

voluntary sector strategic analysis

2006/07

an overview of the operating environment and
strategic drivers for UK voluntary organisations

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www.ncvo-vol.org.uk/3s4

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Foreword

This is the fourth edition of NCVO's *Voluntary sector strategic analysis*, an overview of the operating environment for voluntary organisations.

We are experiencing a time of great change and we need to understand and react to it if we are to retain what is special and unique about our organisations and the way they work. The voluntary and community sector has grown dramatically over the last 15 years; the number of general charities has increased from 98,000 organisations in 1991 to 169,000 in 2004. The sector's visibility has risen, and government rhetoric now places us at the heart of policy-making and change. Expectations of what the sector can achieve are higher than ever, which makes it even more important to think strategically about what we do and how we do it.

With the help of Foresight Network members, and our colleagues at the Centre for Charity Effectiveness and the Performance Hub, we have developed new approaches to Foresight, which focus on building a bridge between the information that we provide and the strategic decisions that our readers take. As a result, this edition includes a pull-out tool that can be used to stimulate strategic conversations within organisations.

In the next nine months, with the support of the Vodafone UK Foundation and the Calouste Gulbenkian Foundation, we will launch a new Third Sector Foresight website, which will include a searchable database of drivers and trends as well as comment and discussion facilities. We will also publish a scenario planning tool and four short reports on the impact of ICT on voluntary action, and continue to run our popular seminar series.

We look forward to hearing from those who would like to engage further with Third Sector Foresight.



Stuart Etherington
Chief Executive, NCVO
June 2006

To find out more about Third Sector Foresight, or to
join the free Foresight Network, please visit
www.ncvo-vol.org.uk/3s4

Introduction

Welcome to the fourth edition of *Voluntary sector strategic analysis*.

We aim to provide you with information about the changing operating environment for the voluntary and community sector, and analysis about the potential implications of external drivers and trends. We also aim to help you make the bridge between this information and your organisation's strategic decisions.

The publication has evolved over its four editions. This fourth iteration brings together the key drivers and trends discussed in previous editions as well as discussing new developments, and signposts some of the latest relevant reports from inside and outside our sector. This edition has a new approach to discussing the strategic implications of drivers and trends; we have called these sections 'Moving forward'.

The discussion is divided into four broad themes to reflect the different functions and roles of the sector:

- Providing voice and building a better society
- Delivering services
- Leading and managing voluntary and community organisations
- Supporting and funding voluntary action

You may find it useful to read the analysis from cover to cover, but it has been written to allow you to dip in and out of it at any point and to 'pick and mix' the themes that seem most relevant or interesting to you. To help you do this, each theme opens with a summary page – 'At a glance'. And to help you locate further information and analysis on areas of particular interest to you, each theme closes with a page of 'Further reading', which includes the sources we have used.

A final chapter, 'Implications for the future of the VCS', pulls together some of the overarching trends and considers what they mean for the future of the voluntary and community sector.

So what? Now what? – The centrefold tool

Making the most of the *Strategic analysis* depends on relating it to your own organisation. The pull-out tool in the centre of the publication can help you to do just that. You can use this tool with your staff, management team or board to stimulate a strategic conversation about the future of your organisation. Some fictional examples of how to use the tool to make sense of the information and analysis in the main publication can be found in 'Strategic responses: four representative organisations'.

The following questions may help when thinking about the implications for your organisation:

Are we doing things right?

Add depth to this publication by making the analysis specific to your organisation and considering the implications for you. This will form part of your regular strategic thinking and planning process.

Are we doing the right things?

Add breadth to this publication by using it to challenge your organisation's activities. Are they still appropriate and effective? This will form part of a less frequent strategic thinking and planning process, taking place perhaps every three to five years.

We hope that you find this publication both interesting and useful. We want to hear your thoughts so that we can continue to improve this publication as well as our other outputs. Please complete the enclosed evaluation form or contact us.

A note on abbreviations:

*Throughout this publication **VCO** is used as shorthand for voluntary and community organisation. **VCS** is used as shorthand for voluntary and community sector.*

1. Providing voice and building a better society

At a glance

What is happening?

- Local government reform – the Lyons Inquiry (into the future role and function of Local Government) and a White Paper expected in Summer 2006
- Government interest in devolving power to the neighbourhood level – ‘double devolution’
- New conversations – increasing public engagement in decision-making
- Falling engagement in formal politics and the rise of single issues
- The emergence of a ‘participation industry’ – growing understanding of the benefits and challenges of public engagement
- The challenge of ‘managing diversity’ – multiple identities and allegiances blurring boundaries between different groups and communities
- The negative impact of social exclusion (marginalisation, polarisation) on social cohesion
- Decreasing tolerance of social deviance

Opportunities



- The increasing role of the media in influencing policy, and the diversity of new media channels
- New governance spaces, new conversations and new tools to support consultation and citizen engagement
- Government interest in neighbourhood governance and recognition of VCOs as the voice of communities
- Better understanding of the skills and capacity needed to encourage greater participation

Risks



- Single issue politics resulting in a lack of bridging, mediation and strategic overview
- Conflict and poor understanding of the roles and skills of elected and other local representatives
- High expectations of what the VCS can achieve in terms of increasing citizen engagement
- Local government in flux following reform

1.1 Politics and politics

In recent years, the UK and other established democracies have experienced falling public engagement in formal politics. Voter turnout has fallen dramatically since 1997 (though it rose slightly in the 2005 general election) and trust in political parties is just 14% (trust in government is 33% and trust in parliament is 37%).¹ The majority of the population doubt the effectiveness of their involvement in politics (only 33% believe that 'getting involved works' and only 34% think the present system of governance works well).² Differences between the main UK political parties are blurring as they compete for the centre ground. The government is now largely judged on the effective management of public services, perhaps because of the current absence of significant economic concerns (i.e. unemployment and inflation). It is perhaps unsurprising then that membership of political parties is at a historic low, traditional partisan affiliations are falling and support for extreme groups is rising.

If people are not involved emotionally in the politics of making public services work, they will just demand ever more and the ballot box becomes the customer complaints desk.

Polly Toynbee, quoted in Citizen-consumers

Responses to this 'democratic deficit' have included attempts to make it easier to vote (e.g. postal ballots and electronic voting) and proposals for constitutional reform. There is consensus that democratic renewal requires a greater engagement of the public in decision-making. This could result in a range of initiatives from increased use of consultations and referenda, to deliberative co-governance or direct governance innovations. Much of this public engagement is taking place in new governance spaces 'at a distance' from the State. The VCS is ideally suited to facilitating and generating these spaces, and for developing innovative ways of including the public in decision making which go beyond consultation to a true dialogue.

All the signs indicate that we will see increasing innovation in this area [new kinds of conversation], even though it remains unclear which forms work best in terms of delivering good decisions and making people feel engaged. There will also be competition between governments, parties, the media and NGOs as to who is best placed to hold such conversations.

Post party politics: can participation reconnect people and government?

Although voter turnout and levels of trust are falling, the public is not apathetic. Non-electoral participation is increasing or stable (e.g. signing petitions and taking part in demonstrations) and single-issue campaigns are becoming increasingly powerful. The media are playing an increasing role in not only reporting but also creating and leading these campaigns (e.g. the Daily Mail campaign for a referendum on the EU constitution, which ended in the paper holding its own referendum). New media technologies and citizen journalism are allowing more voices to be heard, and making it easier to build a brand, or raise the profile of an issue, cheaply and quickly. Single-issue politics present obvious opportunities for VCOs to mobilise people and influence policy. However, although single-issue politics creates strong bonding between people involved in campaigns, there is also a need for bridging and mediation between groups.

Moving forward

- The growing power of the media and the diversity of new media offer new opportunities to get your message across. Is it time to review your communication strategy?
- The trend towards a more participative and consultative democracy is opening up new governance spaces and 'new conversations'. What is your role in these spaces? Can you facilitate a dialogue (more than simply a consultation) between your users and policy makers?

¹ Eurobarometer survey series

² An Audit of Political Engagement 3

1.2 Participation and local governance

The government is planning to publish a White Paper on local government in the summer of 2006 and, as part of this, proposes a National Neighbourhoods Framework. This would be the foundation for local neighbourhood charters, which would recognise the ability of people, individuals and particular groups to take neighbourhood action. It is likely to be shaped by former Local Government Minister David Miliband's ideas of 'double devolution' – devolving "power from Whitehall to the Town Hall, and from the Town Hall to citizens and local communities".

The agenda to reform local government provides opportunities for the sector. However, it also brings to the foreground tensions between elected, co-opted and other representatives. Elected councillors may not always see the growing emphasis on participation as a step towards reducing the democratic deficit and may question the legitimacy of VCOs in representing communities. Given this, VCOs will need to be clear about the extent to which they have involved their users and members in shaping their views.

This agenda raises expectations of greater participation and citizen engagement – and success will depend partly on an improved understanding by both local government and the local VCS of each other's roles and capabilities (including the relative power and resources of each). Partnerships are considered the way forward, but the proliferation of governance structures and initiatives may create the following problems:

- *Strained human resources, with the same people trying to wear 'too many hats'*
- *Lack of 'joined-up' local strategies*
- *Confusion as to the appropriate role for local government in terms of leadership*
- *Opaque and confusing local governance structure at a time when public trust is at its lowest*

Mapping governance at the local level

The realisation that participation requires a deep cultural change as well as specific skills is driving the emergence of a 'participation industry' in which VCOs can play an important role, particularly those with community development experience.³ One of the most challenging aspects of this agenda is widening the demand for participation beyond those often referred to as 'the usual suspects'. Removing barriers to participation and increasing the ways in which individuals can be supported and given the skills and confidence to participate will depend on resources, commitment and political will over time. Nevertheless, initiatives may face problems if they fail to understand ultimately what makes people tick – why, when and how they want to participate.

Moving forward

- How can your organisation benefit from government interest in neighbourhoods? Can you develop structures that are accountable right down to the neighbourhood level and what are the resource implications of this? If you are a regional or national organisation, can you develop partnerships with smaller local VCOs?
- Are you able to demonstrate to local elected representatives the many ways in which you consult and involve your users? It may be time to review and strengthen your internal governance structures or to attempt to involve a more diverse range of people, perhaps through working in partnership with other VCOs.

³ People and participation: How to put citizens at the heart of decision making

1.3 Social exclusion and social cohesion

Despite the increased wealth of some sections of society and a growing preoccupation with well-being and happiness, social exclusion and poverty are still widespread in the UK. The role of the VCS in addressing inequality, giving voice to marginalised communities and groups, and providing activities that contribute to a cohesive and inclusive society is as essential as ever.

Britain is becoming increasingly culturally diverse through processes of globalisation and international migration. Managing diversity is now considered by many commentators to be one of the central challenges of the 21st century. The failure to recognise cultural diversity and develop policies that encourage the respect of differences could lead to a dangerous rise in 'identity politics', which polarise people and reinforces feelings of "them and us".⁴ Yet, multiple identities and allegiances are increasingly blurring boundaries between different groups and communities. Policies and practices focusing on diversity and difference without taking into account the complex and fluid nature of this reality, may unintentionally increase exclusion and fragmentation.

It is common to think about identity as a zero sum game; if you have more of one identity, you have less of another. Identity is somehow imagined like a square box with a fixed size.

Cultural liberty in today's diverse world: UNDP's human development report

Social cohesion depends partly on this tricky balance between diversity and unity, and on valuing the differences between people as well as the common bonds. Although diversity is often spoken about today in relation to ethnicity and faith, it is hard to separate from the wider social justice and equality debate. The risk of tensions and conflict is thought to be higher if those who are keen to have their identities acknowledged by wider society also suffer discrimination and marginalisation from social, economic and political opportunities.

Despite increased spending on social security and tax credits, the government has struggled to reduce the number of people living on less than 60% of median income – the official benchmark of poverty. Income inequality has now reached a level similar to when Labour first came to power, after an initial rise between 1996/97 and 2001/02.⁵ And although child poverty is at its lowest since the late 1980s, the government has failed to meet its 2005 target.

⁴ Cultural liberty in today's diverse world: UNDP's human development report 2004

⁵ Poverty and inequality in Britain 2006

A selection of poverty and social exclusion indicators

Indicator	Trends over time	
	Over the medium term (last five years or so)	Over latest year of available data
Income		
Numbers in low income	Improved	Improved
Long-term recipients of out-of-work benefits	Steady	Steady
Children		
In low-income households	Improved	Improved
Underage pregnancies	Steady	Steady
School exclusions	Worsened	Worsened
Young adults		
Without a basic qualification	Steady	Steady
Working-age adults aged 25+		
Low income and work	Worsened	Mixed
Low income and disability	Steady	Steady
Workless households	Steady	Steady
Pensioners		
In low-income households	Improved	Improved
Communities		
Polarisation of low income	Improved	Improved
Homelessness	Worsened	Improved

Source: Monitoring poverty and social exclusion in the UK 2005

A sense of safety is considered integral to the strengthening of social cohesion. Tackling anti-social behaviour has become a priority with the government's Respect agenda, but whether the controversial ASBO (anti-social behaviour order) approach has any positive effect on the transmission of social norms and controls remains to be demonstrated. There are real concerns that it is contributing to the criminalisation and marginalisation of young people, especially those living in deprived areas, and that it is used disproportionately against groups that already experience discrimination (e.g. Black and minority ethnic groups and those with mental health problems). Anti-social behaviour strategies need to find a balance between enforcement and prevention, and more care is required in defining what anti-social behaviour is and in determining limits on the use of civil law remedies.⁶

⁶ Anti-social behaviour strategies: finding a balance



Moving forward

- VCOs focus on their own users but it is also important to consider the broader social impacts of an organisation's activities. What is your relationship with other groups and communities? Could this be improved? There is a continued need for open forums and cross-community initiatives; can your organisation play a role in these?
- The VCS plays an essential role in campaigning for a fairer and better society. What is the balance in your activities between delivering services to meet a need and campaigning for social change? Is this the right balance?

Further reading

Politics and politics

- Eurobarometer (updated quarterly) http://europa.eu.int/comm/public_opinion/
- *An audit of political engagement 3* (The Electoral Commission and the Hansard Society, 2006) www.hansardsociety.org.uk/assets/Audit_of_Political_Engagement_3.pdf
- *Power to the people. The report of power: an independent inquiry into Britain's democracy* (Power Inquiry, 2006) www.powerinquiry.org/report/index.php
- *Beyond the ballot: 57 Democratic innovations from around the world* (Power Inquiry, 2005) www.powerinquiry.org/publications/documents/BeyondtheBallot_000.pdf
- *Post party politics: can participation reconnect people and government?* (Involve, 2006) www.involving.org/mt/archives/blog_37/Involve%20Post%20Party%20Politics%20.pdf
- IPSOS MORI Political monitor (updated monthly) www.mori.com/index-news.phtml
- *MPs and politics in our time* (Dod's Parliamentary Communications, 2005) www.hansardsociety.org.uk/assets/MPsandpolitics.pdf
- 'Is there a crisis of political participation?' in *British Social Attitudes: the 20th report. Continuity and change over two decades* (National Centre for Social Research, Sage, 2003) www.natcen.ac.uk/natcen/pages/or_socialattitudes.htm
- *Manufacturing dissent: Single-issue protest, the public and the press* (Demos, 2005) www.demos.co.uk/catalogue/manufacturingdissentbook/
- *Citizen-consumers* (Catalyst, 2003) www.catalystforum.org.uk/pubs/pub10.html

Participation and local governance

- *Mapping governance at the local level* (Joseph Rowntree Foundation, 2005) www.jrf.org.uk/bookshop/eBooks/1859350598.pdf
- *People and participation: How to put citizens at the heart of decision making* (Involve, 2005) www.involving.org/mt/archives/blog_13/People%20and%20Participation%20final.pdf
- *Civil renewal and active citizenship: a guide to the debate* (NCVO, 2005) www.ncvo-vol.org.uk/?id=1512
- *Whose town is it anyway?* (University of Liverpool for Joseph Rowntree Foundation, 2006) www.jrct.org.uk/documents.asp?section=00010006&lib=00030002

Social exclusion and social cohesion

- *Cultural liberty in today's diverse world, UNDP's human development report 2004* (United Nations Development Programme, 2004) http://hdr.undp.org/reports/view_reports.cfm?type=1
- *Going places: neighbourhood, ethnicity and social mobility* (Institute for Public Policy Research, 2006) www.ippr.org.uk/ecomms/files/Going_Places_introduction.pdf
- *Immigration, social cohesion and social capital. What are the links?* (Joseph Rowntree Foundation, 2006) www.jrf.org.uk/bookshop/eBooks/9781899354440.pdf
- *Faith as social capital. Connecting or dividing?* (Joseph Rowntree Foundation, 2006) www.jrf.org.uk/bookshop/eBooks/9781861348388.pdf
- *Poverty and inequality in Britain 2006* (Institute for Fiscal Studies, 2006) www.ifs.org.uk/comms/comm101.pdf
- *Anti-social behaviour strategies: finding a balance* (Joseph Rowntree Foundation, 2005) www.jrf.org.uk/knowledge/findings/housing/pdf/0305.pdf
- *Monitoring poverty and social exclusion in the UK 2005* (Joseph Rowntree Foundation, 2005) www.jrf.org.uk/knowledge/findings/socialpolicy/pdf/0665.pdf

2. Delivering services

At a glance

What is happening?

- Blurring and shifting boundaries between the VCS, the State and the market
- Increasingly complex needs – people are harder to categorise and reach
- Rising user expectations and assertiveness
- Statutory funding of the VCS at its highest ever level
- Public spending under pressure, and expected cuts in the 2007 Comprehensive Spending Review
- Increasing emphasis on evidence of value for money and efficiency
- Slow improvements in procurement practice

Opportunities



- A deeper and broader market for public service delivery
- Interest in user voice and involvement puts the VCS at a competitive advantage
- The social enterprise model is generating social innovation
- Improvements (albeit slow) in procurement practice and initiatives to support the VCS in negotiating with commissioners

Risks

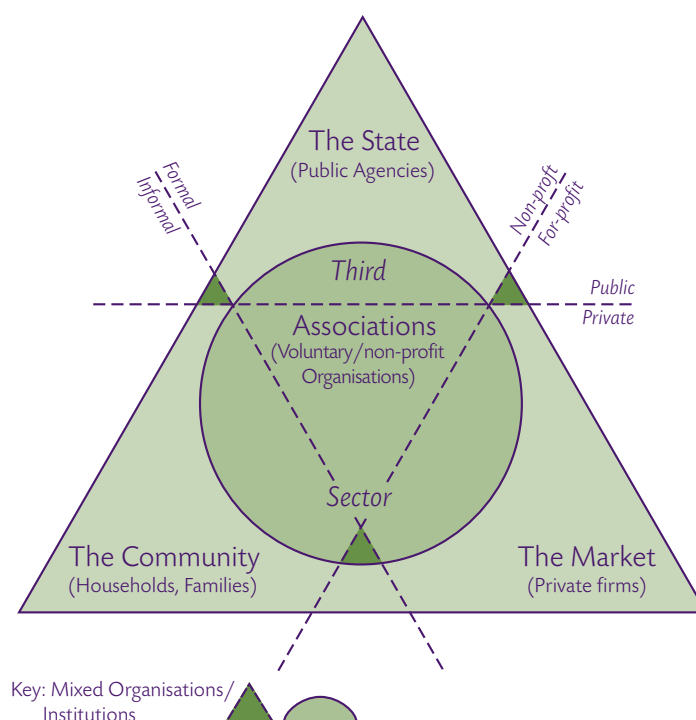


- Increased user expectations become harder to meet and to manage
- Blurring boundaries between the sectors could lead to poor public understanding and loss of trust
- Fewer, but better, contracts leading to further polarisation in the sector between large and small organisations
- A focus on public service delivery to the detriment of the sector's other roles and functions
- Four key risks associated with public service delivery (loss of trust, loss of independence, isomorphism, and mission drift)

2.1 Blurring boundaries

The boundaries between the VCS, the State and the market are shifting and blurring. The market for public service delivery has broadened and deepened, and many services traditionally run by the State (e.g. leisure services) are being transferred to the VCS. At the same time, an emphasis on earned income and sustainability is leading to a growth in social enterprise organisations and activity. Interest in the social and environmental impact of businesses is also growing. As sector boundaries shift and blur, the space available for the VCS changes, as is shown in the diagram below.

The state, the market, the community and the third sector



Source: **The third sector in Europe**

Loyalty to a particular provider is probably a thing of the past. People are less concerned about who they receive a service from (and which sector they belong to) – and more concerned by the service they receive. As services become widely available and are reproduced by multiple suppliers, providers are finding that they must change their value proposition (the added value they offer their customers) in order to differentiate themselves.

As they come to terms with new market and customer demands, companies are fundamentally rethinking where and how they add value. Changing the value proposition – defined...as the unique added-value an organization offers customers through their operations – is the area of the business model that executives say will undergo the biggest change over the next three years.

Rethinking the business model

The risks of increased VCS delivery of public services are now well rehearsed and debated: loss of trust, whether caused by perceived mismanagement or poor delivery, or a mismatch between public understanding of the charity brand and the reality of modern charitable activities; loss of independence as a result of reliance on public sector funding; becoming more like the public sector organisations that traditionally delivered a service (known as isomorphism), whether through increased bureaucracy or rapid growth; and 'mission drift' as a result of funder-imposed outputs or outcomes.

In an era of growing mistrust in many public institutions, there is still at least the perception of higher levels of trust in the VCS. Indeed trust is crucial if the sector is seen as a vehicle for people's participation in civil society. Trust, however, is hard to regain once lost, and any erosion will have long-lasting repercussions...the clear danger is that closer relationships with the State will undermine levels of trust. As VCOs become more professional, a tension may grow between 'doing good' in an ethical sense and 'doing well' in an organisational sense.

The voluntary sector delivering public services: transfer or transformation?

Moving forward

- As boundaries between the sectors blur, the VCS becomes even more complex and diverse. How well do your users, donors and the general public understand your organisation? What steps can you take to mitigate the risk of 'bad news stories' that could damage your reputation (e.g. on fundraising costs or practices, or salary levels)?
- A broader and deeper market for public service delivery presents opportunities for VCOs to obtain funding to deliver their mission. Yet there are also risks (discussed above). Consulting, campaigning and continuing to shape services, as well as delivering them on behalf of the State, could help your organisation to remain distinctive and retain public trust and support.

2.2 User needs and expectations

The needs of individuals are forever evolving. Improved life expectancy, changing household structures and greater ethnic diversity are leading to more complex needs, which service providers are having to take into account. Greater mobility and volatility are also making individuals harder to categorise, reach and ultimately satisfy. As consumers, individuals have increasingly high expectations of the services they use both in terms of quality and choice. As citizens, they are becoming more assertive in voicing their concerns and defending their rights (the February 2006 Herceptin court case is just one example of this).

Government policies on choice continue to develop, offering opportunities for VCOs to obtain funding to deliver services. However, choice is not always possible or relevant, and can at worst reproduce or reinforce inequalities.

Put simply, choice is the power to make decisions. However [...] this simple concept and its implications for individual empowerment appear to have been lost in the heat of the debate on choice and the market.

A mature policy on choice

There is a role for VCOs in providing advice and helping citizens to negotiate the wide range of choices available. Government policies also emphasise the importance of 'voice', as evidenced in policies for personalisation of services and user empowerment, and a growing recognition of user-run and user-controlled services – "a new 'fifth' sector".⁷ Whether people are prepared to do more than just provide information on their needs and expectations, or feedback on the services they have used, remains to be seen. The government is currently considering proposals for league tables, based on user experience, that compare public services (including those provided by private and VCS suppliers).

⁷ 'Fifth element will help to form the future'

Moving forward

- The needs of individuals are forever evolving. Do you feel confident that your organisation fully understands your users and their needs? Do you capture learning and knowledge from your front line staff? What role do your users have in feeding into your future strategy?
- There is increasing interest in user involvement in services. This presents opportunities for the VCS, which is regarded as responsive and representative. However, other sectors are getting better at listening to and involving their users/customers. How can your organisation demonstrate your experience and expertise in this area, and retain your competitive advantage?

2.3 Funding

Although public finances are expected to improve slightly (growth is predicted to rise from 2.3% in 2006 to 3% in 2008), public spending will face increasing pressure. The 2007 Comprehensive Spending Review is expected to be very tight with any increases in public spending targeted at core areas such as health and education. The future could see centrally-set tariffs for given interventions (which would override full cost recovery). The forthcoming Third Sector Review, led by the Treasury, could lead to significant changes in the organisation of public services.

Public spending is still supporting the economy, but this impetus will not survive next year's Spending Review. The Treasury faces real political constraints on tax and borrowing which will curtail the growth in spending from 2008-09 onwards.

ITEM club spring 2006 forecast

The VCS now derives 38% of its funding from statutory sources, compared with 35% from individuals.⁸ Therefore, any reduction in public spending could have a significant impact on the sector. As public spending comes under pressure, efficiency and value for money will be increasingly important. This will mean that procurement processes that favour larger contracts and therefore organisations that can provide economies of scale are likely to continue, despite policies that emphasise the importance of supporting local voluntary action. Large charities delivering local services have been accused of damaging smaller local organisations and contributing to an increasingly polarised sector (0.2% of general charities now generate 38.9% of the sector's income).⁹ But the realisation that both large and small VCOs can benefit from collaboration could lead to more joint working.

Value for money for taxpayers should always be a key concern for regulators. This will increase in the future – in part as a consequence of the implications of the Gershon Review, but more broadly because tax-payers wish to see demonstrable and significant progress in services for the extra money being put in. Furthermore, as significant real increases year-on-year in public services budgets are replaced by lower growth, there will be constant and unremitting pressure to deliver more and better from the existing resources.

The future of public services regulation: an IPPR discussion paper

The government plans to devolve more power to local authorities and neighbourhoods (see section 1.2). However, there is still a tension between centralisation and local responsiveness. Funding at a local level could improve with the rolling out of Local Area Agreements (LAAs). The government intends to pool a further 26 funding streams into LAAs from 2007 (including the Neighbourhood Renewal Fund) and has consolidated targets linked to separate funding streams. However, the pooling of funding streams risks making it harder for VCOs to voice their concerns.

⁸ UK voluntary sector almanac 2006

⁹ UK voluntary sector almanac 2006

Procurement practice is slowly improving. Reports from the National Audit Office (NAO) and the Public Accounts Committee have had significant impacts on government rhetoric, though implementation on the ground is still patchy. There is better understanding of the different types of support available (grants, contracts, loans, advice and support etc.) and improved implementation of full cost recovery. The outcome will be fewer but more sustainable recipients of funding. A number of new sector initiatives are developing the skills of VCOs to negotiate contracts.

In the context of increased public service delivery by the sector, there is growing interest in the role of independent funders in funding services that are not currently provided by the State, especially innovative services that are perceived to carry a greater risk. There is particular interest in social enterprises as innovators.

Moving forward

- Implementation of full cost recovery is still not consistent. Whether to deliver services below cost is clearly a strategic choice for each organisation. However, could your organisation play a role in improving commissioning practice? There are a number of sector initiatives to help you build your negotiation skills and confidence: for example, the ACEVO full cost recovery template; NCVO's terms of engagement for public service delivery; and the new network for people working in the VCS with responsibility for negotiating and managing public service contracts.¹⁰
- It is expected that future pressures on public finances will lead to a reduction in spending on public services. What strategies can your organisation put in place now to manage a future reduction in funding? Can you further diversify your income sources or work in partnership with other organisations? Being clearer about your proposition and what you offer commissioners could put you at a competitive advantage. You may wish to revisit your strategic positioning – whether to stay small and cover niche markets, or go for high volume and economies of scale.

See section 4 for further discussion of funding issues.

¹⁰ NCVO terms of engagement - www.ncvo-vol.org.uk/policy/index.asp?id=1429, Public Service Delivery Network – www.ncvo-vol.org.uk/?id=2390, ACEVO – www.acevo.org.uk.

Further reading

Blurring boundaries

- *When social issues become strategic* (McKinsey, 2006)
www.mckinseyquarterly.com/article_page.aspx?ar=1763&L2=21&L3=114&srId=246
(Registration required)
- *UK voluntary sector almanac 2006* (NCVO, 2006)
www.ncvo-vol.org.uk/research/index.asp?id=2380&fID=158
- *The voluntary sector delivering public services: transfer or transformation?* (Joseph Rowntree Foundation, 2005) www.jrf.org.uk/bookshop/details.asp?pubID=712
- *Rethinking the business model* (Risk Advisory Services for KPMG, 2006)
www.kpmg.co.uk/master/pubs.cfm

User needs and expectations

- *'Fifth element will help to form the future'* (Society Guardian, 15 February 2006)
<http://society.guardian.co.uk/secondopinion/story/0,,1709643,00.html>
- *A mature policy on choice* (Institute for Public Policy Research, 2005)
www.ippr.org.uk/publicationsandreports/publication.asp?id=322
- *Equitable choices for health* (Institute for Public Policy Research, 2005)
www.ippr.org.uk/publicationsandreports/publication.asp?id=321
- *User power* (National Consumer Council, 2004) www.ncc.org.uk/publicservices/user_power.pdf
- *Citizen-consumers* (Catalyst, 2003) www.catalystforum.org.uk/pubs/pub10.html

Funding

- *UK voluntary sector almanac 2006* (NCVO, 2006)
www.ncvo-vol.org.uk/research/index.asp?id=2380&fID=158
- *Outlook for the public finances after the 2005 election: Third Sector Foresight seminar report* (Edited transcript of a talk by Carl Emmerson, Deputy Director of the Institute for Fiscal Studies for NCVO, 2005) www.ncvo-vol.org.uk/3sf/index.asp?id=2265&fID=187
- *ITEM club forecast: Economic outlook for business* (Ernst & Young, updated quarterly)
www.ey.com/GLOBAL/content.nsf/UK/Economic_Outlook
- *'Contract culture threatens community groups, research finds'* (Bassac press release, 5 February 2006) www.bassac.org.uk/images/news/bassac%20Release.pdf
- *The future of public services regulation: an IPPR discussion paper* (Institute for Public Policy Research, 2005) www.ippr.org.uk/publicationsandreports/publication.asp?id=333
- *Working with the third sector* (National Audit Office on behalf of the Home Office, HC75, TSO, 2005) www.nao.org.uk/publications/nao_reports/05-06/050675.pdf
- *Working with the voluntary sector* (Public Accounts Committee, HC717, TSO, 2006)
www.publications.parliament.uk/pa/cm200506/cmselect/cmpublicacc/717/717.pdf
- *A discussion paper on risk and good grantmaking* (Big Lottery Fund, Issue 17, 2005)
www.nof.org.uk/documents/live/7283p__er_risk_good_grant.pdf
- *1 + 1 = 3: does size really matter?* (NCVO, 2005)
www.ncvo-vol.org.uk/collaborativeworkingunit/index.asp?id=1286
- *National organisations with local groups* (NCVO, 2006)
www.ncvo-vol.org.uk/collaborativeworkingunit/information/?id=2051

3. Leading and managing voluntary and community organisations

At a glance

What is happening?

- Low public and institutional tolerance of risk
- Continuing competition for skilled staff
- An increase in part-time staff in the VCS
- 'Professionalisation' and 'consumerisation' of volunteering
- Increasing transparency and new mechanisms for accountability
- Growing pressure from funders to demonstrating added value and/or value for money

Opportunities



- Recommendations from the Better Regulation Commission could improve regulation for VCOs
- Increased transparency and better demonstration of impact should lead to better funding
- Importance of organisational values for employees can bring new people into the VCS
- More staff will move between sectors looking for new challenges and experiences

Risks



- Increasing costs leading to a reduction in services and activities
- Performance indicators that are not adapted or appropriate, and fail to capture VCOs' added value
- Growing competition for volunteers and trustees leading to recruitment difficulties
- Risk aversion stifles innovation and the recruitment of volunteers

3.1 Complexity, risk and regulation

The expansion of the VCS presents a range of management challenges, particularly for smaller organisations going through periods of growth. As the VCS is a labour-intensive sector, growth in cash resources inevitably leads to employment growth. This often incurs additional regulatory burdens and risks associated with being an employer (e.g. health and safety and employment regulations). The White Paper on pension reform will almost certainly result in higher salary costs for VCOs. Implementation of the principles of full cost recovery will be essential to protect organisations against the risks associated with these additional running costs. This will require funders to recognise that VCOs incur a range of costs as employers (including pensions, training, recruitment and maternity/paternity benefits). The costs of running a business (e.g. energy costs) are also rising and present a financial risk.

The prices paid by domestic customers for all fuel and light rose by 11.1 % in real terms between 2004 and 2005. DTI quarterly energy prices (March 2006)

The shift in VCS funding from grants to service level agreements and contracts has increased complexity for financial managers, who are themselves often responsible for other roles. These additional roles involve not only applying technical skills and knowledge, but also partnership working, influencing and negotiation skills. Taking on public service delivery contracts has changed the nature of regulation for many VCOs, from 'relatively simple questions of probity to more complex questions of performance'.¹¹ Increasing numbers of VCOs are now monitored by regulators other than the Charity Commission, with some organisations spending up to 25% of their time managing requests from these other regulators.¹²

At the same time, public and institutional tolerance of risk has fallen. The result has been increased regulation, rising insurance costs and, often, the stifling of innovative practices. Organisations have reported falling volunteer levels as a result of risk aversion and perceptions of a 'litigation society'.¹³ However, recommendations from the Better Regulation Commission (known as the Better Regulation Task Force from 1997-2005) have the potential to improve regulation for VCOs.

"Risk" as a term has become ubiquitous over the last ten years and it now has so many meanings that it has become almost meaningless. Conventionally, risk is the product of a degree of probability and a degree of consequence. It began as a precise statistical concept but has increasingly turned into a synonym for hazard or danger, linked to a politicised approach to blame... Organisations and institutions avoid blame in three ways:

- 1. Agency strategies – delegate responsibility to other institutions*
- 2. Presentational strategies – present your organisation in a favourable light*
- 3. Policy strategies – start with policies that are least likely to get you into trouble in the first place*

Changing regulation and perceptions of risk: Third Sector Foresight seminar report

Moving forward

- Rising operating and employment costs will make it even more important that you fully understand your costs, and negotiate with your funders to meet full costs of your work (see also section 2.3).
- What strategies can you put in place to manage risk without stifling innovation? Can you help others (e.g. your funders or your volunteers) to increase their appetite for risk by clearly communicating the risks, but also the benefits, of the work that you do?

¹¹ The impact of regulation on voluntary organisations

¹² Better regulation for civil society

¹³ Reasonable care? Risk, risk management and volunteering in England - Results of surveys of organisations and individuals

3.2 Human resources

The paid workforce of the VCS has grown by almost 10% since 2000, but competition in the labour market remains strong and this is especially the case for skilled employees. This is unlikely to change in the immediate future, even though the labour market is not as buoyant as it used to be with indicators of unemployment and joblessness recently on the rise. Despite average earnings for VCS employees increasing at a higher rate (5.2%) than both the average earnings index (4%) and the retail price index (2.9%), attracting and retaining employees with the right skill set is still a challenge. Labour turnover has increased quite significantly (from 10.5% to 14.8% between 2004 and 2005) and the sector has experienced one of the highest resignations rates in recent years.¹⁴ The prevalence of temporary contracts in the sector, due to short-term funding arrangements, is a likely contributing factor.

<i>Permanent and temporary employment by sector, 2004 (%)</i>				
	Private sector	Public sector	Voluntary sector	Total
Permanent	95.3	92.1	88.0	94.3
Temporary	4.7	7.9	12.0	5.7
Total	100.0	100.0	100.0	100.0

Source: UK voluntary sector almanac 2006

The large and increasing proportion of employees working part-time is another key feature of the sector's workforce. Both part-time working and temporary contracts will continue to have implications for the management of human resources in terms of organisational and individual development. VCOs will need to ensure that practices allow for effective knowledge management and improved sustainability, and provide employees with potential promotion and training prospects.

<i>Voluntary sector workforce, by employment status, 1995-2004 (%)</i>			
	1995	2000	2004
Full-time	63.8	62.7	62.0
Part-time	36.2	37.3	38.0
Total	100.0	100.0	100.0

Source: UK voluntary sector almanac 2006

Investment in training and career development are playing an increasingly important role in staff retention in all sectors. Also important are work-life balance policies and the ability to put organisational values into practice, both of which place VCOs in a relatively good position.¹⁵

Employees switching to the VCS are often motivated by a better work-life balance and the desire to experience a sense of purpose at work, which the growing trend in downshifting so clearly exemplifies. This will continue to occur, especially if the ageing workforce is expected to work longer. However, increasingly employees will switch between sectors because of the blurring of sector boundaries, increased professionalisation and overlapping skill sets. This will involve people, who want to gain experience elsewhere, coming into the sector as well as leaving it.

¹⁴ 17th annual voluntary sector salary survey

¹⁵ The Roffey Park management agenda 2006

Employees will become more discriminating when choosing their employer and will look for congruence between organisational value statements and policies and practices, especially with regard to work-life balance for instance.

The Roffey Park management agenda 2006

Similarly, volunteers are increasingly motivated by experiential development and personal fulfilment. Their expectations will rise in terms of quality and choice, reflecting common trends associated with consumerism. Personalised or customised volunteering opportunities may be the way forward, but long-term commitment to a particular organisation will be increasingly difficult to harness. As a result, recruiting trustees (both in terms of numbers and diversity) will remain a challenge for many VCOs. Further professionalisation of volunteer management along the lines of fundraising is likely.¹⁶ Recruiting volunteers may become an even greater challenge because of increasing competition from the public sector. There are, for instance, currently almost 100 different volunteering roles across the NHS and 200,000 volunteers work in the 572 NHS Trusts in England.

I liken the situation we're in at the moment to one that fundraising people were in a few years ago, where fundraisers were a necessary evil in order to bring money into the organisation but nobody really invested a lot of time or effort in equipping those people with the skills to do it more effectively, and the same is true now, I think, of volunteering.

Rob Jackson, Volunteering England, quoted in The 21st century volunteer: a report on the changing face of volunteering in the 21st century

Moving forward

- Investment in training and career development are playing an increasingly important role in staff retention. What training and career development opportunities can you provide for your staff? These could include less expensive options such as shadowing or mentoring.
- As competition for skilled staff continues, can you attract staff from other sectors by emphasising the flexible working opportunities, work-life balance, and strong organisational values that your organisation provides?
- How can your organisation respond to competition for volunteers? Should you invest in volunteer recruitment and management?

3.3 Value and accountability

The image and reputation of an organisation is increasingly dependent on its ability to demonstrate its value and impact. Fears that trust in charities is declining, driven partly by public reaction to some fundraising practices, have led to increasing transparency and new mechanisms for accountability. These include GuideStar UK (launched in January 2006, and with its future secured for at least another year), charityfacts.org, and an online database of Summary Information Returns (February 2006).¹⁷ Self-regulation of fundraising (now the Fundraising Standards Board) will be launched in Spring 2006 whilst the ImpACT coalition continues its campaign to increase transparency about fundraising practices.¹⁸

¹⁶ The 21st century volunteer: a report on the changing face of volunteering in the 21st century

¹⁷ www.guidestar.org.uk, www.charityfacts.org, Summary Information Return database – www.charitycommission.gov.uk/registeredcharities/SIRs.asp

¹⁸ Fundraising Standards Board – www.institute-of-fundraising.org.uk/self_reg.html, ImpACT coalition – www.ncvo-vol.org.uk/impACT/index.asp?id=1148

The wealth of information now available online is empowering citizens and increasing transparency leading, in turn, to new reputational risks. New media technologies, citizen journalism and 'blogging' are allowing more voices to be heard, and making it easier to build a brand cheaply and quickly. It is now more difficult for organisations to control a single message, however, and citizens may increasingly place greater trust in institutions that are perceived to let go of control and allow a diversity of voices to be heard.

The growth of the sector (169,000 general charities in 2004, compared to 98,000 in 1991) and its increasing involvement in public service delivery has made it more visible. As boundaries between public, voluntary and private sectors blur (see section 2.1), public understanding of, and trust in, the voluntary sector are being tested. This places increasing pressure on organisations to communicate the reality of modern charitable activities and on the Charity Commission to maintain public trust in the charity brand through effective regulation of the principle of public benefit (following a Charities Act, expected in late 2006).

Trusts and foundations are becoming increasingly engaged in the organisations that they fund and are becoming more strategic with their funding (see section 4.3), requiring more and better evidence of the outcomes or impact of their funding.

Funders have realised that publishing long lists of the activities they have funded tells them nothing about whether the ambitions that had led them to provide the funding had been met. This understandable frustration at the lack of data or measurement has led on too many occasions to the imposition of funder dictated monitoring and evaluation systems which can be both clumsily inappropriate and resented. It is far better for a funder to recognise that clarity of purpose and outcomes – and systems for keeping tabs on progress and adjusting plans to take account of learning – are all about good management.

Blended value and social investment: Third Sector Foresight seminar report

The efficiency of public services is also under the spotlight and the sector will need to continue making a case for, and provide evidence of, the added value and impact of its work. Regulation of public services is leading to more reliance on performance indicators. Both the National Audit Office and the Audit Commission are increasingly interested in the activities of VCOs and the quality and robustness of data will become crucial. The Office for National Statistics is re-examining how the efficiency and productivity of public services are measured, including a major review of how to measure the impact of public services delivered by the VCS.

Moving forward

- There is growing pressure from funders to demonstrate the added value and/or value for money that VCOs provide. Do you have good systems in place to measure your impact, and the financial and social value you create?
- Are you exploiting information portals such as Guidestar, and new media/ICT tools to promote your message and communicate with your current, and potential future, stakeholders?

Further reading

Complexity, risk and regulation

- *A pensions crisis? The implications of the Pensions Commission report for the voluntary and community sector*: Third Sector Foresight seminar report (NCVO, 2006)
www.ncvo-vol.org.uk/3s4pensionsreport
- *DTI quarterly energy prices* (Department of Trade and Industry, updated quarterly)
www.dti.gov.uk/energy/statistics/stats-publications/quarterly-energy-prices/index.html
- *The impact of regulation on voluntary organisations* (NCVO, 2004)
www.ncvo-vol.org.uk/policy/index.asp?id=1281
- *Better regulation for civil society* (Better Regulation Taskforce, 2005)
www.brc.gov.uk/downloads/pdf/betregforcivil.pdf
- *Reasonable care? Risk, risk management and volunteering in England – Results of surveys of organisations and individuals* (Volunteering England, 2005)
www.volunteering.org.uk/aboutus/volunteeringandriskmanagement/publications.htm
- *Changing regulation and perceptions of risk: Third Sector Foresight seminar report* (NCVO, 2005)
www.ncvo-vol.org.uk/regulationandrisk
- ESRC Centre for Analysis of Risk and Regulation www.lse.ac.uk/collections/CARR/

Human resources

- The 2005 citizenship survey (Home Office, 2006)
www.homeoffice.gov.uk/rds/citizensurvey.html
- 'The paid workforce of the UK voluntary sector' in *UK voluntary sector almanac 2006* (NCVO, 2006) www.ncvo-vol.org.uk/research
- 'Volunteers and trustees' in *UK voluntary sector almanac 2006* (NCVO, 2006)
www.ncvo-vol.org.uk/research
- The Roffey Park management agenda 2006 (Roffey Park Institute, 2006)
www.roffeypark.com/research/managementagenda.html
- *The 21st century volunteer: a report on the changing face of volunteering in the 21st century* (nfpSynergy, 2005) www.nfpsynergy.net/freereports/ (registration required)
- *17th annual voluntary sector salary survey* (CELRE, 2006) www.celre.co.uk

Value and accountability

- *Blended value and social investment*: Third Sector Foresight seminar report (NCVO, 2006)
www.ncvo-vol.org.uk/3s4events#blended
- Interview with US GuideStar founder, Buzz Schmidt (Alliance Extra, 2006)
www.allavida.org/alliance/axapr06b.html
- *Voluntary sector added value: a discussion paper* (NCVO, 2003)
www.ncvo-vol.org.uk/policy/index.asp?id=1372
- *Measuring impact – a guide to resources* (NCVO, 2002)
www.ncvo-vol.org.uk/research/index.asp?id=1198
- *Measuring impact – Case studies of impact assessment in small and medium-sized voluntary organisations* (NCVO, 2003)
www.ncvo-vol.org.uk/research/index.asp?id=1280

4. Supporting and funding voluntary action

At a glance

What is happening?

- High levels of political support for the VCS, combined with a period of uncertainty and change
- New government initiatives to promote volunteering, but a tension between volunteering as a way of delivering services, and encouraging volunteering as a participative activity
- Increasing information in the public sphere about the activities and impact of VCOs
- Stable levels of giving and volunteering despite external pressures
- The rise of the mass affluent, and venture philanthropists
- Growing interest in, and use of, loan finance in order to recycle capital
- The reduction and rationalisation of important funding streams

Opportunities



- Continued government support for the VCS and a range of initiatives
- More and better support from informed and engaged donors
- New mechanisms and tools to demonstrate impact and value
- Continued public goodwill and respect for the 'charity' brand

Risks



- A lack of long-term government initiatives creates instability
- Government involvement could affect the independence and image of volunteering
- New skills are required to manage loans and more complex funder requirements
- Inappropriate measures for comparison of VCOs, leading to league tables

4.1 Government and political support

The period since the 2005 general election has seen a great deal of political uncertainty and change, with new leaders elected to both opposition parties and continued speculation over the possible handover of power between the Prime Minister and the Chancellor of the Exchequer. However, despite the uncertainty, the VCS is higher on the agenda than ever, with the rhetoric of all parties placing the VCS at the heart of policy making and change. For the first time since 1997, power is shifting back towards the Conservatives, whilst the Comprehensive Spending Review provides the Chancellor with the opportunity to lay out what a Brown Premiership would look like. These shifts of power present challenges for influencing government and the political parties. In the May 2006 cabinet reshuffle, responsibility for the VCS moved from the Home Office to the Cabinet Office. The communities and civil renewal functions previously undertaken by the Home Office have moved to the new Department for Communities and Local Government (previously ODPM).

And to further support this and the voluntary sector as a whole, which are at the heart of life in every community, we will now set up in the Treasury, an Office for the Voluntary Sector.

Gordon Brown (March 2006)

How are we going to build the nation of the second chance? Here, I don't think that the voluntary sector has an important role to play. I believe that the voluntary sector has the crucial role to play.

David Cameron (January 2006)

In addition to policies to increase the VCS's role in public service delivery, and to improve the procurement practices of central and local government (see section 2.3), the government has invested heavily in the sector's infrastructure through ChangeUp. Current funding ends in March 2007 and all ChangeUp programmes (and particularly the high-profile hubs of expertise) will be under pressure to demonstrate a significant impact in order to secure future support.

The government has increased its control over how Lottery funds are spent, causing further concern over the principle of additionality. In response, a guarantee has been given that 60-70% of Big Lottery Fund grants will continue to go to the VCS – and all distributors will report annually on additionality. Increasing public involvement in the allocation of Lottery funds (with TV shows and public votes at one extreme) could reconnect the public with the Lottery and increase ticket sales, or lead to a reduction in money for less well-known causes.

Following the 2005 Year of the Volunteer, government interest in active citizenship and volunteering has continued with a number of new funding initiatives¹⁹. However, tensions between volunteering as an instrument of delivering services, and encouraging volunteering as a participative activity remain. Increasing government involvement could also pose a danger to the independence and image of volunteering.

I believe that each and every volunteer, no matter how they describe their involvement, owns volunteering. The Commission will make it clear – and take great care – that volunteers themselves should be at the heart of everyone's thinking. While volunteering has always played a vital part in the life of our communities, our nation and our world, I cannot remember a time when volunteering has featured so prominently in the thinking of policy makers. Whilst this is encouraging, I do not believe that volunteering should be a way of offering public services on the cheap.

Baroness Julia Neuberger, Chair of the Commission on the Future of Volunteering

¹⁹ Including £100 million to implement recommendations from the Russell Commission and a £5million Home Office funding programme for volunteering, mentoring and befriending projects

Moving forward

- The end of Tony Blair's period in office as Prime Minister is approaching. Is it time to consider how your organisation might fare under a Gordon Brown or David Cameron government? What are their policies for your sector or field?
- If you participate in a government-sponsored volunteering scheme, what are the risks and opportunities involved? What steps could you consider taking in order to maintain your independence, protect the image of your organisation and maintain the quality of the volunteering experiences you provide?

4.2 Changing funding streams

European enlargement will reduce EU funding for the VCS in the UK as funds move east to new accession countries. A new EU budget has been agreed for 2007-2013, and the government are consulting on a framework to lay down the strategic focus of the Structural Funds for the next seven years. Other significant government income streams are also being rationalised or tapered down (e.g. Single Regeneration Budget, Community Empowerment Funds, and the declining share of the RDAs' single pot) with significant implications for organisations reliant on these funding streams.

If current known trends continue without replacement funding, there could be an estimated £3.2 million reduction in funding available to the regional VCS in 2006/07 and this will rise substantially in 2008/09 to £47 million as European O1, O2 and O3 funding tapers out in the region giving a potential total loss of up to £54 million. At the same time the final demise of the Single Regeneration Budget funding regime creates further problems for many projects and activities.

Changing funding programmes: impact on the work of the voluntary and community sector and consequences for the Yorkshire and Humber economy

Although interest in corporate responsibility is increasing, conventional corporate giving to the VCS continues to be low and is falling (now just 1% of the VCS's income). This is due to a shift from corporate philanthropy to broader notions of responsible business practices. Where support continues, there has been a shift from one-off donations to rolling programmes of partnership between business and charities, often including some form of cause-related marketing. This has increased the funding available to some organisations but this has been at the expense of smaller organisations that lack the charity brand needed to attract corporate support.

During the 1980s and 1990s, the notion of corporate responsibility was virtually synonymous with corporate philanthropy. In recent years, however, the definition of corporate responsibility has broadened and become decoupled from philanthropy. The current view of corporate responsibility is that it is about a range of responsible business practices that includes 'fair' behaviour towards all stakeholders, including employees, customers, suppliers, partners, the environment and in a growing number of companies it is extending to include 'fair' treatment of shareholders. While community involvement may have been a starting point, the changing focus has meant that the philanthropic and community elements are no longer centre-stage in many corporate responsibility programmes.

Leo Martin, GoodCorporation, in UK voluntary sector almanac 2006

Moving forward

- The reduction of important funding streams has a significant impact on many organisations. What strategies can you put in place to create a more sustainable and diverse funding base? Alternatively, how can you manage a reduction in resources whilst ensuring that you can still meet your core mission?
- Could you develop a new relationship with a corporate body? This could require extensive research into the activities and corporate responsibility policies of local businesses. Can you demonstrate that your organisation's mission fits with their social aims, and can you take advantage of non-cash support (e.g. in kind support or employee volunteering)?

4.3 Complexity and sophistication

The VCS economy is becoming more sophisticated and professional. A number of organisations are attempting to ensure that money is allocated in a rational, efficient and effective way by increasing information in the public sphere about the impact of VCOs' work.²⁰ Though many of these initiatives are positive for organisations, funders and donors, the risk remains of the emergence of US-style capacity-rating agencies that compare organisations using (often inappropriate) measures and ratios.

Trusts and foundations are becoming more strategic with their grantmaking and becoming more engaged with the organisations that they fund. There is increasing interest in how foundations can use the entirety of their financial assets to create social, environmental and financial value, often through social investment (giving loans or purchasing equity to further charitable objectives, or to produce income whilst creating social value).

The raison d'être for foundations is to create "social value" – to provide a public good traditionally not viewed as being generated by the market. But by focusing on their role as providers of charitable gifts, many foundations end up engaged in practices that look more like strategies for wealth redistribution than true value creation...More than 82 percent of [US] foundations do not take social, environmental, or other nonfinancial factors into account when managing their greatest economic tool for fulfilling their organizational mission – their financial assets.

Where money meets mission: breaking down the firewall between foundation investments and programming

A new generation of philanthropists is emerging. Venture philanthropy, which focuses on investment rather than giving, is attracting increasing attention. Influenced by American-style philanthropy, these new philanthropists have a more professional and hands-on approach to giving, bringing the skills and expertise they have gained in business to their philanthropic activities and often looking to establish long-term relationships with their beneficiaries. Private banks have been quick to take advantage of this new market and are now offering investment-style research, to help their wealthy clients select the organisations they wish to support and to provide them with advice as well as feedback.

²⁰ For example, see New Philanthropy Capital, www.philanthropycapital.org, GuideStar UK, www.guidestar.org.uk, and Intelligent Giving, www.intelligentgiving.info

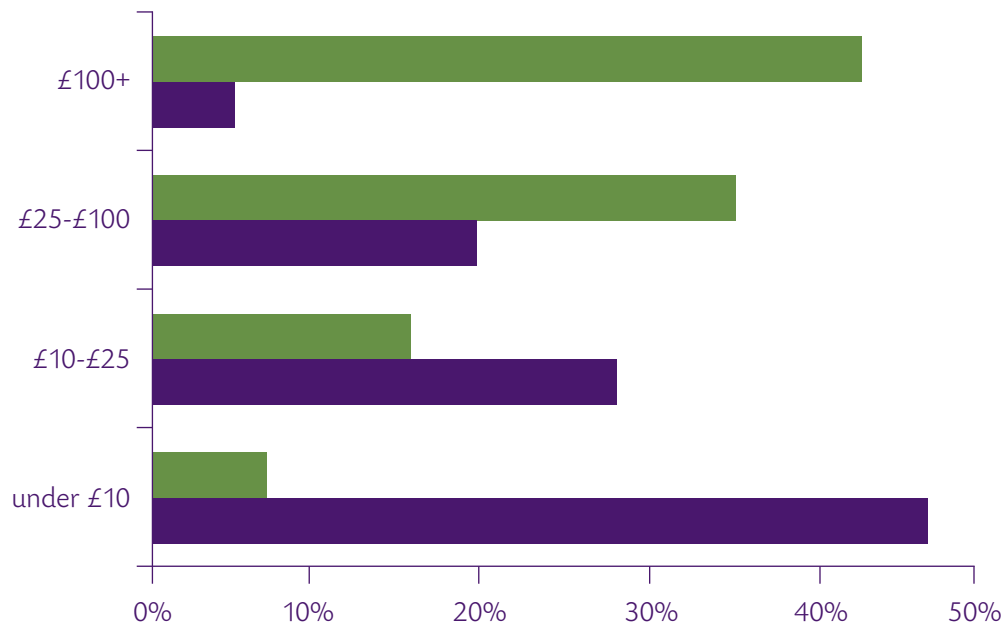
Moving forward

- The information that is publicly available about VCOs is increasing. Are you making the most of opportunities to demonstrate the impact of your work? Do you have good measures in place for your social and environmental impact? Several new sector initiatives and tools can provide help with this.
- Is your organisation at the right stage in its development to benefit from loan finance? If so, you may need to consider the new skills that your trustees and staff will need in order to manage new financial instruments. Your fundraisers may need to broaden their knowledge of finance and financial instruments and play a role in setting overall financial strategy.

4.4 Individuals

Even though recent surveys have shown a decrease in the UK donor base, the total value of individual giving has been maintained because of a growth in average gift size. The distribution of individual giving is skewed by a small number of high-level donors who are most likely to be male, older and of a higher socio-economic group than other donors, but the poorest 20% still give a higher percentage of their income to VCOs than the richest 20% (3% compared to 0.7%).²¹ They are the ones who are most likely to feel any pressure on household finances caused principally by rising housing costs (including increasing council taxes and energy prices).

Comparison of proportion of givers and proportion of total amount given, by gift size



Source: UK giving 2004/05

²¹ UK giving 2004/05

While it may make economic sense to target wealthier donors and encourage them to give more, there is also a need to promote a culture of giving more widely, and recognise giving as an expression of active citizenship and engagement. It is indeed often through giving that people are able to show the concerns, values and beliefs that matter to them. Establishing or strengthening links between giving and other expressions of active citizenship, such as volunteering and campaigning, will involve providing individuals with a range of opportunities and encouraging pathways between different types of engagement. This will undoubtedly lead to a greater sophistication in the way organisations manage relationships with their various supporters.

Recruiting supporters, especially those committed for the long haul, has become more difficult. Individualism and consumerism have both affected recruitment, as have modern lifestyles, which have had a considerable impact on people's availability. At an institutional level, the growing number of VCOs and the blurring of sector boundaries have increased competition amongst players. In order to fundraise successfully, organisations must be distinctive and be able to stand out amongst the crowd. However, organisations in the sector are faced with a major challenge because donors find it difficult to distinguish between specific organisations and tend to attribute certain values to an organisation's brand simply by virtue of that organisation being a charity. Amongst the traits identified as being genuinely distinctive, those capable of generating 'emotional engagement' appear to have the strongest positive impact on giving behaviour. One of the two most frequently reported reasons for giving to a VCO is having a personal connection with the organisation or cause.²²

The situation is very different from when people judge commercial brands. Donors seem to begin their appraisal of a charity from the position that the core values automatically apply, until they are given a specific reason to believe otherwise.

Conceptualizing brand values in the charity sector

The immense response to the appeal following the Indian Ocean tsunami of December 2004 illustrates how powerful emotional factors can be in giving. But the tsunami appeal also highlights two other key trends – the fundraising potential of Information and Communication Technology (ICT), and the need for greater accountability and transparency. The extensive use of ICT allowed unprecedented amounts to be collected in record times and importantly attracted new givers, especially amongst young people. In addition to its implications for fundraising, ICT is rapidly changing the relationship between individuals and organisations with tools such as blogs, online petitions and discussion forums leading to more flexibility and independence. And by facilitating access to information, ICT is empowering individuals to make informed decisions about the causes and organisations they wish to support. ICT has significantly contributed to supporters becoming better informed and sophisticated in their choices. Approximately ten million people now give in a planned and regular way representing around 25% of the total amount given.²³

Moving forward

- Recruiting supporters, especially those committed for the long haul, has become more difficult. Can you develop your relationship with donors to involve them in other types of support (e.g. volunteering, campaigning)? This will require new approaches to relationship management.
- How can you use ICT to promote your organisation and attract support? Providing more information about your activities and impact may attract more discerning donors. Incorporating new collaborative tools such as blogs and discussion forums may appeal to young people who expect to have a dialogue with the organisations they support.

See section 2.3 for further discussion of funding of services.

²² Conceptualizing brand values in the charity sector

²³ UK giving 2004/05

Further reading

Government and political support

- *Civil renewal and active citizenship: a guide to the debate* (NCVO, 2005) www.ncvo-vol.org.uk/?id=1512
- Further information about the National Lottery www.ncvo-vol.org.uk/lottery
- Russell Commission www.russellcommission.org
- V – the charity set up to implement the recommendations of the Russell Commission www.wearev.com/
- Commission on the Future of Volunteering www.volcomm.org.uk

Changing funding streams

- Briefing on the draft national strategic reference framework, EU Structural Funds Programmes 2007-2013 (NCVO, 2006) www.ncvo-vol.org.uk/?id=2506
- *Changing funding programmes: impact on the work of the voluntary and community sector and consequences for the Yorkshire and Humber economy* (Yorkshire and the Humber Regional Forum, 2005) www.yhregforum.org.uk/publications_resources/knowledgebase/400/193.pdf
- *UK voluntary sector almanac 2006* (NCVO, 2006) www.ncvo-vol.org.uk/research/index.asp?id=2380&fID=158

Complexity and sophistication

- *Foundations and social investment – making money work harder in order to achieve more* (Esmee Fairbairn, 2005) www.esmeefairbairn.org.uk/docs/EFF_foundations_report.pdf
- *Where money meets mission: breaking down the firewall between foundation investments and programming* (Stanford Social Innovation Review, 2003) www.foundationpartnership.org/pdf/mission.pdf
- 'Understanding philanthropy' (Financial Times in association with King Baudouin Foundation, 2005) <http://news.ft.com/cms/d2db6fe4-670f-11da-a650-0000779e2340.html>
- 'The business of giving' (The Economist, 23 February 2006) www.economist.com/surveys/displaystory.cfm?story_id=5517605 (subscription site)
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Strategic responses: four representative organisations

Our four representative organisations first appeared in *Voluntary sector strategic analysis 2005/06*. All the organisations and stories are fictional. You can read last year's stories at www.ncvo-vol.org.uk/3sf/trends. The stories below show four different organisations and their different responses to the *Strategic Analysis*. The story for each organisation shows a different stage in the strategy process, from initial reaction through to strategic actions.

The stories refer to the impact assessment tool, which is a pull-out in the centre of the publication.

Haringey Kurdish Refugee Support Group is a local organisation providing information and services to refugees. They have one paid member of staff and an annual income of £100,000. They are strongly rooted in their local community and draw on a dedicated pool of volunteers, many of whom have been service users.

The manager read through the *Strategic analysis* using the grid in step one of the impact assessment tool to draw out some of the trends and drivers that she felt were important. After some thought, her notes looked something like this:

Level of impact	<p>HIGH</p> <ul style="list-style-type: none"> • Difficulty recruiting volunteers – <i>unlikely, we have a dedicated pool of volunteers</i> • New philanthropists – <i>unlikely given the current image of refugees</i> • More collaboration between large and small organisations – <i>we represent a niche minority</i> 	<ul style="list-style-type: none"> • Growing intolerance of difference in society, rise of 'identity politics' – <i>further marginalisation of our clients</i> • Funders requiring more evidence of the impact of our work – <i>will we need to spend more time on evaluation and impact assessment?</i> • Increasing costs (e.g. energy, insurance) – <i>our budget is so tight</i> • Local government reform – <i>will we have to adapt to new ways of working between local government and the VCS?</i> • Future funding cuts from local government – <i>essential income source</i> • Government choice agenda – <i>clients need help navigating and negotiating</i>
	<ul style="list-style-type: none"> • Government will seek to listen to the views of our clients and users – <i>they should, but do they care about our clients?</i> • Competition from other sectors – <i>unlikely in our field of work</i> • Government support for the VCS – <i>but will funding filter through for our field of work?</i> 	<ul style="list-style-type: none"> • Growing recognition of user-run and user-controlled services – <i>a positive trend, but how can we benefit from it?</i> • Opportunities to engage in neighbourhood governance initiatives – <i>difficult given our workload and low capacity</i> • Rising power of the media – <i>campaigns against refugees and asylum seekers</i> • Expectation of information online – <i>would more people know about us if we had a better web presence?</i> • Increasing government and public control of lottery – <i>have had lottery funding in the past, will we be able to in the future?</i>
	LOW	HIGH
	Likelihood of impact	

The manager took the six drivers from the top right quadrant to raise at the next meeting of the trustee board. Together, they worked through the table in step three of the tool. At future meetings they discussed strategic options and reviewed the business plan for the coming year, and planned changes to funding applications in light of the discussions.

The Organic Clothing Campaign is a social enterprise and campaigning organisation. It has seven paid staff, all of whom work from home, and a growing membership of 1,500. It has an annual income of £300,000, split between earned income, membership subscriptions, public donations and support from trusts and foundations.

The organisation is reviewing its financial and fundraising strategy as it knows that in a year's time some significant funding streams will come to an end (set-up and development grants from two trusts and foundations). The Chief Executive read the *Strategic analysis* with this in mind. Certain ideas particularly resonated with him:

- Growing interest in financial instruments such as loans, which could be appropriate for this stage in the organisation's development
- New philanthropists – the possibility of building a meaningful relationship with a venture philanthropist, which could bring in funds but also expertise
- Individualisation and consumerisation of giving, but also the rise in online and committed giving – the need for strategies to retain and build the organisation's membership base

He organised an away day for the staff and the board to discuss these opportunities and challenges. They used the table in step three of the tool to think through the broader implications of the drivers (for example, the kind of information they would need to attract a venture philanthropist and the internal skills they would need to manage a loan). They generated a range of strategic options and used a Force Field Analysis to prioritise the most promising ideas for further development.

Friends of St Peter's Hospice is a local fundraising organisation with an annual income of £25,000. They have no paid staff and are led by their volunteer members. Fundraising for a local hospice is their prime objective, though community action and social links are also important for the volunteers.

The Chair of the organisation read the *Strategic analysis* in parallel with information she had received from the umbrella body for the hospice movement, Help the Hospices. The impact assessment tool prompted her to consider the organisation's most important stakeholders and the impact of external drivers on them. The chair focused on the members of the organisation, as she was concerned that they were getting older and that the organisation was failing to attract new volunteers. Recruiting trustees was a particular challenge, especially with new competition from a local foundation hospital and neighbourhood board. Therefore, the analysis of changing motivations for giving and volunteering resonated with her.

She set up a small working group of members to generate ideas for involving a more diverse range of local people in the organisation. This resulted in two new strategies:

- To identify key donors and approach them to see whether they could become more involved, or become trustees
- To link with a local school to promote the work of the organisation and encourage the participation of more young people (as part of a Citizenship Day).

Enable UK is a large national charity with an annual income of over £100 million and 5,000 employees. They have a well-established brand that is known for high quality service delivery but also advocacy work on behalf of disabled people.

On the request of the management team, the Director of Policy and Campaigns read the analysis and, with his team leaders, used the impact assessment tool to consider the implications for the work of the teams in his department. In particular they were interested in the idea of 'new conversations' and the opportunities presented by new media.

This influenced their work in the following ways:

The organisation had always had a professional and effective web presence and was quick off the mark in using email to mobilise supporters for campaigns. However, the discussion boards were ineffective; most staff were unaware of their existence and few users or supporters participated. They revitalised the discussion forums on their website and encouraged staff to initiate conversations with users and supporters to discuss policy and campaigning issues. They invited policy makers to participate in time-limited discussions, allowing a direct line of communication between their users and those in power. They complemented these online conversations with events, which some policy makers also attended. They fed back to users about the actions taken as a result.

Recognising the ability of blogs to convey a powerful personal message, they helped a user to set one up. The mainstream media picked up on it, describing it as a new and influential voice on the impact of government policies and societal prejudice on the life of a disabled person.

These initiatives had a number of positive outcomes:

- Public awareness of the organisation increased following media coverage of the blog
- Their influence in government increased, largely because they were able to demonstrate that their policies were based on the needs of their users
- They also developed strong relationships with some senior policy makers who enjoyed participating in their online conversations
- A majority of their users and supporters felt that they had a far greater influence on the work of the organisation than previously (measured in the organisation's annual stakeholder feedback).

Implications for the future of the VCS

This final section draws together a number of themes and implications that cut across the four preceding sections. It builds upon previous editions of *Voluntary sector strategic analysis*, as many of these themes are long-term in nature. Finally, it discusses the themes in relation to NCVO's *Vision for the future* and suggests some alternative scenarios for the future of the sector based upon two critical uncertainties – the sustainability and suitability of the funding environment, and relations with the state.

Common themes

A number of common themes emerge from our analysis of the operating environment:

- Growth in the VCS is most likely to be at the edges – hybrid organisations that mix elements of the public or private sectors, and probably deliver services under contract
- Intelligent funding and finance (e.g. full cost recovery and recycling capital) will lead to better resource allocation, though this will mainly benefit VCOs that are able to demonstrate evidence of their outcomes or 'return on investment'
- The needs and expectations of individuals (whether as users, volunteers, staff or donors) will continue to become more complex and fluid, leading to greater sophistication in the way organisations manage relationships with their various stakeholders
- The Comprehensive Spending Review 2007 will place more emphasis on the value for money that follows contestability (i.e. services opened up to competition), but a broader range of opportunities to deliver public services will continue to emerge
- The perceived innovative role of the VCS in decision-making processes will be more valued, particularly around user-led local public services
- Public services will continue to dominate the relationship between government and the VCS, but the role of the sector in civil renewal is beginning to be more overtly recognised in public policy, creating an opportunity to combine the two
- Debates around the future role, shape and funding of local government will create uncertainty at the local level for those working with statutory authorities
- Expectations will continue to increase over the role of local VCOs in the design, delivery and governance of local public services, though there is not yet consensus about the role of the sector in undertaking roles previously limited to local government and other statutory bodies
- New technologies will enable users to have both a voice and a direct contribution to the provision of services or content
- Managing VCOs will become more complex as services are increasingly delivered in collaboration and organisations are expected to be more accountable to donors, who are becoming more interested in operational values.

The big picture

NCVO's own *Vision for the future*²⁴ recently identified a number of long-term themes that are clearly related to those above. In calling for a greater understanding of the sector's **values**, it identified the sector's awareness of a common values set, but difficulties in communicating these. The *Strategic analysis* suggests that this will continue to be a problem as the sector grows at the edges, takes on a broader range of public service roles (what might be termed 'charitisation') and, at the local level, becomes increasingly part of the machinery of governance.

The second theme in NCVO's *Vision*, **engaged citizens**, was the commitment of active citizens and the role of the sector in supporting them. Our analysis highlights the continuing tensions for the sector at large here, both in terms of balancing service delivery with providing a voice, and the need to promote the tolerance and values associated with a healthy civil society whilst increasingly advocating for communities with sometimes narrowly defined interests. A major concern for the future is the difficulty that smaller associational and representative organisations will have in accessing resources, and the potential divisions that might result at the local level.

As the third theme of NCVO's *Vision* sets out, the sector will need to maintain and renew **relationships** with stakeholders spanning government, business and particularly the general public. Partnership and collaboration skills are now central to the management and leadership of VCOs, and investment in capacity building is likely to develop these across the sector. Too often, relationships are characterised by poor understanding of the sector's role. This is problematic, as expectations are rising of greater support from business and the public. Further rationalisation of funding streams, together with rising core costs (e.g. utility prices and insurance) will place additional pressure on VCOs to collaborate and, in some instances, merge.

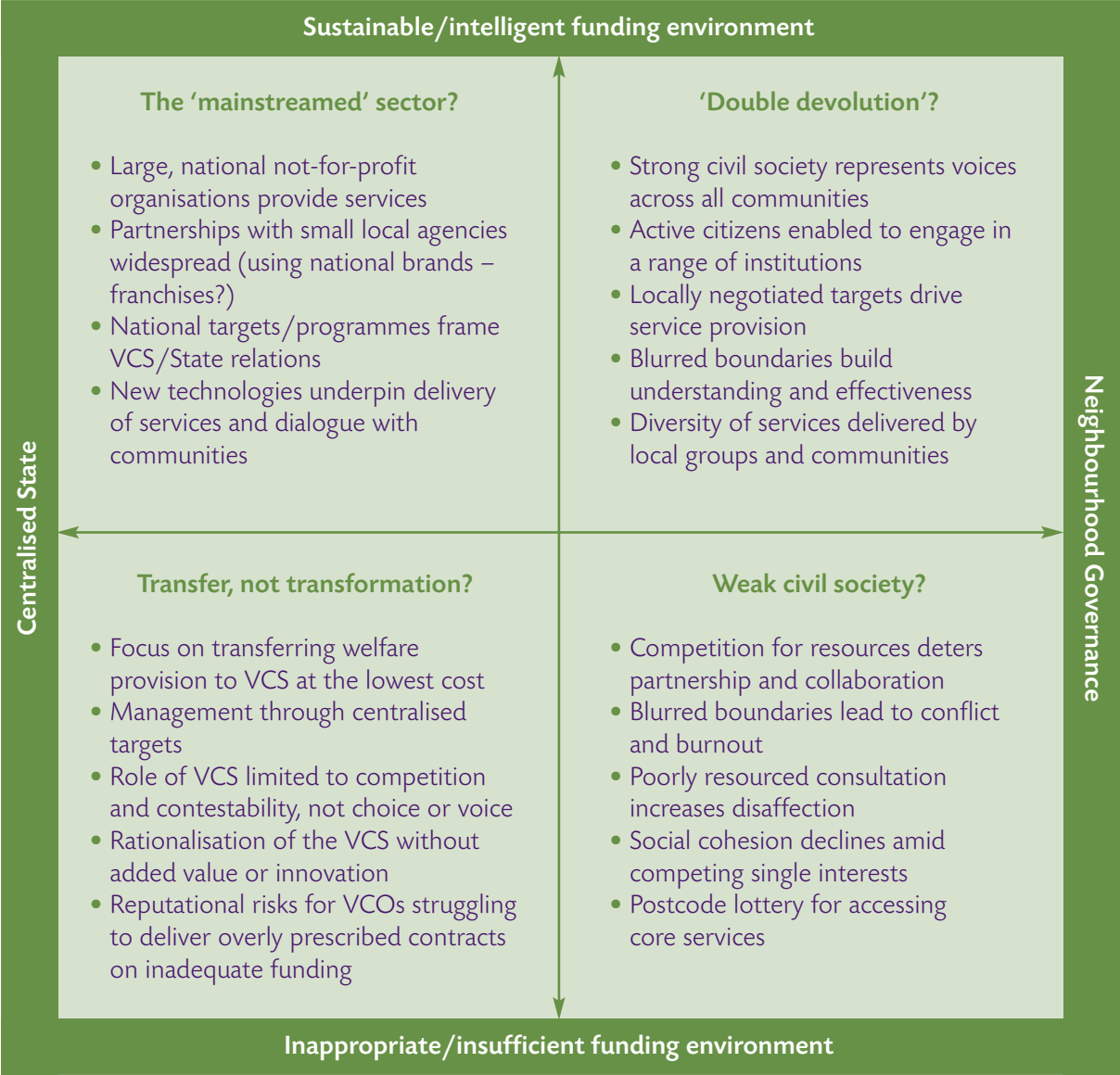
The fourth issue identified in the *Vision*, **governance**, highlights the need to maintain trust and confidence in the sector through being accountable and transparent. Our analysis highlights the continuing high levels of trust in the charity 'brand'. It is this trust that makes the sector such an attractive partner to business and government. The sector is moreover well placed to take advantage of increasing interest in user-led and accountable services, though there are obvious challenges to existing governance models when services are delivered in partnership. The other challenge is the increasing demand and competition for active citizens, particularly as policy makers call for devolution of power to neighbourhoods.

Resources is the fifth and final issue identified in NCVO's *Vision*. For many organisations this is the most important theme, given its crosscutting nature, and the *Vision* highlights the need to build more independent and effective income sources. We expect a number of trends: a slow, but gradual shift to intelligent funding, where funders utilise a wider range of funding mechanisms suitable for different stages in the organisational lifecycle or role; the gradual shift to earned sources of income, both in reaction to a more consumer-oriented society and the limited pool of grant funding (especially in relation to a larger sector); and, the limits to growth of government investment in the sector. In the case of statutory funding, we expect continued investment in the core areas of public service delivery, but that funding is likely to benefit an increasingly limited range of voluntary organisations. The latter are those likely to be able to meet more stringent value for money requirements.

²⁴ *Strategic agenda – NCVO's vision for the future* (NCVO, 2005)
www.ncvo-vol.org.uk/strategicagenda

Scenarios for the future

The issues of resources and relationships with government are arguably critical to the direction of the sector in the medium term, and it is useful to think of these as 'critical uncertainties'. Will more sustainable, intelligent funding enable the sector's long-term expansion to continue? And will the relationship with the State be increasingly driven by central government, or will we see a genuine 'double devolution'?



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Third Sector Foresight

NCVO's Third Sector Foresight project helps voluntary and community organisations to identify and understand the strategic drivers that affect them and provides tools to help organisations transform this understanding into robust strategies that can directly improve their effectiveness.

Tools for tomorrow – a practical guide to strategic planning for voluntary organisations

This toolkit provides step-by-step guidance to small and medium sized organisations.

"This good value guide will be refreshing and challenging for those organisations that have an established cycle for business planning. I wish that this guide had been put into my hands seven years ago as I began to lead a medium sized, local charity into more strategic growth and development."

Foresight Network

The free Foresight Network was set up to disseminate regular information about strategic issues to leaders and planners in the VCS, and to facilitate peer support and knowledge sharing.

"I found it very useful, especially the trends section. I often work with groups who have no idea about future trends and need to be encouraged to look outside their own four walls, so "seed" information from a variety of areas is particularly useful both as an example and a starting point."

(from a CVS)

Voluntary sector strategic analysis

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Third Sector Foresight Seminar Series

These free seminars provide space and time for leaders to explore and discuss strategic issues and share knowledge and ideas with their peers. Seminars have included: The changing economic landscape; Changing regulation and perceptions of risk; The impact of the Pensions Commission report on the VCS; Blended value and social investment – new approaches to VCS funding.

"I intend to use this information to update our fundraising PEST analysis and it has stimulated the idea of consulting service colleagues to investigate their experience of working with changing regulation."

(from a delegate at the seminar on changing regulation and perceptions of risk)

ICT Foresight – 2006/07

A series of 4 reports to be published in 2006/07 will build analysis and understanding of the ways in which ICT is transforming how voluntary and community organisations work and the environment in which they operate. Visit the ICT Foresight blog for further details – www.ncvo-networks.org.uk/blogs/ictforesight. ICT Foresight is funded by the ICT Hub and the Vodafone UK Foundation.

"It's good to see technology foresight starting from social benefits rather than latest tools"

(from a consultant working with VCOs on community engagement and cross sector partnerships)

Online database of drivers and trends – going live in 2007

We are currently building an online database which will provide a useful source of analysis and data on drivers and trends to help VCOs understand their environment, how it is changing and the impact on their organisation.


Scenario planning tool – to be published in Autumn 2006

Scenario planning is a tool used to help make decisions about the future direction of an organisation and stimulate new thinking and innovative strategic plans.

“People began to recognise that in order to be successful the sector needs to change, not be frightened of change and be more pro active about it so that values were kept.”

(from an infrastructure organisation piloting an initial draft of the scenario planning tool)

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join the free Foresight Network, please visit
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