particularly costly financially for individual groups or organisations, will continue to require support from time to time from the local authority through small grants or from other organisations such as local community foundations or national grant giving foundations. The point is to find ways of explaining the cumulative benefit of such work, whether it is continuously practiced or involves ephemeral events, especially in less advantaged communities.⁹²

⁹⁰ For example, interventions to improve the situation of socially excluded young people often set measurement targets for success which are beyond their reach, such as 5 GCSEs at grades A-C rather than concentrating on developmental and attitudinal improvements such as attending school or college voluntarily and reliably, engaging in classroom activities and identifying realistic routes into further training or employment (See Chapman, et al. (2011) *Raising Aspirations, Recognising Achievements and Realising Potential: providing non-formal learning to excluded young people: Final evaluation report of the YSDF Youth Achievement Foundation Pathfinder*, Middlesbrough: Third Sector Development Unit, Social Futures Institute.

⁹¹ For example, in neighbourhood renewal programmes there is strong investment in raising aspirations and finding pathways into new opportunities. Often the most capable and resilient residents with the strongest asset base are most able to capitalise on such opportunities and as a consequence leave the area, producing a net local deficit in impact in evaluation terms as less capable, resilient and asset rich people move into the community.

⁹² Ideas for the evaluation of such investment are currently being developed as part of the ILG funded research currently taking place in Northumberland and County Durham and will be reported upon towards the end of October 2013 .

Summary

Keeping things simple is not always easy when the pressure rises on local authorities to achieve more for less money. It is tempting to generate expectations on what can be achieved that are, perhaps, over ambitious. Often these high expectations are encouraged by people in the third sector who make quite big claims about their potential to achieve a great deal.

But what people say about their ambitions, does not always match that closely with the hard realities when the available resources are shorter than everyone would like. In the conclusion, we look again at the interactions between the promise of what the third sector could achieve (in an ideal world) and the realities of what can happen if such claims are taken too literally.

6 Conclusions and implications

For local authorities, working with the third sector is often complicated and can be challenging economically, politically and even emotionally. Third Sector Organisations (TSOs) work within the realm of civil society. As such, they are independent organisations which are able to define their own social objectives and determine their approach to practice. More than this, TSOs often want to influence or shape the priorities of local government and can seek to do so through formal consultation processes or by direct lobbying and campaigning.

The third sector rarely speaks with one voice. This is because individual TSOs come in many shapes and sizes and have diverse interests. Inevitably, the eagerness of TSOs to achieve great things for their chosen beneficiaries produces a competitive social marketplace where the demand for resources generally outstrips its supply. There are many sources of income and support available to TSOs locally and nationally. But often, it is the local authority that TSOs look to first for support. In the current climate of considerable economic restraint on local authorities, this can put pressure on the relationships between local authority officers and the leaders of TSOs.

But it is not a one-way relationship. Local authorities increasingly look to the third sector to help them define priorities and subsequently to deliver services to meet local needs. However, as large organisations with significant statutory obligations and a political mandate to make decisions about local priorities and strategies to tackle them, local authorities often want to organise things their own way.

This can result in local authority officers devising structures and processes to marshal the energy and resources of the third sector in ways that complement their own activity. More often than not, such interventions result in significant investment in third sector development – which may be welcomed by some TSOs but not others. Indeed, investment in structures and processes almost inevitably produce constraints which may exclude, alienate and annoy some people in the third sector and provoke complaint.

It's never going to be a perfect world. Public sector and third sector interests and priorities will always differ to some extent and so there will always be some areas of tension. Taking a step back to look at the relationships between the public sector and third sector, as we have done over the last few years – we have come to the conclusion that, actually, most relationships are generally quite straightforward and productive. Whilst at the same time, we recognise that, ironically, it is the (much more rare) difficult experiences that get most of the attention and consequently shape the terrain.

The overarching remedy that we propose is to keep things simple. But that can't happen until some of the complexity is stripped away. We try to do this by drawing upon research evidence and understanding gained from working with third sector organisations and public sector bodies for many years.

What's in a word?

Most interactions between the third sector and public sector are relatively straight forward and work pretty well. Most problems that do arise can be and *are* resolved quickly and easily because established relationships have been nurtured, on both sides, to produce a good measure of trust and reciprocity.

Senior officers and executives probably never get to hear about how issues are resolved in these circumstances. But they do hear about the isolated incidents that have the potential to cause political damage.

An understandable reaction is to try to build in mechanisms to stop such incidents happening in the future. But we do not think it is necessary to develop complex mechanisms to solve all problems if few of them cause any real damage. And further, the issues that do rise to the surface quickly will, like as not, do so anyway.

This is because the people who want to be heard have a tendency to plough through (or navigate around) procedural safety barriers with comparative ease by organising a demonstration, going to the press, talking to the MP or taking whatever other route that will get them what they feel they want.

Keeping things simple can only be achieved if it is recognised that there are, inevitably, going to be hot-spots – most of which will centre on issues surrounding money. But using language carefully and precisely will help overcome quite a few hurdles.

To illustrate the point, Figure 6.1 illustrates how the things people in the third sector often say about themselves can be translated into demands for action by local authorities.

Figure 6.1 What do people in the local authority often hear from people in the third sector?	What do people in local authorities ask for on the basis of their understanding of third sector strengths?	Complaints that are commonly heard from TSOs when they feel that formal relationships with the public sector have not lived up to their expectations
<i>"We're innovative, can add value and can make a real difference."</i>	<i>"We want you to show how you can deliver this service in an innovative way where you add value and achieve transformational change."</i>	<i>"We had to claim that we were innovative to win the bid, but in reality what we usually do is already effective – and so we stuck with that." "The local authority wouldn't pay our management costs because we said we could provide added value – but we didn't mean work for less money."</i>
<i>"We can reach the parts of the community you can't easily reach."</i>	<i>"We want you to reach the most socially excluded people in the contract."</i>	<i>"We've worked with some people in this programme who we've carried over from other projects, the people the local authority wanted to reach can't be helped with this level of funding – the work is too intense and too expensive – although we did our best."</i>
<i>"We're close to our communities and can draw upon volunteers to help us with our work."</i>	<i>"We'll not pay you at private sector market rates because you can draw upon volunteers to help you do your work."</i>	<i>"We want a level playing field with the private sector – we can't use volunteers to do this kind of professional work – the local authority needs fully to pay our overheads if they want the job done properly."</i>
<i>"We're not overly bureaucratic, we're flexible."</i>	<i>"We'll fund this for three years, but will review it annually."</i>	<i>"The local authority changed the terms of the contract at the end of the first year; we know they're under financial pressure too, but we can't increase the outputs as they've requested for the same money just because we said we operate flexibly."</i>
<i>"We believe in flat structures and can work well in partnership."</i>	<i>"To make it worthwhile, we want you to work in a consortium so that the service is scaled up."</i>	<i>"We feel like the local authority forced us into a partnership because they didn't give us time in the bidding process to do due diligence on the other organisations involved – and we can't keep on covering for the failings of our partners who weren't fully capable or interested in doing this work."</i>
<i>"We're socially enterprising and can have a lasting impact on society."</i>	<i>"We want you to show how this project will be sustained after we've stopped funding it so that it has a lasting impact on society."</i>	<i>"How can you ask us to make the programme sustainable once the contract finishes! We can't keep the work going unless we get another contract or grant for the full value of the work."</i>

What people in the third sector say about the strengths of their sector as a whole may not always fit closely with what they can do in their own organisation. And while organisations may well bid for a contract, as defined along the lines given in the middle panel of Figure 6.1, it does not mean that the outcome of the work is guaranteed if expectations were over ambitious or unreasonable.

And if things do not run altogether smoothly, it can be a cause for complaint. Common complaints are listed in the right hand column of Figure 6.1. Many of these complaints are quite reasonable from a third sector point of view and it is not uncommon to hear the same or similar arguments made. There is, nevertheless, good evidence to show that TSOs generally feel that they are valued by the public sector – as shown in Figure 6.2.

Figure 6.2

How are public sector attitudes towards TSOs

perceived by in NE and Cumbria (TSOs with income above £50,000 a year)

	2010	2012
They understand the nature and role of your organisation	74%	73%
They respect your organisation's independence	78%	70%
They inform your organisation on issues which affect you or are of interest to you	55%	58%
They involve your organisation appropriately in developing and implementing policy on issues which affect you	44%	42%
They act upon your organisation's opinions and/ or responses to consultation	41%	42%

Interaction with the third sector

Only about 45% of the income of TSOs comes from the public purse (including government departments and agencies). So, local authorities should not feel that they are responsible for the economic wellbeing of the third sector as a whole. Local authorities need to consider carefully the nature and quality of their relationship with the third sector. And in particular we ask local authorities to do so while recognising that, for the most part, interactions between the two sectors work quite well.

A good way of considering where things are going well (and identifying where problems are likely to emerge) is to separate, analytically, different aspects of local authority contact with the third sector. Figure 6.3 presents this diagrammatically. The purpose of the diagram is not necessarily to show where the bulk of local authority time and money is discharged to the third sector, but to explain its purpose:

- Where the local authority pays TSOs to deliver services (it is '**buying**' these services).
- Where the local authority is '**investing**' in 'third sector development or in communities with money or in-kind support.
- Where a local authority earns money from the third sector by '**selling**' space, goods and services.
- Where the local authority *chooses not to* engage with TSO activities ('**passing**').

The boundaries between these four quartiles are not impermeable. It is possible for example, for a local authority to be investing in communities *and* investing in organisational development whilst *also* buying services from a TSO.

Figure 6.3 Public sector and third sector interactions	Areas of strategic and statutory commitment	Areas where financial commitment is not made
What does the local authority need to do?	BUYING	SELLING
What does the local authority want to do?	INVESTING	PASSING

The diagram also indicates that the choices local authorities make about buying, selling, investing and passing are not entirely under their own control. Choices are limited by the available resources and can be constrained by statutory obligations.

Similarly, lines can be drawn between those activities which the local authority feels that it *needs to do* (some of which are constrained by statutory requirements or the need to raise income) and those which it *wants to do* (that is, it chooses to invest in some activities but not in others).

- **Buying:** when the local authority chooses to purchase services from TSOs (such as social care, accommodation for homeless people, advice and guidance, and so on). For the most part, the contractual arrangements surrounding such activity work reasonably well – although there can be some problems associated with the processes surrounding commissioning and the cessation of activity. This is the area of activity where the vast majority of financial transactions between the sectors take place.
- **Selling:** when the local authority offers accommodation, facilities or services to the third sector. Such relationships also generally work well, providing that everyone is clear about the terms and arrangements (such as when the local authority chooses to rent property at a price which is below the market rate because they see some other advantage in doing so – such as *investing* in community wellbeing). This is an area of activity that is rarely commented upon and involves only limited financial transaction – but analytically it is important to recognise this aspect of inter-sector relationships.
- **Investing:** when the local authority chooses to invest in third sector activity. There are three types of investment:
 - Investment in sector representation, support and intelligence (usually through a local infrastructure organisation such as a CVS).
 - Investment in organisational development so that TSOs build their capability to do work for the council or other public sector bodies.
 - Investment in community wellbeing, cohesion and sustainability through the distribution of, for example, support or small grants to small local organisations and groups.

These forms of investment can work well, but only if everyone is clear about the purpose of investment, the processes surrounding the allocation of such investment, and how the benefits of that investment are to be understood (but not necessarily measured).

- **Passing:** local authorities are constrained by statutory obligations to deliver certain services but also have a legitimate democratic mandate to invest in areas of activity which are considered to be important. As resources are finite, it is inevitable that difficult choices have to be made. This means that calls for investment in some activities which may be offered by the third sector will be rejected.

Choices about when to buy, sell, invest or pass can produce discord. It has to be accepted, in short, that relationships with the third sector will never be entirely smooth and that time and energy will always be devoted to handling difficult situations. So it is important to communicate decisions clearly and in a consistent way to maximise clarity about purpose and procedure even if some people do not agree with decisions.

Be careful about what you wish for

The development of a good relationship with the third sector depends to a large extent on local authorities making realistic appraisals of what can be achieved by the third sector. Fault lines can appear if local authorities demand more from TSOs than can realistically be achieved. Here are some examples:

- If local authorities make demands for TSOs to work in partnership without necessarily giving them time to establish them, or create situations when it is unrealistic to expect organisations with different interests to work together.
- If local authorities expect or ask that TSOs produce 'added value' when they work on contracts (but when similar requests are not made to private sector service providers).
- If assumptions are made that TSOs can do things more cheaply because they draw upon the time of volunteers – and especially so in areas of provision where volunteers are insufficiently committed, skilled or available to do the work.
- If local authorities ask TSOs to work with 'hard-to-reach' groups but do not allocate sufficient funds to meet the substantive extra costs of helping people who are more socially excluded.
- If local authorities ask TSOs to achieve 'transformational change' in the lives of individuals or communities when this is just not possible.
- If local authorities ask TSOs to evidence the impact of their work when there is insufficient resource to do so, or worse, when the demonstration of impact is simply not possible within the context of the work being undertaken.

Local authorities can sometimes have unrealistic expectations about how to build good relationships with the third sector. The following have been identified:

- When expectations about sector intelligence are too ambitious to be achieved at a local level. Sector intelligence is generally of limited quality for a number of reasons – but most particularly because the third sector does not work within the boundaries of a single local authority – and especially so in the case of larger TSOs which have the capability to deliver public services by contract.

- When demands are made to hear 'one voice' which represents the interests of the third sector or to have 'one door' to access the third sector. Neither of these demands can be met when the third sector is diverse in its interests, is internally competitive in resource terms, and when the organisations which form the sector have a wide range of characteristics.

It is not surprising that members of the public sector sometimes interpret diversity in the third sector as 'disorganisation' and especially so if they want to make sense of the third sector as a coherent entity with a clearly worked model of its structure, functions, interactions and boundaries as they believe it 'ought' to be. We take a firm position on this issue and say that such models are simply not realistic.

Investing in sector development

In developmental terms, local authorities often have ambitions to shape the interests and capabilities of TSOs. And to be fair, local authorities often recognise that significant investment may need to be put in to achieve such objectives. Problems arise when the ambitions of local authorities cannot easily be realised because there is insufficient interest within the third sector to achieve them. Here are some examples:

- If local authorities have high expectations about increasing the number of TSOs which can develop the capability to deliver services by contract. In this research, we show that only about 15% of TSOs are already in or have a serious interest in entering this arena of work.
- If local authorities want to encourage smaller TSOs to 'scale up' their activities. In this research we show that to scale up activity, TSOs may be expected to work in partnership – but interest in such activity is relatively limited.
- If local authorities have high expectations about TSOs accepting responsibility for the risks associated with, for example, engaging with payment-by-results programmes. Having the economic capacity to do such work may require TSOs to borrow money, but interest in such opportunities at the present time remains quite limited.

While it is recognised that many local authorities are willing to invest substantial resources in sector development, the benefits gained from such investment can be quite limited. For example, that when supply-driven capability development programmes of sector development are adopted – much resource is likely to be wasted on TSOs which are not 'serious' about change.

We have argued that attention to limits on the level of interest or capability of involvement in contract working must not, therefore, be neglected in public sector strategies for service delivery which seek to engage the third sector. Instead of supply led investment, we propose that demand led investment is the best way forward and that this investment should be directed towards bespoke support for TSOs with particular developmental interests in mind.

Before such demand is met, however, we have strongly advised that 'stress tests' of organisational commitment are devised. We propose this to ensure that TSOs are *serious* about change and willing to invest their own resources in that journey and be open to scrutiny as to whether the investment has made a long-term difference to their practices and effectiveness.

Figure 6.4

TSO interest in delivering service by public sector contracts

- Most medium and large TSOs are aware of contract opportunities, but many TSOs say such work is not relevant to their mission (39% of medium sized and 25% of larger TSOs in Cumbria and North East England; 26% medium sized and 11% larger TSOs in Yorkshire and the Humber).
- Many medium sized and larger TSOs say that they perceive barriers to involvement, that they need support, or need more information – but it is by no means certain that they would engage in such work if these perceived restrictions were tackled.
- Larger TSOs are by far the most likely to be engaged in contract working now: 30% in Cumbria and North East England and 41% in Yorkshire and the Humber. But relatively few medium sized TSOs are (just 8% in Cumbria and North East England and 14% in Yorkshire and the Humber).
- A sizeable proportion of larger TSOs in Cumbria and North East England (16%) and Yorkshire and the Humber 19% are bidding for contracts but have not yet been successful. It would seem likely that this is the group of TSOs most able to benefit from investment in their capability

We offer one caveat about demand-led capability development. We have observed that TSOs tend to prioritise forms of training and support which is directed towards income generation. The urgency TSOs often feel to get money to do their work is understood and we are sympathetic towards that.

But an emphasis on ‘bringing the money in’ does not actually resolve deeper organisational governance problems that require urgent attention. With this in mind, it is clear that demand-led training, if taken literally by investors, could potentially lead to calls for support for the *wrong* areas of capability development.

Keeping things simple

Keeping things simple comes more easily when local authorities take a step back and look at the big picture. This allows people to pull away, momentarily at least, from pressing issues that can take up so much time, resource and emotional energy. By doing so it is possible to recognise that:

- The occurrence of big problems is quite rare – in general things work quite well and where they do not, remedies are usually at hand.
- Some problems can be alleviated quite easily, although the underlying issues might not go away completely.
- Some problems will arise simply because people in the public sector and third sector do not share the same understanding of key terms.

Taking a step back from the day-to-day working relationships between the public sector and third sector is not always easy. But using wide-ranging evidence helps to provide some social distance from which generalisations can be drawn. Here, we offer some headline observations on what we think local authorities need to think about.

What we say is not prescriptive in strategic and procedural terms – that’s what you know about and need to decide. But we do have some quite strong statements to make about fundamental ideas that we think should underpin policy and practice.

■ ***Get to know about the structure and dynamics of the third sector***

The current regional evidence base on third sector structure and dynamics is strong in the North East and in Yorkshire and the Humber (although it may continue to need to be updated from time to time). A good understanding has been reached about how TSOs are funded and how they are faring in response to social, economic and political change.

There is clear evidence on the likely proportions of TSOs which will engage with different kinds of activities and practice in particular ways. Local authority level intelligence on third sector activity is generally quite weak – partly because of the expense and lack of experience of TSOs tasked with the job of collecting such data which can be used comparably with other areas.

It is important to recognise that an over emphasis on the locality can be misleading as the bigger TSOs which engage with local authorities’ agendas tend to work across local authority boundaries. Many such TSOs are federally associated with or branches of national organisations which have worked in the region for many years.

■ ***Don’t assume that TSOs will get behind your agendas.***

Many local authorities are keen to find ways of hearing clear and consistent views from the third sector about its interest, its capability and its willingness to get behind local authority (or other public sector bodies’) agendas.

As the third sector is diverse in its values, interests, practices and organisational forms, people in the third sector struggle to (or refuse to) speak with one voice.

What they are bound together by is a commonly accepted set of ideas of how they differ from the way people operate in the public sector, private sector or private life (such as those private societies or clubs which serve their own interests rather than those of wider civil society).

So don’t try, in other words, to shape the third sector in an image of your choosing. Because the third sector operates in the realm of civil society, they are free to do things their own way and have strong opinions on what the top priorities are for the people for whom they work. Some organisations and groups may well want to get behind your agendas (within limits). But most won’t.

■ ***If you hope to buy services from TSOs (but think you may need to help develop their capability first) be sure that they are serious about doing this work.***

When you are thinking about investing in the ‘capability’ or ‘capacity’ of the third sector to do the kind of work you need done – investment needs to be very focused on those organisations which can demonstrate that they are serious about the work.

It is not a question of 'identifying' and investing in the kinds of organisations which *might* get behind your agendas but concentrating on those which can now or are close to the position where they can.

All too often in the past, TSOs which received capacity building or capability building grants find that nobody asked them to demonstrate how, in the long term, this investment improved their practices. So it is unclear whether the money was used wisely or not.

Similarly, it is not generally known whether the suppliers of capacity or capability building support made contact with the right kinds of TSOs or whether their interventions actually made difference or not.

If TSOs are serious, they will submit themselves to 'stress tests' to assure you that they have the right organisational mind set to develop or even change the way they do things. And as a requirement of investment, they will need to be prepared to show (and be 'interested' in finding out about) what the longer term impacts of that investment have been.

Don't invest in the capacity or capability of organisations to deliver services and contracts if you have a different purpose in mind. If you want to invest in aspects of community wellbeing more generally, through small grants, asset transfer, or organisational support be clear about the purposes you want this investment to serve and recognise that the way of measuring success is likely to be very different from service delivery contracts.

■ ***Involving the third sector in strategic thinking and commissioning can be advantageous if the right approach is taken.***

The right approach is to think carefully about which organisations or groups are included or *excluded* at the appropriate phases of the commissioning cycle.

- If you are seeking understanding about the needs and priorities of communities – many TSOs may need to be involved.
- When discussing the technicalities of achieving the objectives of interventions, those organisations with more specialist knowledge may need to be included.
- When procurement processes begin, some organisations may need to be excluded from procedural discussion if it is obvious that their involvement in such deliberation may benefit them in some way.
- At the point of contracting, some organisations might justifiably be excluded in a filtering process prior to a full tender submission if it is evident that they don't have the capability to deliver.

Operating in an inclusive way is good when appropriate, but counter-productive when it is not.

■ ***Communicate with the third sector in a timely way about strategic priorities that may affect them***

If there is a possibility that contracts may be let, it is better to flag them up (without making firm promises) so that individual or groups of TSOs can start to plan how they might work together to tackle such a contract successfully.

When the third sector is given too little time to prepare, especially if partnership working is required, it can produce complaint and often poor quality tenders. If partnerships are weak at the outset, the chances of them achieving objectives when tenders are won are reduced.

It is not, however, your responsibility to broker partnerships or build trust and confidence amongst TSOs: this is their responsibility – but they can do that more effectively if they can anticipate possible opportunities.

■ ***Clearly communicate what you want when developing investment strategies***

Most interactions between the third sector and the public sector are positive and produce good results. So when difficulties do arise, which they will, don't allow such issues to affect attitudes and shape policies for the third sector as a whole.

Most local authorities have a reasonably current Compact – but reference to such agreements are rarely made except in the last resort.

Refreshing compacts can be a useful objective, but only if done so on the basis of a clear recognition and understanding of what works well now, what could realistically be improved, and what issues can't be tackled successfully and you have to learn to live with them.

■ ***When framing the objectives of contracts or grants - be clear about what the impact could be***

Recognise that maintaining social wellbeing through ***small investments*** in TSOs can produce a great deal of benefit for communities and strengthen the social glue without necessarily achieving radical change. Contributing to social wellbeing in the community is a valuable outcome which is hard to measure when it is there, but easy to measure when it's gone!

Know when '***transformational change***' is possible and when it isn't. Usually TSOs are paid to provide worthwhile services for people that help them, their families and communities to get on with their lives reasonably successfully. Changing behaviours in a fundamental way is a big ask – so be careful before you do ask for that.

If you demand that TSOs offer '***innovative approaches***', ask yourself first why that might be of benefit. Often, innovation is unnecessary – it's getting the job done well, based on understanding, experience and established and skilful practices that counts. The best forms of innovation often arise from the way that a group of organisations bring more benefit through their collective (but often relatively autonomous) efforts - rather than from discrete aspects of innovative practice.

Don't devise unreasonable or unachievable clauses. For example, don't ask TSOs to explain how their project or service can become '***sustainable***' after your grant or contract has ended if there is little or no prospect of that being possible. Make demands for TSOs to achieve '***match funding***' judiciously and only when it is known that it is feasible.

If you use terms like '***added value***', ask yourselves whether this is possible, reasonable or measurable. In other words, don't ask people to do things they can't be expected to achieve with the resources they have to hand, or worse, to

do things that can't be achieved at all. If you do, it is a recipe for disappointment all round. It's a misnomer to think that volunteers can always fill the gap when resources are tight in TSOs. Sometimes volunteers *consume* more resource than they produce. And there are some tasks that volunteers won't do or can't do because they lack the motivation or expertise.

If you want TSOs to achieve specific objectives with the most ***socially excluded*** members of the community, it must be recognised that the marginal costs are significantly higher than for people who are ready to achieve the objectives you have set. If objectives are unrealistic and unachievable then contracts are fundamentally flawed. Just because TSOs say they are close to their communities it does not mean that they can reach, engage and help people that your organisation (or a private sector organisation) cannot do much for with the same resources at hand.

■ ***Be clear about the decisions you make on things you don't want to lend support to.***

Less than half of the financial resources in the third sector come from the public purse (and quite a lot less than that from local authorities). So you are neither fully responsible for the maintenance of the whole sector nor the full range of beneficiaries it seeks to serve.

Communicate what the purposes of your strategic investments are at the outset and be sure to distinguish between different types of investment. Make the process of assessing applications clear and stick to the rules firmly. Make sure that the outcomes of investment programmes are communicated widely and fully so that everyone knows where they stand – even if they are disappointed by the outcome.

Make it clear that you do not intend to invest in certain activities but make some provision to signpost TSOs to other sources of income which may be available to them. This does not necessarily mean that the research and intelligence underpinning the signposting of other funding bodies needs always to happen at the local level – there are many useful sources of such information available elsewhere. But it may be the case that some support needs to be given to those organisations that do not know how to go about the process of applying for such funds.

Keeping it simple could be easier than you'd expect

The above advice on how to work effectively with the third sector is offered with the best intentions. We hope that what we say will help people in local authorities (and the public sector more widely) to think carefully about what they want to achieve when working with the third sector.

We have tried hard not to offer advice that simply can't be acted upon – but instead have worked out some ways of thinking about relationships that we hope will chime with aspects of current experience.

Keeping things simple would be easier if it was entirely up to local authority officers to get on with the job. But of course that can't happen either. Political factors will come into play which will affect plans. Sometimes this will be due to the decisions made at a national or local level.

Occasionally the impetus for political change may come from pressures exerted by the third sector itself. But such pressures need to be kept in proportion – the day to day practices of working successfully with the third sector will not change that dramatically in response to most political interventions.

Radically changing the way organisations do things in local authorities doesn't always come easily or quickly – especially if it involves changing the way that people think. But actually, most of what we have said is about the way that people think and act now – it's just that this thinking sometimes gets clouded or moved aside by immediate pressures or problems. So keeping things simple could be easier than might be expected.

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Notes

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