

Keeping it simple

how to work effectively with the third sector

*A discussion paper and evidence review
for local authorities*

SUMMARY REPORT

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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.

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***, interrelated, but separate research projects between 2011-2014 on third sector and public sector relationships for Northumberland County Council, Durham County Council, Stockton Borough Council together with a study for all North East Councils on the role of place-based budgeting (previously known as Total Place).
- 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 ***Involve Yorkshire & Humber Third Sector Trends study*** (YH TST). This study was carried out in 2013, funded by Joseph Rowntree Foundation and Involve Yorkshire & Humber which involved an online survey with 1000 organisations.
- For ***One North East***, the former Regional Development Agency, a study of public sector and TSO relationships in Tees Valley was undertaken in 2008.
- For ***Garfield Weston Foundation***. A study in 2013-14 of 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.

In addition to these studies which were undertaken by the present authors, two further sources of data were drawn upon in this research 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.
- **National Council for Voluntary Organisations (NCVO) Almanac 2013** data collected from Charity Commission sources are analysed annually by NCVO at a national level.

What is the third sector?

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.

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. 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 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.

Organisational diversity in the third sector is recognised and largely accepted as a fundamental characteristic of

the third sector by its members. By definition, this makes it difficult to reach collective agreement about those characteristics of the sector that unify it. There is, in short, 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 study shows that the third sector cannot be conceptualised as some kind of jigsaw where the component parts of the sector fit together. Instead, relationships within the third sector are generally fluid, shallow and ephemeral.
- Secondly, 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.

Members of the third sector often share views on why they are different from people in other sectors:

- Difference 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.
- Difference 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 their 'independence' allows them to challenge inequalities and campaign for groups in a way that the public sector does not.
- Members of the third sector claim that they do 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 third sector 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. People in TSOs may continue to work independently from each other, in other words, but feel

part of a sector which is something different and something special.

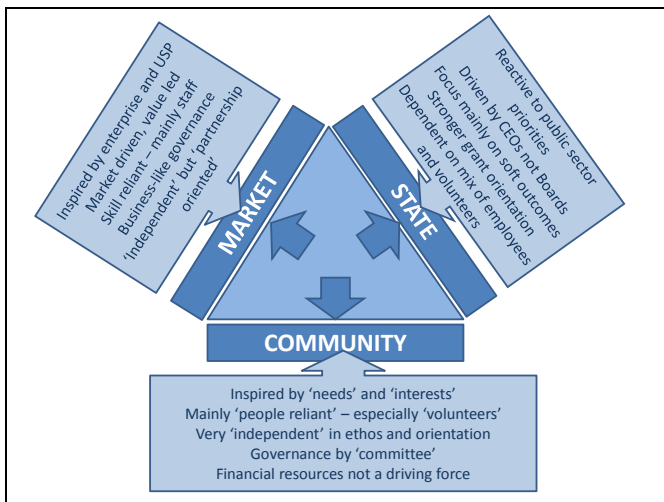
Just because these views are broadly shared, does not mean that the third sector is free from intense disagreements about purpose and competition over resources.

There are also discernible differences in ethos amongst TSOs which shapes their interest in, for example, engaging with local authority agendas.

Three broad categories of TSO ethos have been identified in the Third Sector Trends studies:

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.

Figure 1 **Organisational ethos in the third sector**



- **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’. But many TSOs which operate with a market driven ethos do not like the term social enterprise.

How is the third sector financed?

The local authority (and the public sector more broadly defined) is often a major source of income for the third sector in the locality. But it is not the main source of income for the sector. TSOs garner income from a wide range of sources.

NCVO regional data for Yorkshire, North East England and North West England show the extent of dependence of TSOs on different sources of income.

- **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.
- **Income from the public sector** is significant, ranging from 44% in Yorkshire and the Humber to 47% in North East England.
- **Income from the voluntary sector** amounts to between 7-9% (usually through voluntary sector foundations).
- **Investment income** is limited to between 3-6% of total income and is earned mainly by larger TSOs.

Most TSOs depend on a wide range of income sources such as those listed above, together with in-kind support from businesses, the public sector and people in the community.

The indications are, from NCVO, that sector-wide income levels have not fallen dramatically over the last few years – although there is some evidence of downward pressure on sector income due to declining public sector spending.

In the North East and Cumbria in 2012, 22% of TSOs said that their income had fallen over the preceding two years, compared with 13% who said that in 2010. However, most have continued to report that their income has been stable: in 2012, 70% said their income had been stable in the previous two years, compared with 71% in 2012.

Using stable or rising income as a measure of the success of individual TSOs is not appropriate. Most TSOs have to learn to live with widely fluctuating income – and often, falling income does not indicate a failing organisation (as they may have planned well for the end of contracts or grants).

What do local authorities and TSOs expect from each other?

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.

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'.

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,

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.

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.

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 2 illustrates how the things people in the third sector often say about themselves can be translated into demands for action by local authorities.

Figure 2 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?
We’re innovative, can add value and can make a real difference.	We want you to show how you can deliver this service in an innovative way where you add value and achieve transformational change.
We can reach the parts of the community you can’t easily reach.	We want you to reach the most socially excluded people in the contract.
We’re close to our communities and can draw upon volunteers to help us with our work.	We’ll not pay you at private sector market rates because you can draw upon volunteers to help you do your work.
We’re not overly bureaucratic, we’re flexible.	We’ll fund this for three years, but will review it annually.
We believe in flat structures and can work well in partnership.	To make it worthwhile, we want you to work in a consortium so that the service is scaled up.
We’re socially enterprising and can have a lasting impact on society.	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

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 on the right hand side of the above box, 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. Here are some common complaints that match with each of the above demands:

- *“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” and/or “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.”*

- *“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.”*
- *“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.”*
- *“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.”*
- *“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.”*
- *“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.”*

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 good evidence, nevertheless, to show that TSOs generally feel that they are valued by the public sector – as shown in Figure 3.

Figure 3 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 carefully consider 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 4 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 4 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 12-16% 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, 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 5

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.

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.

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 involves changing the way that people think. But actually, most of what we have said is about the way



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