Voluntary Sector Strategic Analysis 2005/06

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

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Third Sector Foresight

strategy | futures | planning

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

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The Foresight Network is **free** to join and is for anyone involved in strategic planning or thinking about the future of his or her organisation. Its aims are:

- To send members regular information about external trends
- To provide a forum for knowledge sharing and peer support
- To feed a wide range of perspectives into the annual strategic analysis undertaken by the Third Sector Foresight project
- To help to develop new planning tools for the sector

As a member you will receive a monthly email that will keep you updated about:

- The latest external trends and research that are of relevance to voluntary organisations
- Planning tools and resources
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To join the Foresight Network, **email megan.griffith@ncvo-vol.org.uk**

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1. Foreword

This is the third published edition of NCVO's *Voluntary Sector Strategic Analysis*. As we finished writing this report, the UK entered into the Labour government's third term. Although the majority of voluntary and community organisations have little or no direct contact with central government, the new government will nevertheless present new challenges and opportunities. Therefore we have added an extra section to this year's publication, looking specifically at the implications of the new government for the sector.

The current and future economic climate is of particular concern. Even the rosiest view of the future will see tight funding arrangements for government funding of non-priority areas. Less optimistic commentators predict an entry into a new recession with subsequent reductions in public spending, a significant risk given the growing dependence of aspects of the voluntary sector on public funding, and knock-on effects for consumer confidence and therefore charitable giving. To compound these challenges, 2006 will also see the phasing out and rationalisation of several key funding streams for the voluntary and community sector, including EU Structural Funds and the Single Regeneration Budget.

In these times of change and uncertainty, it is more important than ever to think ahead and plan strategically for the future. NCVO's Third Sector Foresight project aims to inform managers and trustees of emerging drivers and trends, in order to enable better decision-making and long-term planning. *Voluntary Sector Strategic Analysis* is now a well-established annual planning tool, sent free to all NCVO members and used by a number of management teams and trustee boards in their own annual planning.

Over the last year we have significantly expanded our Foresight work. A strategic planning toolkit, *Tools for Tomorrow – a practical guide to strategic planning for voluntary organisations*, was launched last year and is already on its second print run, while the new Foresight Network now has over 250 members.

In the next 18 months, with the support of the Vodafone UK Foundation and the Calouste Gulbenkian Foundation, we will look in depth at the impact of future trends in ICT for the sector, develop a searchable online database of 'drivers of change' and hope to also publish a scenario planning tool and subsectoral strategic analyses.

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

Stuart Etherington
Chief Executive, NCVO

2. Executive summary

This report discusses six key themes for the future of the voluntary and community sector.

The voluntary sector economy
A faltering economy is a key threat. Perceptions of a more difficult funding environment may in fact be the realities of a more complex, engaged approach to financing voluntary action. While government income streams to some sub-sectors (e.g. health and education) are likely to increase, non-priority areas are likely to see tight funding arrangements. Funding arrangements are likely to improve, albeit slowly. Underpinning this change is more emphasis on independent income sources, particularly giving.

Human resources
The extremely tight labour market of the last few years appears to be loosening. While this might reduce pressure on employment costs, the underlying skills deficits facing the economy are still a drag on performance. The Government's increasing policy emphasis on active citizenship might address some of the sector's workforce issues, but drivers are also pushing individuals away from more voluntary commitment (longer working lives; remodelling of the benefits system; perceptions of risk).

Individuals, communities and social cohesion
Perceptions of citizenship are being driven by a series of negatives (immigration; terrorism; etc) that collectively highlight people's fears. Voluntary and community organisations can play a positive role in promoting community cohesion and generating social capital. Lack of understanding and/or tolerance of marginalized communities and their representative organisations represent a significant risk.

Public services and community governance
New links are being made between the delivery, design and accountability of public services with an increased focus on users and individual choice and voice. The expectation placed on local communities and their role in governance is high, and perhaps too high.

Trust, accountability and transparency
We seem to say that these issues become more important every year and this year feels no different, perhaps due to an election dominated by the issue of trust in politicians. For the sector, major risks are the post-tsunami accounting for impact, the delayed September launch of GuideStar and regulatory reform. However, continuing high levels of public trust require us to blow away some of the media froth that occasionally engulfs the sector.

ICT
The shift to broadband technologies is creating a generation of 'digital natives' who transact over the web by default. Relatively immune to traditional marketing, they might also represent a new generation for whom the mutual ethos is especially strong, encouraged by traditions of file sharing, open source and collaboration. Voluntary and community organisations might also need to reorient their ICT strategies around the concept of mobility, both of workforce and beneficiaries.

3. Our methodology and how to use this publication

Identifying drivers of change

This publication was developed using a PEST analysis to identify the 'drivers of change' that are likely to impact on the future of the sector in four key areas:

- **P**olitics
- **E**conomy
- **S**ociety
- **T**echnology

The process began with six months of environmental scanning to collect, sift and sort evidence. We then analysed the evidence and emerged with a number of key issues for the sector. In consultation with voluntary and community organisations[1], these issues were ranked according to importance and grouped together into six broad themes.

Many of these issues had already been explored in the 2004/05 analysis. Although these are still pertinent, we concentrated on new and emerging issues, or on those that were discussed only briefly last year and have grown in importance. Five of the six themes explored in this year's publication are similar to themes in *Voluntary Sector Strategic Analysis 2004/05* and one, ICT, is new.

Exploring the implications

This publication is intended to be a **strategic planning tool**. An analysis of the external environment is just the first stage in understanding the context in which voluntary organisations are operating. Equally important is a discussion about what the implications of trends will be. This year we have divided our discussion of the implications into:

- **Potential Impact** – questions to spark off debate within your organisation about what trends may mean for you.
- **Suggested Actions** – suggestions for strategic steps to minimise the threat, or maximise the opportunities, presented by external trends.

In section 5 we have aimed to draw together these implications by hypothesising the impact at macro level (using constructing future scenarios) and micro level (using 4 "exemplar" organisations).

The relevance and impact of these trends will of course vary for individual organisations, as will the strategic choices required in turn. The challenge for readers is to blend these broader environmental trends with the internal and local drivers identified in your own analysis. Advice on how to do this is available from our website. We hope that this publication will raise your awareness of trends and how they are driving change and provide food for thought for your strategic thinking. Please feedback your views!

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[1] This consultation was undertaken with the **Foresight Network**, which was set up for people thinking about the future of their organisation. The Foresight Network is free to join – for further information, visit www.ncvo-vol.org.uk/3s4

Thinking about the implications for your organisation

The following questions may help you to think about **impact** as you read the publication:

- Could this trend have an impact on us?
- How significant would that impact be?
- Is it a positive or a negative impact?
- What is the likelihood that the predicted impact will occur?
- Will the impact occur in the short term, medium term or long term?

The following questions may help you to think about **action** as you read the publication:

- What do we need to do to make the most of this opportunity/minimise this threat?
- What are the implications for our finances, our staff/volunteers (skills and capacity) and our practices and processes?
- What are other players in our field doing? Do we need to change our relationship with them?

> *Every company has a diagram of the universe in which they're the center. That's never true. We're all a node in a mesh.*
> **Douglas Busch, CIO of Intel Corp**[2]

The format of the publication

Each of the six key themes follows the following format:

- **Introduction** – a summary of why the issue is important to voluntary and community organisations
- **Continuing trends from Voluntary Sector Strategic Analysis 2004/05** – an outline of the issues that we concentrated on in last year's publication
- **What are the main issues this year?** – the main body of the text discusses between three and five important issues, including:
    - **Key drivers and trends** – a brief summary of the key trends that are driving change in each theme
    - **Evidence** – selected pieces of evidence to illuminate the discussion
- **Thoughts for strategic planning** – we go on to discuss the potential impact and suggested actions
- **Further reading** – each section ends with a list of further reading should you wish to find out more. The web references identified at the end of each section can be found at www.ncvo-vol.org.uk/3s4

[2] Cited by Jed Emerson (2004) *Moving Ahead Together: Implications of Blended Value for the Future of Our Work.* www.blendedvalue.org/Presentations+/default.aspx

4. Drivers of change: six key themes

4.1. The voluntary sector economy

Introduction

The increasing professionalisation of the sector has in turn necessitated the development of more stable, predictable income streams, yet the funding environment is still characterised by considerable uncertainty.[3]

Continuing trends from Voluntary Sector Strategic Analysis 2004/05

- Tax rises (real or anticipated) and stagnant or falling property prices might limit people's propensity to give to charity, though increasing use of tax-efficient methods could offset this.
- There is a continuing shift from 'funding' voluntary action through grants to 'financing' voluntary action using a range of financial tools including fee-based contracts and loans.
- Pressure to demonstrate value for money in public service delivery, together with a tighter spending period for the government, will place more emphasis on voluntary and community organisations to demonstrate the economy and efficiency of their activities.

Read *Voluntary Sector Strategic Analysis 2004/05* online at www.ncvo-vol.org.uk/3s4

What are the main issues this year?

Key drivers and trends

- Gloomy post-election forecasts/expectations for the economy
- Voluntary sector income increasingly dominated by statutory sources
- Earned income increasing at the expense of voluntary income
- Rationalisation and phasing out of funding streams
- Continuing investment in public services (particularly in health and education)
- Continuing efforts to remove transactional costs and administrative blockages in funding relationships
- Public perception that taxes will rise and disposable incomes fall
- Fragile consumer confidence
- Continued emergence of the 'mass affluent' as an important consumer group
- Rising company profits (though not, as yet, dividend levels)
- Low inflation and interest rates

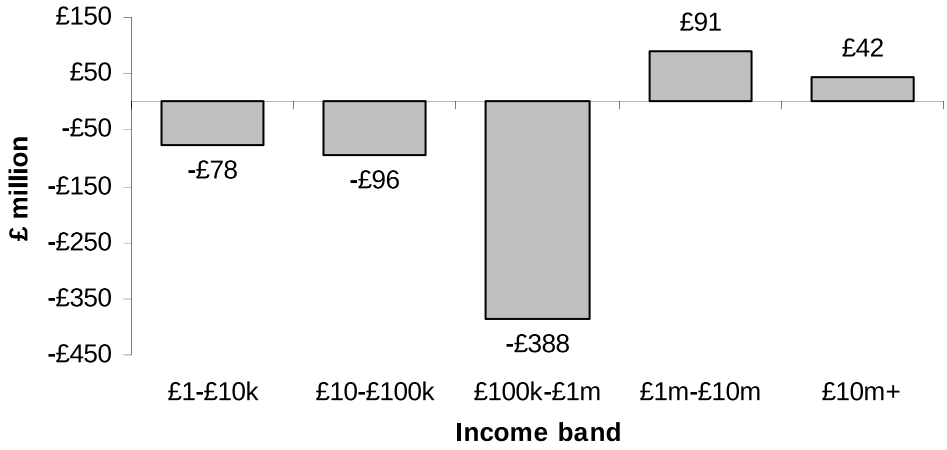
1. Voluntary sector income

There is continuing concern that a number of important income streams are likely to be rationalised or reduced, whilst competition for finance (whether voluntary or earned) is likely to intensify. Mid-sized organisations continue to bear the brunt of falling income, suggesting

[3] This section can be read in tandem with David Carrington's strategy paper for NCVO, 'Financing the Voluntary and Community Sector – future prospects and possibilities'. Full reference at end of section.

a continuing polarisation of the sector in terms of income (see chart, below). At the same time, most voluntary and community organisations remain under-capitalised.

Net change in total income 2000/01-2001/02, by income band (£m)



Source: NCVO

A number of specific trends are evident:

- Polarisation of formal resources (i.e. cash, assets and workforce), with a particular 'squeeze in the middle'
- Continuing shift from voluntary income (such as grant relationships) to earned income (such as commissioning relationships) and loan finance
- Shift to full-cost recovery: this will benefit recipients of grants and contracts, but ultimately lead to fewer awards
- Tapering down of specific income streams: EU structural funds (ERDF; ESF); Community Empowerment Funds; declining share of the RDAs' Single Pot
- More funders adopting an outcome/investor approach to funding

Paradoxically, the income of registered charities continues to rise – the Charity Commission estimates that the income of registered charities increased by £2.95 billion between 2003-04. However, the skewed nature of the sector's income distribution and the nature of government funding (which is driving this growth) means this is likely to be generated by a small number of large charities. Competition remains fierce, both due to the continuing increase in organisations (over 5,100 new charities were registered in the first 9 months of 2004) and blurring of the boundaries between sectors (with voluntary organisations increasingly competing for funds with other sectors, a trend now particularly felt by the Housing Association sector).

> *The market place is now saturated with some fairly similar charity shops. Perhaps only the innovators will succeed in the long term.*
> **Sue Chance, Compton Hospice, cited in Charity Finance**

2. The role and level of statutory income

Statutory income sources now account for 37% of the sector's total income, with a number of evidence sources pointing to continuing increases despite the well known problems of the funding relationship. The government's own fiscal position will determine levels of public spending, with continuing concerns from commentators that a larger than expected deficit leaves little room for manoeuvre. Pressure to achieve Gershonesque[4] efficiency savings will intensify, despite a poor record of such savings materialising.

> *Despite the strength of the economy…the government's current balance remains in serious deficit…More of a worry going forward, the economy will start the next cycle with very little leeway on fiscal policy if things go wrong…the ITEM club expects taxes or NI to go up in the 2006 budget.*
> **ITEM Club Spring 2005 forecast**

Future increases in spending will be targeted at public services – particularly health and education. In addition, the investment via ChangeUp (and its *CapacityBuilders* agency) is likely to have a significant medium-term impact on the VCS infrastructure's funding environment.

Trends in public spending

	Long-term Trend	April 79 to March 97	April 97 to March 04	April 05 to March 08
NHS	3.7	3.1	5.8	7.2
Education	4.0	1.5	4.4	4.3
Social security	3.7	3.5	1.8	1.7
Defence	–0.3	–0.3	0.8	–0.8
Transport	n/a	0.5	4.1	2.3
Public order & safety	n/a	4.1	5.2	1.6

Source: Emmerson, Frayne and Love (2004), Institute for Fiscal Studies

The National Audit Office's forthcoming review of the government-sector funding relationship will identify how funding of the sector is working – and this has the potential to lead to real improvements in the use of funding tools and processes.

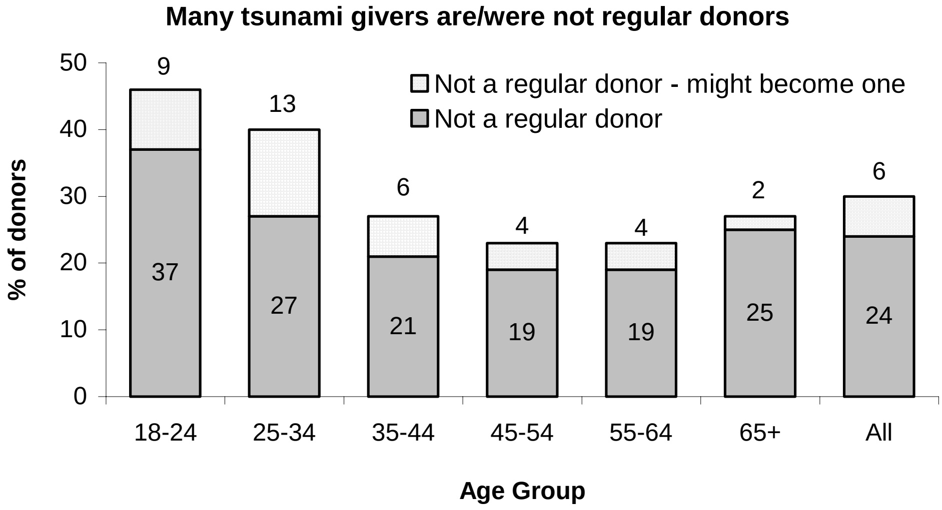
3. Giving and fundraising

Increasing the level of independent income and in particular individual giving will be a crucial issue for the sector, particularly if government sources are increasingly focused on core public services. However, charitable giving in 2003 (the latest available data) exhibited a small fall in the average gift (now £12.32/month), while the proportion of the population giving remained static. This may reflect the fragile consumer confidence currently experienced by high street retailers.

The Tsunami appeal of 2005 – which generated £350m – highlighted continued public willingness to give. Importantly, it also highlighted the changing consumer preference for shopping online, or in this case giving. An estimated £10.7m was donated via the web in the first 24 hours of the appeal.

Parts of the sector have expressed concern that the tsunami appeal will divert donations from other causes. Nevertheless, there is evidence that the appeal encouraged people to give to charity for the first time, particularly young people. The confidence-building measures likely to result from the introduction of fundraising self-regulation in 2005, along with continued efforts to boost tax efficient giving (including proposals for 'lifetime legacies'), should help to support and increase this important source of independent income.

[4] For more information on the Gershon efficiency review, see *Releasing resources for the front line: Independent review of public sector efficiency* (July 2004) available on the Treasury website – www.hm-treasury.gov.uk



Source: NCVO/MORI

4. Other issues

Other longer-term issues that are likely to impact on the sector's funding environment are worthy of identification:

- Local government finance: following ODPM's Balance of Funding review, the Lyons Inquiry of council tax will report at the end of 2005.
- Globalisation: specifically international tax competition (particularly from the 'flat tax' states of eastern Europe) and the internationalisation of the service industry and public service providers (such as health care provision in India).
- Emergence of the mass affluent: 40% taxpayers are now increasingly important to the tax (and giving?) base.
- Policy interest in providing more working capital for the sector (such as Futurebuilders and Community Foundations) is likely to stimulate growth in independent income.
- Increasing public involvement in the allocation of Lottery funds (with TV shows and public votes at one extreme) could lead to a reduction in money for unpopular causes, or reconnect the public with the Lottery and result in higher ticket sales.

Thoughts for strategic planning

Potential Impact

Government contracts will drive sector income growth
Investment in public services – rather than voluntary organisations – will benefit a relatively small number of large charities, which potentially knocks out the wider sector's capacity to deliver services. Voluntary and community organisations with economies of scale will be best able to address the increasing need to demonstrate value for money or meet centrally set 'tariffs' for given interventions.

Procurement strategies will lead to fewer suppliers
Closer involvement with the government is likely to be facilitated by the increasing use of preferred/recognised supplier status, available to those meeting established criteria. Isomorphism – effectively replicating existing public delivery agencies – remains the key threat associated with this trend.

A more sophisticated funding environment is emerging
This is likely to benefit organisations that have clarity about their aims and outcomes. Better targeting of resources and differentiation between different types of support[5] has the potential to end the current confusion over the correct deployment of grants and contracts. Greater sophistication of financial tools is likely.

'Investment' will replace giving
Similarly, more sophistication of funding processes (such as outsourcing grant management, and the potential emergence of capacity referencing agencies) will lead to continuing specialisation and professionalisation. This might be part of a broader shift to more effective or 'strategic philanthropy', where the notion of giving is replaced by that of investing. This in turn will place much more emphasis on being able to measure return on investment – or impact.

Fewer, better grants are likely to be available
Increasing implementation of full cost recovery by funders and recipients, clearer understanding of the characteristics and purposes of grants, combined with rationalisation of income streams, are likely. (Risk aversion, particularly in relation to small grants, may be a factor.) This will lead to more sustainable, stable recipients.

More informed donors will increasingly use the web
Not just for giving, but researching and identifying potential recipient voluntary and community organisations. However, the web might not increase volumes, but replace other, older giving channels. Those without this channel might suffer.

Suggested Actions

CSR
Stronger corporate balance sheets and company profits indicate this is a good point in the economic cycle to press for increases in Corporate Social Responsibility commitments.

Beyond e-giving
Voluntary and community organisations need to understand better the role of the web in decision-making and donating – treating the web as a transactional tool only will limit support.

Public service contracting
Efficiency drives are likely to push purchasers towards awarding fewer, bigger contracts. Large voluntary and community organisations should consider their impact on smaller community groups when moving into new geographical areas. Actions may include sub-contracting with them to deliver services locally or establishment of 'new neighbour' guidelines.

A capitalisation strategy for the sector
Policy makers should continue to develop approaches to build the sector's capital base, whether through asset transfer or loan finance. Voluntary and community organisations need to develop better indicators of return on investment to encourage effective allocation of investment.

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[5] Julia Unwin's distinction between giving, shopping and investing as different approaches to the transfer of resources is particularly useful. See *The Grantmaking Tango*.

Further reading

Carrington, D. (2005) “Financing the Voluntary and Community Sector – future prospects and possibilities.” In *Voluntary Action: Meeting the Challenges of the 21st Century.* NCVO
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NCVO publications are available from www.ncvo-vol.org.uk/publications

3.2. Human resources

Introduction

Staff, volunteers and trustees – human and social capital – are the lifeblood of voluntary and community organisations. Strategies to recruit, retain and develop the workforce are critical if the voluntary sector is to continue to make its distinctive social and economic contribution.

Continuing trends from Voluntary Sector Strategic Analysis 2004/05

- Skills shortages and skills gaps are widespread in the sector, driven by the buoyant labour market and demands for new skills.
- The sector risks losing the competitive advantage of its flexible working practices as other sectors (and statutory minimums) catch up in the promotion of 'work-life balance'.
- There are potential growth areas in volunteering but the focus is likely to be on personal fulfilment for the volunteer, rather than service.

Read *Voluntary Sector Strategic Analysis 2004/05* online at www.ncvo-vol.org.uk/3s4

What are the main issues this year?

Key drivers and trends

- Increasing demands from employees for flexible work
- Unemployment beginning to rise from historic low
- Globalisation and the international division of labour
- Government policies promoting active citizenship
- Changing demographics (e.g. aging, more diverse population)
- Changing lifestyles (e.g. time pressures, feminisation of workforce)
- State pension age equalised at 65 in 2010
- Funders' increasing demands for greater professionalism
- Centrality of employee volunteering in CSR activities
- Lack of public trust in professionals

1. Volunteering

2005, the Year of the Volunteer, has seen increasing government policy emphasis on active citizenship, though tensions between volunteering as an instrument of delivering services, and encouraging volunteering as a participative activity, remain. New government policies are moving towards incentivising volunteering by offering financial rewards (e.g. council tax rebates for volunteers). Employee volunteering is another growth area, (1.5m employees gave time worth £1.1bn in 2003) driven by demands for more varied and fulfilling work. As youth volunteering also moves up the government's agenda (exemplified by the establishment of the Russell Commission), volunteering is likely to become increasingly embedded in career progression, both during education and working life. Increasing demands for community governance (e.g. foundation hospital boards) will also draw on the pool of available active citizens (see section 4.4).

> *There is a fine line between actively encouraging involvement in employee volunteering and making it compulsory, either by formal inclusion in personal development plans (PDPs) or through managers asking staff to get involved. Including volunteering in PDPs demonstrates top-down support for employee volunteering and thereby sanctions the time off work that may be necessary to take part…However, there is a danger that such management strategies can over-formalise employee volunteering and undermine motivation and commitment.*
> **Community Investment: The impacts of employee volunteering at Barclays Bank, Institute for Volunteering Research**

2. The changing labour market

The UK labour market has changed significantly with a decline in routine manual work and a growth in work in management and the professions. Many routine clerical jobs have been replaced by ICTs or, along with some higher order functions, moved offshore. Moreover, new technologies have enabled more flexible and home working. Increasing demands for flexible work, driven largely by the expansion of women in the work place, have been reflected in new legislations around flexible hours and extended maternity and paternity leave. An estimated million people have requested flexible working since the Employment Act implemented the right to request in April 2003.

> *The decline of manufacturing has led to fewer people – men in particular – working in skilled manual occupations. In 2004, only 18 per cent of men worked in manufacturing industries compared with 28 per cent in 1984. On the other hand, the rise of the service sector has provided many opportunities for part-time work, particularly for women.*
> **Social Trends, 2005 edition, National Statistics**

The extremely tight labour market of the last few years appears to be loosening, with unemployment now rising from an historic low. The claimant count (people claiming Jobseeker's Allowance benefit) is increasing while the number of job vacancies has fallen. This may reduce pressure on employment costs, though skills shortages will mean that the competition for some skills is likely to remain high. The voluntary sector workforce is still very mobile, despite employee turnover falling back to 2002 levels. Fewer voluntary and community organisations are reporting difficulty with staff retention (47%, down from 55%), though this remains a widespread problem for the sector.

> *Recent surveys show an increase in recruitment difficulties, as the nature and extent of skills required from the average employee increases. Under 1 in 10 employers in England reported having skill-shortage vacancies in 2003 but over 1 in 5 reported having internal skill gaps representing almost 12 per cent of all employment.*
> **Skills Trends, Department for Education and Skills**

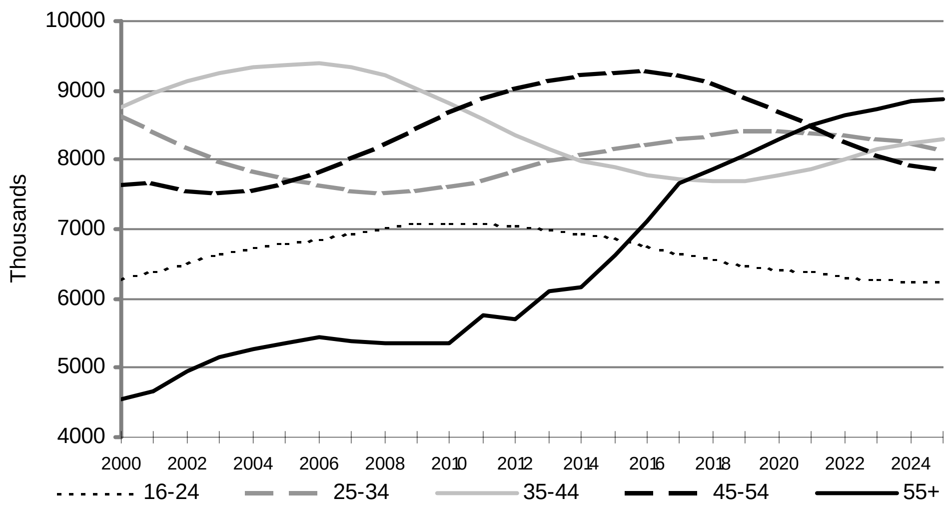
3. Retirement and aging

The UK's aging population is putting increasing pressure on public funding of state pensions. Consequently, retirement ages are expected to rise and the responsibility to save for retirement will continue to be shifted from state and employer to the individual. Final salary schemes are closing in all sectors and employer pension contributions are likely to become an even more significant benefit for employees.

> *The pressure on workers to retire later will mount, but how will employers respond? Will they simply postpone retirement, forcing older people to work till they drop? Or will they introduce more flexible forms of employment, tailor-made to the needs of older workers?…Encouraging more flexible employment, with work lasting till later in life, could be seen as chipping away at the right to retirement and damaging to older people's health, resulting in strong resistance. At the same time, age discrimination by employers could further entrench current patterns of employment by older workers.*
> **The Opportunity of a Lifetime: Reshaping Retirement – A Summary**
> **Richard Moynagh and Richard Worsley**

As the retirement age for women increases to 65 in 2010 and the workforce ages (see chart), the number of people in the 55+ age category that are expected to be a part of the available labour force is projected to increase from 12.6% of the total in 2000 to 22.6% in 2025. Higher retirement ages may lead to an increase in part-time jobs for older workers and could reduce a traditional source of volunteers, although, in the short term, the baby boomer generation will provide a large number of retirees. However, US research suggests that there are significant differences between this generation and that of their parents, and that they may need more encouragement to volunteer than is generally expected.

Projected labour force by age, Great Britain, 2000-2025 (Millions)



Source: DFES

Thoughts for strategic planning

Potential Impact

Globalisation of the labour market
An increasing focus on efficiency and reducing administration costs might drive large voluntary organisations to shift support services overseas, with obvious implications for public reputation and trust. How can organisations manage the potential conflict between potentially lower administration costs and donors' preferences for UK-based activities?

Incentivisation of volunteers and trustees
The integration of volunteering into career structures and the increasing demands placed upon trustees highlight a potential role for greater use of incentives – which in some cases will mean payment. What will the payment of 'unpaid' staff mean for the image of volunteering, and of the sector as a whole? And will the payment of volunteers and trustees set a precedent and make it harder for some organisations, which are unable to tap into reward schemes, to recruit volunteers?

Suggested Actions

Volunteering
- As the government becomes more involved in encouraging and incentivising volunteering, the voluntary and community sector will need to ensure that an expanded government role does not pose a danger to the independence of volunteering and that decisions about government's role is made in partnership with the sector.
- The Russell Commission suggests that a "step change in the number of young people volunteering" is needed and there may be incentives available to help the government meet its targets for youth volunteering. However, it is important that the sector promotes the importance of the quality of volunteering experiences, and doesn't allow the emphasis to be just on the number of new volunteers.
- As the retirement age rises, voluntary and community organisations will need to offer more flexible volunteering opportunities to attract older people who are still working part time.
- Voluntary and community organisations should exploit the opportunity presented by new volunteering schemes and incentives to draw in a new generation of volunteers.

Strategies for a changing labour market
- The sector needs to make sure that it keeps its competitive advantage and still offers benefits to its employees that are not widely available elsewhere (like a better working environment and the importance of values).
- The sector needs to re-examine the psychological contract that binds employees to the sector (i.e. why should people work in the voluntary sector?)
- Adequate pension provision will continue to be essential to aid staff recruitment and retention.

Further reading

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Department for Education and Skills: *Skills trends* - www.dfes.gov.uk/trends/
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The Tomorrow Project and CIPD (2004) *The Opportunity of a Lifetime: Reshaping Retirement.* – www.tomorrowproject.org

4.3. Individuals, communities and social cohesion

Introduction

Understanding in what direction society is evolving and how that could impact on individuals, institutions and organisations will result in the sector developing services and practices that meet the needs and expectations of its major stakeholders.

Continuing trends from Voluntary Sector Strategic Analysis 2004/05

- Attitudes towards the appropriate balance of responsibility between individuals, government, charities and the private sector are shifting.
- Social polarisation reinforces the sector's essential role in providing services for vulnerable groups.
- Diversity characterises both society and the sector, yet there is still a strong need for links between distinct communities and groups.

Read *Voluntary Sector Strategic Analysis 2004/05* online at www.ncvo-vol.org.uk/3s4

What are the main issues this year?

Key drivers and trends

- International context and globalisation (enlargement of Europe, Iraq war, terrorist threat, tsunami disaster etc.)
- International population movements
- Forthcoming UK presidency of G8 and of the EU Council of Ministers
- Hardening of political positions (especially during the general election period)
- Changing attitudes towards immigration
- Rise in violent crime and fear of crime
- Public policies around civil renewal and community involvement in the design and delivery of public services
- Lack of trust in political institutions
- Media coverage (e.g. anti-gypsy campaign)
- Expansion of ICT facilitating new forms of engagement

1. Citizenship and identity

Immigration continues to be a major concern for the British public, and has impacted on people's views on diversity and multiculturalism. The latest British Social Attitudes Survey shows that there has been a "culture shift" towards immigration: increased hostility has affected everyone even those who were traditionally pro-immigration (such as graduates and Labour supporters). In response, the Government has introduced additional measures to combat illegal immigration, and is promoting ideas of citizenship and national identity. Citizenship ceremonies[6] have been launched (45,000 adults have attended since February

[6] For more information on citizenship ceremonies, see www.ind.homeoffice.gov.uk/british_citizenship/english/homepage.html

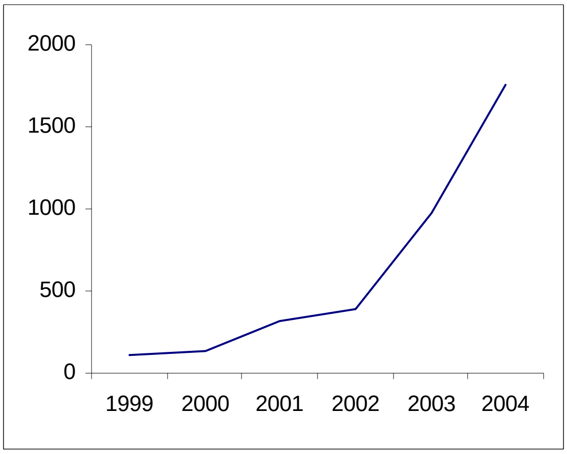
2004), a pilot Citizenship Day is planned later this year, in October, and citizenship pledges for 18 year olds (on a voluntary basis as in Australia) are currently under consideration. However, there are clearly tensions between citizenship, which is associated to a singular national identity, and the plurality of identities that exists in a diverse society such as Britain.

> *"Britishness is defined not on ethnic and exclusive grounds – but through our shared values, our history of tolerance, of openness and internationalism, our commitment to democracy and liberty, to civic duty and the public space. These values, embodied in our great institutions – such as the NHS, the BBC, the Open University – tell a national story that is open to all British citizens."*
> **David Blunkett, A new England: an English identity within Britain (2005)**

2. Crime and security

Dealing with terrorism and anti-social behaviour has been a priority for Government: 8 out of a total of 32 bills in the 2004 Queen's speech focused on domestic and global security. Britain has the highest imprisonment rate in Western Europe, but people still continue to feel threatened by violence and crime. A number of recent measures taken to address these issues have worried defendants of civil liberties, particularly concerned by the anti-terrorist bill, passed in March after much debate. Concerns about civil liberties were also expressed in relation to the serious organised crime and police bill, (i.e. the Government was forced to abandon its plans for restrictions for demonstrations in Parliament Square and for a new offence of incitement to religious hatred, though the latter has been reintroduced in the 2005 Queen's speech).

Number of anti-social behaviour orders issued, April 1999 to September 2004



Source: Home Office

With regards to anti-social behaviour, the use of asbos[7] has increased significantly. However, reservations about the practices (i.e. naming and shaming children in the press) and the effectiveness of asbos have been expressed (figures from 2002 show that over a third of asbos were breached). As part of the civil renewal agenda of the Home Office, the call for more community engagement in local policing matters is a real challenge: will it have the desired effect (i.e. the reduction of crime and the increased feeling of security) or will it just lead to tougher sanctions?

[7] For more information on anti social behaviour orders (asbos), see www.homeoffice.gov.uk/crime/antisocialbehaviour/orders/

3. Participation and democracy

Britain, as in all major western countries, is experiencing a drop in electoral participation and suffering from poor levels of trust in political institutions and politicians. While some talk of political apathy, others are less pessimistic and point to the wide-ranging activities of civil society. New forms of participation, which reflect people's changing perceptions of power and the politics of power, are emerging: a study on democratic innovations by the Power inquiry[8] shows how deliberative approaches, co-governance and other non-traditional types of initiatives have the potential to increase and deepen participation. People may be reluctant to take part in formal political processes but involvement in social movements or participation at a local level in voluntary and community organisations continues to offer attractive alternatives.

> *Just over half (52%) said they would be absolutely certain to vote at an immediate general election and political activism remains a minority pursuit. However, contrary to claims of political apathy, over three quarters (77%) of those polled said they are interested in national issues and even more (81%) interested in local issues.*
> **Audit of engagement, Mori for The Electoral Commission and Hansard Society (2005)**

Government certainly sees voluntary and community organisations as invaluable intermediaries for the strengthening of community governance. However, the democratic and representative nature of these organisations is frequently questioned. The focus has been to a large extent on civic participation (e.g. governance) and to a lesser extent on civil participation (e.g. volunteering), but the importance of individual actions has often been neglected – i.e. everyday actions at the individual level (such as buying fair-trade products) that mirror certain values and have a collective impact, as reflected in the success of the 'We are what we do' project[9].

4. Localism and globalisation

Localism is central to government strategies and policies, although many would argue that true decentralisation is still to come. It certainly underpins the work of the Office of the Deputy Prime Minister around local government and community governance and is present in much of the civil renewal agenda (see section 4.4). One of the key assumptions behind government thinking is that people most identify with their local area and that it is at this level that people want to engage. However, global concerns such as international aid, fair-trade and debt relief have increasingly mobilised the general public as the remarkable success of the tsunami appeal and the increasing support for the **MAKE**POVERTY**HISTORY** campaign demonstrate. New forms of participation around a common cause but across national boundaries are developing (facilitated greatly by the increased usage of the internet) and strengthening the idea of global citizenship, beyond the usual frame of reference for citizenship – the nation-state (e.g. World Social Forum)

[8] Inquiry set up to explore how political participation might be increased in Britain – www.powerinquiry.org
[9] www.wearewhatwedo.org

> *While public opinion polls continue to show support for international development and the UK public remains very generous in its giving to aid, there is an apparent equal concern about what people can do to secure global change. Surveys demonstrate that people, young and adult, have a sense of powerlessness. For example, 81 per cent of young people believe they need to understand global matters in order to make choices about how they lead their lives (DFID 2003).*
> **Global in the local, Development Education Association (2004)**

5. *Faith and values*

As the Home Office Citizenship Survey shows, faith-based organisations play an important role in encouraging community activity and generating social capital. Yet, the capacity of faith-based organisations to mobilise people has often been neglected. However, the post 9/11 context has increasingly put religion at the centre of public policy and political discourses. The relationship between the political arena and religion is much debated: while some view the "deprivatisation" of religion as a threat, others consider that secularism is above all about recognising and respecting plurality (including religious diversity).

Convictions, beliefs and values are of course not the preserve of religion as the mobilisation around ethical practices (exemplified by the recent publication of an ethical careers guide[10] and the weekly column on ethical living in the Observer) illustrates. It is also reflected in the development of corporate social responsibility frameworks, although the downsizing of business ethics in MBA programmes (at least in the States) puts things into perspective.

Participation in community and voluntary activities:
% who had participated in previous 12 months

	Civic participation	Informal volunteering	Formal volunteering
White			
Practises a religion	49	70	61
Others	36	61	38
Asian			
Practises a religion	32	53	38
Others	29	57	33
Black			
Practises a religion	33	64	48
Others	31	47	29
All (combined sample)			
Practises a religion	46	68	57
Others	36	61	38

Source: 2003 Home Office Citizenship Survey

[10] http://www.ethicalcareersguide.co.uk/

Thoughts for strategic planning

Potential impact

Tolerance and understanding

- Society appears to be becoming less liberal and less compassionate. Is this affecting people's understanding of the role of the voluntary and community sector? Could this lead to a drop in support for certain unpopular causes?
- Will the focus on citizenship and national identity lead to less tolerance and more exclusion?

Uncivil nature of civil society

- Will diverging or competing views become an increasing source of conflict? (e.g. complaints following the broadcast of 'Jerry Springer: the opera' on TV)
- Is the uncivil nature of civil society to become more prominent? Is the need to recognise and mediate those groups within civil society who may not be a force for good (e.g. extremist groups) becoming more urgent?

Participation and engagement

- Has people's willingness to participate at the local level been overestimated? Could people suffer from participation overload?
- Is the individualisation of engagement leading to a decrease in more traditional forms of association and collective action? Or is it creating new opportunities that organisations can tap into (e.g. rise in the use of technology to mobilise young people)?

Suggested actions

Social cohesion

- Initiatives that generate both bonding and bridging social capital need to be promoted[11].
- There is an increasing need for cross-community organisations, bridge building, dialogue and mediation.
- The sector needs to initiate more forums where debate and deliberation can take place.

Campaigning

- The sector needs to work with the media to improve understanding and coverage of key issues ('positive' reporting, raising awareness but also campaigning).
- Organisations should consider strengthening their campaigning function even when delivery of public services is the organisation's focus.
- There is a need for more sophisticated, creative and innovative approaches in campaigning or fundraising for "unpopular causes".
- Organisations need to develop the campaigning skills of their paid and unpaid workforce.
- Organisations will need to improve their ICT skills and resources in order to take full advantage of the opportunities for campaigning and mobilising support presented by new technology (see section 4.6).

Governance and participation

- Organisations, especially membership organisations, need to continuously strengthen their internal governance and reinforce their transparency and accountability.

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11 Social capital refers to the norms and networks that are embedded in social structure and that facilitate both individual and collective action. See http://en.wikipedia.org/wiki/Social_capital
Bonding social capital is related to common identity (i.e. ties amongst people similar to each other)
Bridging social capital is related to diversity (i.e. ties amongst people different from one another)

- The sector needs to improve its awareness (and practice) of participatory processes, techniques and innovations.
- The sector needs to embrace open source methods of collaboration to encourage participation from dispersed users and supporters.

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4.4. Public services and community governance

Introduction

Historical demarcations about ‘who provides what’ continue to be challenged. Individuals are increasingly involved in designing, commissioning and governing services. In all these areas, the government sees the voluntary and community sector as a key partner.

Continuing trends from Voluntary Sector Strategic Analysis 2004/05

- Increasing and evolving needs and higher expectations are changing the landscape of public services.
- Services and organisations are being remodelled along consumerist lines, resulting in new challenges (e.g. rising expectations, increased competition).
- Cross-sectoral partnerships and collaborative working are growing, largely driven by the government. However, many of these partnerships are founded on tokenism rather than true collaboration.
- The prevalence of national standards conflicts with new themes of local engagement and delivery.
- New entrants (e.g. social enterprises, hybrid organisations) are leading to blurred boundaries and fundamental changes to the make up of the voluntary sector.

Read *Voluntary Sector Strategic Analysis 2004/05* online at www.ncvo-vol.org.uk/3s4

What are the main issues this year?

Key drivers and trends

- Increasing demands for services and rising expectations
- Continued investment in public services, but financial pressure looms
- Desire to reduce the size of government and contract with private and voluntary sectors to deliver services
- Rising expectations of service users
- Drives to involve users in design, planning and delivery of services
- Drives for efficiency savings
- Promotion of choice as a mechanism for improving quality
- Creation of a new legal form – Community Interest Companies
- Government interest in community engagement and governance
- Increasing freedom for high performing local authorities (e.g. through Local Area Agreements (LAAs))

1. Choice

As the government strives to reform public services, choice is seen as an important mechanism for driving up quality. Choice in public services is now beginning to be operationalised; there has been a shift from rhetoric to concrete proposals (e.g. ‘choice to book’ policy in the NHS). An increase in the use of Direct Payments (where service users are given the money to purchase services from their choice of provider) is shifting power from the state to individuals. In order to create a plurality of service providers, improvements are being made to the funding relationship between public and the voluntary and community sector, though a gap persists between high-level guidance and reality on the ground.

A new legal form, the Community Interest Company (CIC) has also been created specifically for social enterprises and comes into being in July 2005. Unlike charities, CICs will be able to access equity finance and pay non-executive directors, but will not be eligible for charitable tax breaks. This will contribute to the increasingly blurred boundary between traditional charitable activity and a broader not-for-profit sector.

> *We believe that enterprises in the mutual and cooperative sector have an important role to play in the provision of local services, from health to education, from leisure to care for the vulnerable…We have introduced a new legal form – the Community Interest Company (CIC) – and want to support new enterprises. As a major stimulus to this sector, central government and local authorities will work with these 'social enterprises' wherever possible. Where services can be provided by mutuals, cooperatives or CICs to the required standards of quality and value for money, they should be positively encouraged to develop and be included in procurement policies.*
> **Labour Manifesto**

The public claim to be in favour of increased choice, though are largely unwilling to pay for it. There are negative elements of choice, for example, the effort involved in choosing, regret and worry felt about rejected choices or missed opportunities, raised expectations of outcomes and guilt over "wrong" (whether real or perceived) choices. As the public becomes used to being consumers of public services, expectations of services rise, which in turn leads to growing (and potentially irreversible) dissatisfaction and cynicism about improvement.

> *Most people love choice if it costs nothing. Moreover increasing choice, and specifically customer responsiveness, is vital if we are to improve public services. But the challenge is to ensure that we do this in a cost effective and fair way. We need to broaden this debate beyond widespread provider choice, which may be very expensive and at times unfair. The value for money and fairness of different ways of increasing choice is now our focus.*
> **James Strachan, Chairman, Audit Commission**

2. From voice to co-production

In the drive for personalisation of services, the importance of voice is often cited alongside choice. This can also be seen as a community, or collective, choice, as opposed to individual choice. Beyond voice, the government is interested in self-organising theories of co-production, which is essentially a move from state aid to self-help and mutual support. Co-production is the involvement of users in the design, planning and delivery of services or broader outcomes. In this process, the public moves along a spectrum from dependent user, to consumer, to commissioner, and finally to co-producer. This is underpinned by a belief that services are most effective when jointly produced by professional service deliverers and service recipients, with funding following the choices those users make. This highlights a continuous trend in which responsibility (and, as section 4.5 argues, risk) is shifted from the state to the individual (i.e. new ideas around patients' and visitors' responsibilities in the battle against MRSA).

The implications of developing a co-production approach may be more far-reaching than currently appreciated. Co-production poses challenges, for example, not just to the way in which services are delivered but also to the more fundamental concept of what we define as "work". While most public service professionals would agree that the contributions made by people outside formal paid work…are invaluable "preventative measures", they are rarely taken into an formal accounting process…But co-production also creates challenges for the future roles of professional staff and public service agencies…Paid staff need to become the drivers of shared responsibility, encouraging self-organisation rather than directing action from above – in effect, becoming catalysts and facilitators for community action rather than dictators of delivery.
Exploring co-production – An overview of past, present and future
New Economics Foundation

3. Community governance and local government

Current government debate on the future of local government stresses the importance of community engagement at many levels. By giving citizens a greater say in democratic and decision-making processes, community engagement is seen as a way to improve public services and re-engage people with state institutions (see also section 4.3). Local Area Agreements (LAAs), which give more flexibility to local authorities in how they allocate budgets to address local needs, are being piloted in a number of local authority areas. In the development of LAAs and community and neighbourhood renewal strategies, local authorities are increasingly expected to engage with stakeholders from other sectors and consult service users more widely. The Government is looking to develop new forms of consultation and engagement at a neighbourhood level and sees the voluntary sector as a key partner in this where they have strong connections into local communities.

The Social Enterprise Zone developed a tool called 'what if…?' to gather ideas from users of public services and front-line workers. This has involved over 1,000 local people. Participants have attended meetings with officials from public sector agencies and central government, been involved in designing and carrying out research and helped deliver pilots testing SEZ proposals. Feeding into policy at the central level has been the most challenging activity, even at a time when policy-makers have been inviting evidence from outside government…. The SEZ co-ordinators conclude that, as long as policy design remains tightly controlled by central government, government will not make best use of evidence from local experience.
Findings – The experience of the Community Links Social Enterprise Zone
Joseph Rowntree Foundation

Views differ on the ideal balance of power between various tiers of government. Since the North East rejected the introduction of an elected regional assembly, the emphasis of the devolution debate has shifted further towards local government. ODPM wish to strengthen the role of councils and of councillors whilst also decentralising some decision-making even further down to the neighbourhood level. At the same time the role of regional Government Offices is being strengthened and new structures such as city regions are also being explored.

Thoughts for strategic planning

Potential Impact

Community governance

- Community leadership has always been the role of both local government and the community sector. With increased interest in this area, the boundaries will become increasingly blurred. How can an effective balance between local representative and participative democracy be achieved?
- Whereas local government represents the entire community, local voluntary organisations often exist for the benefit of distinct groups. What does this mean for accountability in local governance?

Public understanding

- Emphasis is shifting from the origin (i.e. organisational form) of service providers to centrally imposed standards for delivery. What will this mean for public understanding of the sector's role in society?
- What impact will Community Interest Companies have on public understanding of the sector?

Funding

- With much power being devolved beyond local authorities directly to service providers, it will become more difficult to influence and negotiate with purchasers. What new skills will be required?
- The National Audit Office's review of the government-sector funding relationship will identify how funding of the sector is working – and this has the potential to lead to real improvements in the use of funding tools and processes.
- As the voluntary and community sector becomes more involved in delivering services that have previously been delivered by the state, there is a danger of falling independent income and subsequent reliance on public sector funding. Yet it could be more dangerous to be seen to be subsidising services through donations. What is the correct balance and how can this be achieved?
- The use of Direct Payments for social care services will mean an end to the certainty of income that exists with block contracting. Are voluntary and community organisations ready to adapt to this new method of funding?

Suggested Actions

Demonstrating distinctive value

The voluntary and community sector is regarded as responsive and representative. However, this is not always the case. More work is needed on demonstrating how voluntary and community organisations involve users and beneficiaries and the benefits of this.

Navigating choice

As service users are increasingly expected to select, shape and manage their own services, there may be a role for voluntary and community organisations in helping people to manage this complex process.

Campaigning

Voice is as important as choice. By continuing to campaign and shape services, as well as deliver on behalf of the state, the sector stands a better chance of remaining distinctive and retaining high levels of public trust and support.

Local government

- The sector should aim to identify and share learning about the sector's engagement (or otherwise) in the first round of Local Area Agreements.
- The sector has an important role to play in allowing people to engage in local and community governance by providing information, training, support and a space to share experiences and ideas.

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4.5. Trust, accountability and transparency

Why is this important?

The giving of time and money are inherently related to trust. Trust is effectively the voluntary sector's source of legitimacy. Accountability and transparency are major themes of our time and the sector is far from immune to the general demand for greater levels of accountability and transparency.

Continuing trends from Voluntary Sector Strategic Analysis 2004/05

- Public trust in the sector remains high, despite dissatisfaction with some fundraising methods.
- Regulation of the voluntary sector is likely to increase, whether by the Charity Commission or others.
- Growing demands for transparency and accountability compound the pressure to be competitive and always succeed.
- Mainstream and specialist media coverage of sector issues is increasing, with varying degrees of understanding and balance.

Read *Voluntary Sector Strategic Analysis 2004/05* online at www.ncvo-vol.org.uk/3s4

What are the main issues this year?

Key drivers and trends

- Public perception that institutions are not accountable or transparent
- Public pursuit of 'zero risk' at the expense of freedoms
- Unwillingness to trust professionals and their judgement
- Consumerism and interest in greater transparency (e.g. food labelling)
- The Charities Bill and media interest in "public benefit"
- Launch of GuideStar UK[12]
- Regulatory reform, particularly where self-regulation is perceived to be failing
- Focus on governance and leadership
- Blame culture and the fear of failure
- Public demand for the instant availability of information

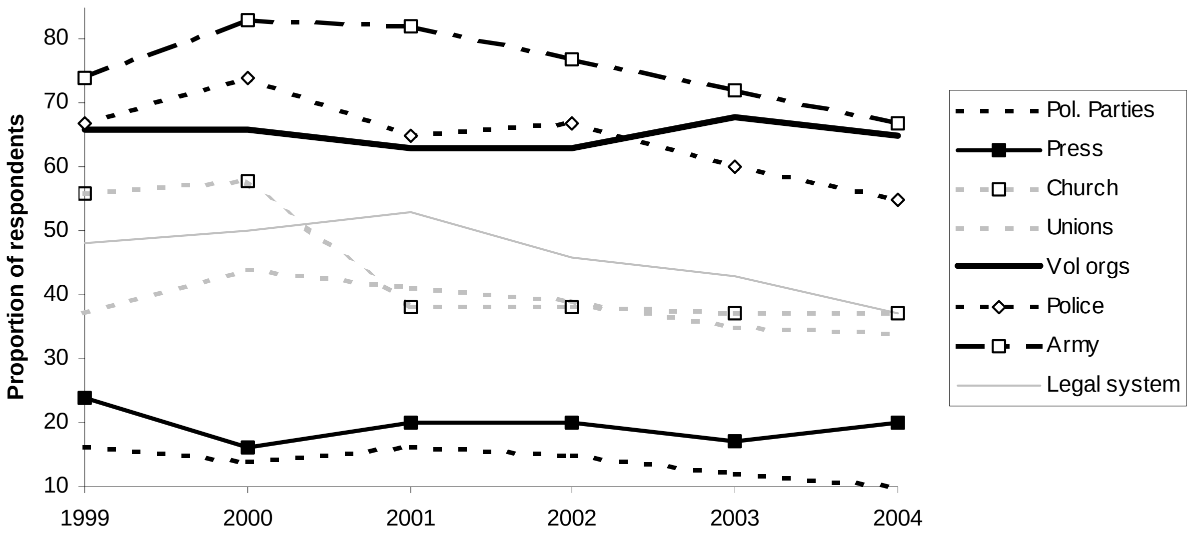
1. Trust and attitudes to risk

The public is increasingly worried about the issue of trust (e.g. trust mentioned 17 times a day in Guardian and Observer, compared to 6 times a week five years ago). In response to declining trust, expectations of transparency have increased. A parallel but related trend has been the increasing need to eliminate (or insure against) risk. However, this drive towards increasing transparency in all sectors has not yet improved trust, largely because the mechanisms used are inappropriate or confusing. Different stakeholders require different

[12] GuideStar UK will launch in September 2005. It is an online information platform and will hold the accounts of every UK registered charity.

information in different forms; therefore transparency can only build trust when combined with high quality and appropriate communication.

Trust in institutions



Source: Eurobarometer

As generalised trust has declined, organisations in all sectors are increasingly engaged in building confidence by demonstrating effectiveness and capability. Similarly, attempts to manage low public tolerance of risk have led to increased insurance costs and limitations on the activities of voluntary organisations.

> *So often is 'health and safety' used as a reason to stop people swimming that the River and Lake Swimming Association (is) exasperated…But there are several dilemmas… First, it is difficult to define what is an acceptable level of risk, and even harder to persuade the public to accept the concept. Most people, deep down, still think that zero risk is a worthwhile goal. Ordinary folk often find hard to accept the economist's approach, that the elimination of risk comes only in exchange for costs that rise ever faster, the nearer 'zero' approaches. Second, the public may object to nannying one moment – but then insist on pinning blame or demanding compensation in situations that would once have been regarded as acts of fate...*
> **Frances Cairncross, Risk&Regulation Magazine, 2004**

2. New mechanisms

Demands for increased transparency have resulted in a number of new methods for demonstrating accountability and transparency. The Freedom of Information Act (2004) may, in time, lead to more open government, though it will be some time before this is embedded in practice. The passage of the Charities Bill has established the concept of “public benefit” as the overarching means by which voluntary and community organisations should be regulated, though there is still a question over whether “public benefit” is best applied to charitable forms or charitable activities. 2005 sees a number of new mechanisms designed to enable increased transparency in the voluntary sector (GuideStar UK, SORP 2005, the Summary Information Return).

Both SORP 2005 and the SIR will increase the emphasis on outcomes, in the first case on relating expenditure to outcomes and in the latter to the quantification of outcomes, though there is concern that they are too inflexible and fail to respect the diversity of the sector.

Comparison, often using ratios, of organisations is likely to increase. The trend could lead to the emergence of US style capacity rating agencies, which rate charitable performance and are used by US nonprofits to demonstrate effectiveness and by funders to choose between organisations when making funding decisions.

> *The American Institute of Philanthropy rates nonprofits with a letter grade (A through F, including plusses and minuses. AIP considers:*
> - *Percentage of funds spent on programs and services (preferring charities that spend 60% or more in this way)*
> - *Cost of fundraising (preferring charities that spend $35 or less to raise $100)*
> - *Years of available assets (the AIP does not reward nonprofits with significant quantities of stockpiled funds)*
>
> **Funders' Guide to Rating Systems, onPhilanthropy, Feb 05**

3. Changing regulation and charity law reform

The government's review of regulation (the Hampton Review, March 2004) suggested various streamlining measures and the government appears committed to reducing the amount of expenditure spent on regulation. This may be facilitated by the use of new technologies to identify and quantify risk effectively, allowing a move towards more risk-based regulation (i.e. focusing regulation where risk is greatest).

However, public services are likely to continue to be subject to high levels of regulation and monitoring and, with more voluntary organisations delivering services on behalf of the state, there will need to be more joined up regulation across sectors if the burden for these organisations is to decrease.

> *[Budget 2005 sets out] a package of radical reforms to tackle the burden of regulation…through:*
> - *Building on the success of the Panel for Regulatory Accountability (PRA) by ensuring that regulation is only used where necessary, that it is not 'goldplated' if it originates from EU law, and that Whitehall departments strengthen their focus on removing outdated and unnecessary regulations as recommended by the Better Regulation Task Force (BRTF) report;*
> - *Adopting a risk-based approach to inspection and enforcement, streamlining regulatory structures and increasing accountability in order to reduce the costs to business of administering regulation, as recommended by the Hampton Review, and setting new targets to reduce the administrative burden over time.*
>
> **Budget 2005**

The Charity Commission is moving towards proportionate regulation; by which smaller charities will be subject to less reporting requirements and the largest charities will receive the most regulatory attention. If the Charities Bill becomes an Act, the Charity Commission will become the regulator of "public benefit", the concept by which public trust in the sector is expected to be maintained. Self-regulation of fundraising will be introduced in 2005. If implemented properly, it should help charities to explain fundraising practices and costs and allow the sector to demonstrate that it can run its affairs professionally.

The Charity Commission is committed to becoming a champion of the sector and "using the law in more modern ways to enable new types of charity to be registered and to flourish" (*Charity working at the heart of society*, 2005). However, this could have serious implications for public understanding of the role of the sector, as shown by recent disagreements about a "landmark" decision to allow charities to be set up wholly to deliver services previously delivered by the state.

> *We will engage with charities in a way which will make most difference to them and those who benefit from them. Any action we take will be proportionate, fair and reasonable, taking account of the issue, the risk involved to the charity and its beneficiaries and the capacity of the charity to comply.*
>
> *Accordingly, we will only ask for information that we need, we will work with other regulators to standardise information requirements, we will increase thresholds to minimise the regulatory burden for smaller charities and ensure our compliance energies are focused where the risk is greatest.*
> **Charity working at the heart of society – The way forward 2005-2008**
> **Charity Commission**

Thoughts for strategic planning

Potential Impact

Comparison
- 2005 has already seen the publication of misleading "league tables" comparing charities. When GuideStar UK goes live, will we see more inappropriate comparison?
- Are we heading towards US-style rating systems (as mentioned above)? And if we do not want to, how can we ensure that we develop more effective alternatives?

Demonstrating impact
- Is demonstrating impact in danger of becoming little more than a PR exercise? And as it relies more on professional skills, will the largest organisations take the lead, resulting in further polarisation of the sector?
- Following the immense success of the tsunami appeal, expectations are likely to be high. Great attention is likely to be paid to the outcomes and impact realised on the ground. What impact will this have on the image of charitable giving?

The new charitable landscape
If the Charities Bill becomes an Act, large numbers of excepted and exempt charities will be expected to register with the Charity Commission, thereby expanding both the number of charities on the register and the total income and expenditure of the sector. What will this expansion mean for public perception?

Rolling back regulation
- Reduced regulation could make it harder to detect fraudulent or criminal activity. How can this be managed without scandals and resultant loss of public trust in the sector?
- Reducing regulation for smaller organisations will make funding these organisations more risky for grant making trusts and foundations. How will funders manage these risks to their own reputations?

Suggested Actions

A common language
There is a fine line between presenting the best possible image, and being truthful and transparent. Despite the competitive landscape in which voluntary and community organisations operate, the sector will need to develop common ways of describing expenditure and avoid creative accounting.

Tools
The sector still has more to do to develop and use appropriate tools to demonstrate impact and effectiveness. GuideStar will provide a useful source of data for the sector as well as the public. For example, sub-sectoral comparisons and benchmarking should become easier.

Support for small organisations
Each year voluntary and community organisations are expected to do even more to demonstrate their impact and be accountable and transparent. Smaller organisations will need support in order to keep up with new tools and practices.

Reputation management
Sustained and critical media coverage of the sector will require many organisations to put in place strategies for reputation management.

Further reading

Charity Commission (2004) *Transparency and Accountability*
www.charity-commission.gov.uk/publications/rs8.asp
Charity Commission (2005) *Charity working at the heart of society – The way forward 2005-8*
www.charity-commission.gov.uk/tcc/pdfs/StratReview05v1.pdf
ESRC Centre for Analysis of Risk and Regulation
www.lse.ac.uk/collections/CARR/
Eurobarometer – http://europa.eu.int/comm/public_opinion
Hampton Review – www.hm-treasury.gov.uk/media/AAF/00/bud05hampton_641.pdf
MORI (2004) *Life satisfaction and trust in other people*
www.mori.com/pubinfo/rd/understanding-life.pdf
Power, M. (2004) *The Risk Management of Everything.*
www.demos.co.uk/catalogue/riskmanagementofeverythingcatalogue/

4.6. ICT

Introduction

Voluntary and community organisations and society as a whole are using new information and communication technologies (ICTs) more deeply and widely than could possibly have been expected even a decade ago. Understanding broad trends in the way ICTs are impacting is important for two reasons: voluntary and community organisations mediate these technological changes, and can also use ICTs themselves.

Continuing trends from Voluntary Sector Strategic Analysis 2003/04

- There is a tension between tough targets for e-government (the policy of moving more transactions online) and an intractable digital divide in society between those with online access and those without.
- The standardisation of information and the ease with which data can be interchanged is likely to facilitate accountability.
- There are significant ICT skills gaps in the sector, in particular a lack of strategic ICT skills that suggest that the sector does not see the benefits of new technologies.

What are the main issues this year?

Key drivers and trends

- Productivity – ICT driving government efficiency gains
- Ubiquity – new technologies increasingly embedded in everyday objects, transactions and processes
- Familiarity – a generation of 'digital natives' has been created
- Affordability – ICT power/cost ratio improves every year
- Convergence – a more connected world, with PCs being only one of a number of digital hubs
- 'Always-on' connections – a future where access to the web is no different to access to other utilities
- Disintermediation – ICTs can remove intermediaries, enabling direct relationships between people and organisations
- Mobility – wireless technologies are driving location-based services
- Collaborative culture – open source approaches are creating a new mutualism, with values conducive to voluntary action
- Open spectrum – increasing interest in free, unlicensed wireless communication will make broadband available for all who want it

1. The role of ICT in efficiency gains

ICTs are driving efficiency gains in the back office. Whether the use of web-based forms (which shift the cost of updating records to the customer), internet telephony (resulting in lower telecoms costs based on volume rather than distance), or the electronic distribution of information materials (perhaps via legal filesharing networks), ICTs are a source of competitive advantage. Moreover, the falling cost of hardware (and, arguably, the maturity and usability of open source software) means that it is becoming cheaper to implement an ICT strategy.

The day may come when we have our own personalised web pages with all our tax records and information there. But this will only create better public services – more customer focused, more efficient, better managed – if ICT is part of a wider strategy for public service reform.
Alexandra Jones, Why ICT? More Efficient and Effective Public Services

This is inherently linked to public service delivery. In 2005, an estimated three quarters of government services are available online.[13] e-government targets aim to shift even more transactions online, so an online capability might be mandatory for some suppliers. For voluntary organisations, ICTs also provide the opportunity to efficiently network or provide services for the 'long tail': dispersed, niche communities of interest (or market/donor segments) that might previously have been beyond even non-profit service delivery models.[14]

2. Mobility matters

An estimated 5% of Europeans have now "cut the cord", dropping their fixed line phone and relying entirely on a mobile phone. Ofcom estimates that 79% of adults now have a mobile phone, compared to 73% a year earlier. As phones effectively become computers, the development of 'm-commerce' (and perhaps m-donors?), will become increasingly important, particularly as phones function effectively as wallets.

The mobile phone is rapidly becoming the uber-device – the one device that seems to have it all and becomes even more indispensable than it is now… the phones of tomorrow will be remote controls for our life. Mobile phones are morphing – to the point where voice is just incidental.
Rajesh Jain, www.emergic.org

This might suggest that too much emphasis has been placed on the PC as the personal communication hub, with more thought needed on how we communicate, work and transact via the mobile phone.

3. ICT is empowering consumers and citizens

Ofcom estimates that the UK has 15 million internet connections covering 56% of homes; importantly, a third of these connections are 'always on' broadband connections. The pervasiveness of the web is empowering consumers/supporters and in turn placing additional competitive pressure on companies and organisations.

Thanks to the internet, the consumer is finally seizing power…Until recently, consumers usually learned about a product and made their choice at the same time. People would often visit a department store or dealership to seek advice from a salesman, look at his recommendations and then buy. Now, for many, each of these steps is separate. For instance, Ford is finding that eight out of ten of its customers have already used the internet to decide what car they want to buy – and what they are willing to pay – even before they arrive at a showroom.
The Economist (leader), April 2005

[13] Prime Minister's Strategy Unit (2005) *Connecting the UK: the digital strategy*. www.strategy.gov.uk
[14] www.wired.com/wired/archive/12.10/tail.html. The 'long tail' describes how e-commerce aggregates niche markets into economically sustainable markets.

The same will undoubtedly apply to charities. Informed with increasing information from online websites (such as GuideStar), the ability of donors to research their cause will invert the current power relationship with charities. Citizens are experiencing similar gains. The rise in blogging and online forums is enabling people to set their own news agendas, while a number of organisations and social movements are already exploiting the 'network effect' of the web for organising purposes (see section 4.3).

> *The tools of digital democracy enable us to become activists with a new flexibility and independence. Email lists, online petitions, meet-ups and blogs have altered citizens' expectations for how advocacy groups should engage their members…There's a simmering tension between ego-centric thinking and network-centric thinking – the tension between the institutional power that emanates from an organization and the transactional power that inheres in its members' myriad interactions.*
> **Jed Miller and Rob Stuart: Network-Centric Thinking**

4. The digital divide

The digital divide has not, however, closed. A strong correlation between household income and internet access is still evident, with social groups C, D and E relatively digitally non-abled. Cost is not the main barrier; instead, skills and confidence, together with a perceived lack of relevance, are the main reasons. However, the future will be different. Today's young are a generation of 'digital natives' who transact over the web by default. Relatively immune to traditional marketing, they might also represent a new generation for whom the mutual ethos is especially strong, encouraged by traditions of file sharing, open source and collaboration.

> *In February 2005, 35 per cent of adults had never used the Internet. Of these, 44 per cent stated that they did not want to use, or had no need for, or no interest, in the Internet; 42 per cent had no Internet connection; and 37 per cent felt they lacked knowledge or the confidence to use it.*
> **Office for National Statistics, www.statistics.gov.uk/cci/nugget.asp?id=8**

5. Data security and civil liberty

Increasing computing power combined with ability to link different datasets together will heighten concerns about civil liberties and data protection. A good example is the National programme for IT in the NHS, which will digitise patient records, making them available to 30,000 GPs and 300 hospitals. Identity verification and theft is already a major concern. One solution to the latter, ID cards, has already created significant public debate, but is likely to be driven through in this parliament.

Thoughts for strategic planning

Potential Impact

Procurement and transactions shift online
As government aims to make efficiency savings and rationalise reporting requirements, an increasing proportion of transactions are made over the web. Supporters, members and customers increasingly expect to do the same and ignore those organisations that don't.

Online communities drive public perception of the sector
Collaborative approaches to rating personal experiences (as a volunteer or donor) might increasingly drive perception of the sector, rather than branding or advertising. Such an online community (vBay?) might also be the basis for more effective, direct investment by supporters.

Virtual networks displace some old sector voluntary organisations
Some 'old sector' organisations will be marginalized or displaced by the web-based networks and communities, which benefit from lower costs and a new economy veneer.

The digital have-nots will be increasingly marginalised
As organisations in the public, private and voluntary sectors increasingly communicate online, people that either cannot or will not follow suit are likely to be economically and socially marginalized. The sector has a strong interest in combating exclusion, and policies and strategies will need to focus on the role of ICT in enhancing exclusion.

Suggested Actions

Take advantage of the ICT hub
ChangeUp's ICT hub – developed by a broad consortium of infrastructure bodies – will provide a central point for advice, information on ICT issues for voluntary and community organisations. Organisations should make contact with the hub as they develop their ICT strategy and capacity.

Harness the new mutualism
Voluntary and community organisations might address their strategic and operational capacity problems by harnessing the online collaborative communities powering the open source and open editing movements.

Make your website the centrepiece of supporter relation management
As supporters and investors increasingly use the web to inform their decision-making, organisations should ensure that their key performance and outcomes data are available via the web. As web-based comparison and benchmarking becomes more important, it will become increasingly important to identify peer organisations.

Further reading

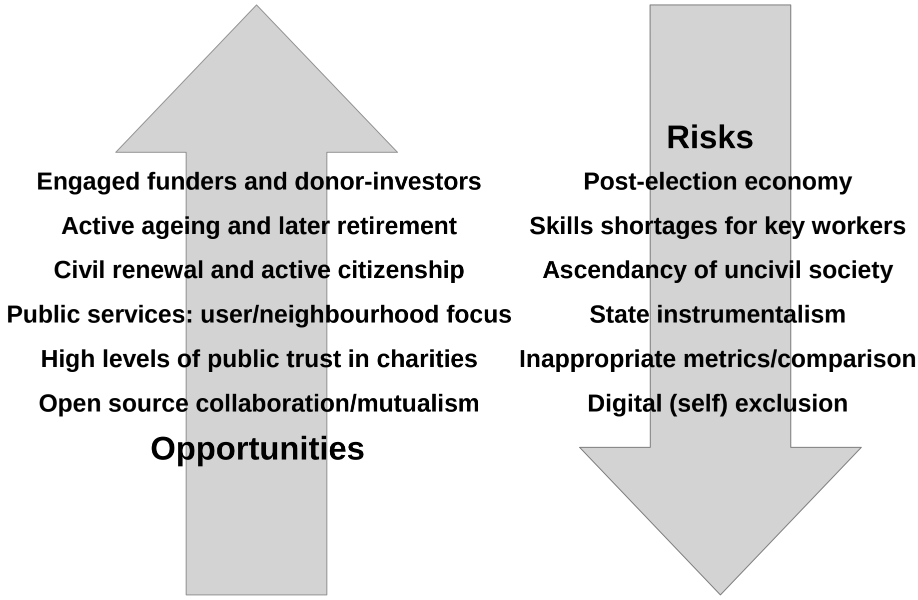
The Digital Divide Network – www.digitaldividenetwork.org/
Foundation for Information Policy Research – www.fipr.org/
Jed Miller and Rob Stuart (2004) *Network-Centric Thinking: The Internet's Challenge to Ego-Centric Institutions*.
http://journal.planetwork.net/article.php?lab=miller0704
Alexandra Jones and Laura Williams. *Why ICT? More Efficient and Effective Public Services.* The Work Foundation
www.theworkfoundation.com/research/psu/ict.jsp
OFCOM (2004) *Communications Market Report October 2004 Quarterly Update.*
www.ofcom.org.uk/research/cm/qu_10_2004/?a=87101
Prime Minister's Strategy Unit (2005) *Connecting the UK: the digital strategy*.
www.strategy.gov.uk
The Wiki Foundation (home to a number of open knowledge bases)
www.wikimedia.org/

5. Looking to the future: What does it mean?

Making sense of the collective impact of these six major issues at a sectoral level provides the basis for a more tailored analysis at the organisational level. As such, this final section is not a conclusion, more a stepping off point. Therefore, we have tried to summarise our analysis by firstly identifying the main risks and opportunities that flow from our issues. Secondly, we have illustrated how some of these might play out in the form of future scenarios. Finally, we have illustrated how our analysis might play out for four fictional exemplar organisations.

5.1. Risks and opportunities

Below are summarised what we perceive to be the main risks and opportunities for the medium term (2-3 years). These are not *significantly* different to those we have identified in previous editions of this publication; but are nevertheless worth highlighting.



The increasing sophistication of funding approaches and tools is likely to lead to the better use and allocation of resources by the sector as a whole, though this will undoubtedly penalise those organisations least able to identify their distinctive value. The paired risk is that which is, as we write, being widely forecast: a downturn in the economy. Some commentators are even predicting the return of stagflation (price inflation with economic stagnation).

A downturn in the economy will ease pressure on the labour market in terms of the expectations of employees, but greater opportunities are likely to come from a larger pool of economically active people. This might be as result of changing welfare policies, but is more likely to arise from later or deferred retirement. However, organisations across the sector (but particularly the health and social care sub-sectors) will still need to address continuing skills shortages and gaps.

Getting the balance right between service delivery and voice/representation remains a key challenge for many organisations and the sector as a whole, and we still believe that this is a critical uncertainty that will shape the sector (see below). Both directions face risks and opportunities: the emphasis on the user perspective and neighbourhood governance in public service delivery fits the culture and operation of the sector, most of which is local. This opportunity is reinforced by policies that emphasise the role of active citizens in civil renewal. In contrast, the centralising tendencies and instrumentalist approach of the state suggest a future where voluntary and community organisations lose their distinctive value. Perceptions of organised voluntary action are threatened by the rise of narrow interest groups whose actions and values might not be perceived to benefit civil society.

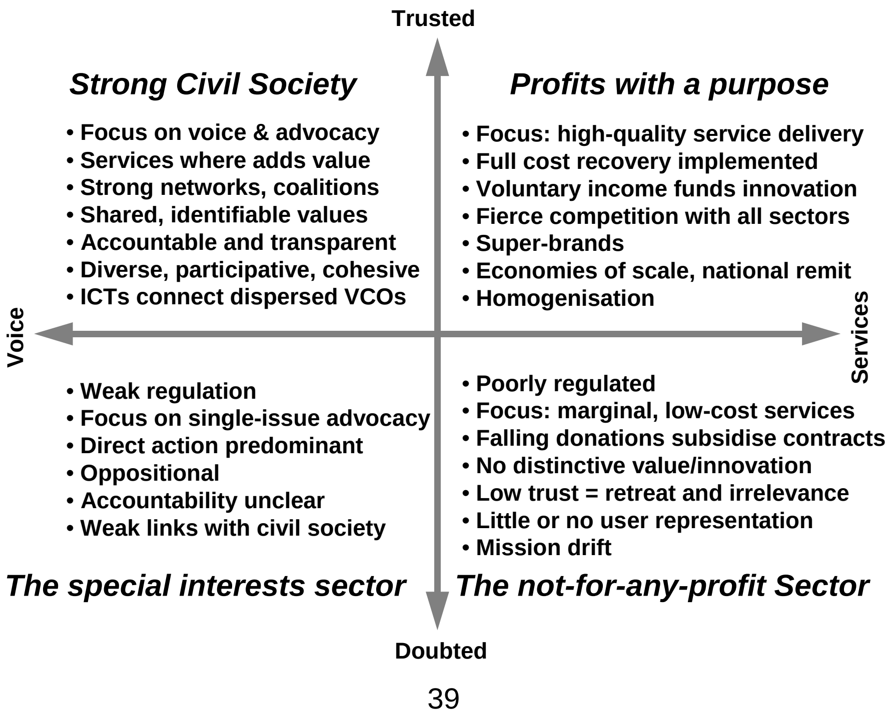
Risk of the latter might be limited however; trust in voluntary organisations remains high, a trend all the more extraordinary given the terms of this debate in the media. It could be argued that the high levels of trust might be related to the generally poor public understanding of what the sector is and does. Therefore, moves to improve transparency, accountability and reporting need to be undertaken carefully, with the obvious risk being inappropriate comparison using poorly designed metrics. This, we believe, is an accident waiting to happen.

Finally, the implications of rapid development in information and communication technologies. Firstly, these changes are likely to reinforce the risks and opportunities outlined above, with the exception of a downturn in the economy. Secondly, at the risk of sounding utopian, we believe that ICT is the greatest of all the opportunities we have highlighted: whether it be the network effects of near ubiquitous internet access, the empowerment and learning benefits associated with open collaboration, or, perhaps most tantalisingly, the values of mutualism, giving time and creative commons that the web is building. Conversely, ICT is the biggest long-term threat. Failure to engage might leave the sector with legacy ‘business models’; more worryingly, community software might remove the need for the intermediary, linking role of some organisations.

5.2. Future scenarios

Aspects of these risks and opportunities can be seen in the four scenarios below, revised from last year’s publication. The scenarios, which suggest alternative but possible futures for the sector, are constructed around two sets of critical uncertainties:

Voice or services: Will the main focus of voluntary organisations be engaging with citizens, or will it be trading with consumers? In short, civil society or not-for-profit sector?
Trusted or doubted: Within the context of greater service delivery, cynical attitudes and media oversight, will the sector be able to take the lead on accountability and maintain the trust that is crucial to the giving of time and money?



5.3. Four representative organisations

Finally, we have constructed “case studies” of the changing operating environment for four very different fictional voluntary organisations, designed to highlight some of the potential impact of the drivers discussed in the publication.

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 government’s review of **pensions** in late 2005 causes great concern among some of the Friends over whether they have saved enough for their retirement. As a result, many decide to work longer and have less time to get involved in fundraising activities. Recruiting **trustees** continues to be a particular challenge, especially with new competition from a local foundation hospital and neighbourhood board.

More proportionate **regulation** by the Charity Commission eases some burdens. However, trustees are concerned about **self-regulation of fundraising** and invest significant time in ensuring that they understand what it means for their organisation.

Tax rises and a dip in **consumer confidence** make fundraising more difficult for a time, though public support remains high, especially when fundraising efforts emphasise the fact that the Hospice receives no money from the **government**. Recognising that many people now expect to be able to donate money online, the Friends invest in secure **online giving** facilities and manage to attract new supporters.

Enable UK* is a large national charity with an annual income of over £100 million and 5000 employees. They have a well-established brand that is known for high quality service delivery but also advocacy work on behalf of the disabled.

At first the organisation works hard to fully cost their projects, push for **full cost recovery** and have their distinctive value and holistic approach recognised by their public sector funders. However, an increase in the use of **direct payments** combined with the a **tariff** system of funding eventually pushes full cost recovery into the background and increased **competition** from **private sector** providers becomes the main concern. Implementing new **ICT systems** to track funding, outputs and outcomes becomes a pre-requisite for certain funding streams and Enable UK joins other national charities to lobby for extra funding to manage the process.

Skills shortages in the social care sector continue, with high turnover and staff shortages. Smaller local voluntary organisations complain that Enable UK, able to offer higher salaries, is poaching their staff and draining their organisations of much needed experience. In response, and also encouraged by central government, the organisation sets up some pilots areas in which they **sub-contract** services to local organisations.

A strong **brand** allows Enable UK to raise significant voluntary income, which funds their **advocacy work** and innovative new services. Being **transparent** and effectively communicating this dual role becomes vital when **media interest** in Enable UK’s activities suggests that they are subsidising public services with public donations. **Accountability** to stakeholders continues to be a major concern and the organisation attempts to shift from a largely PR approach and towards a real understanding and communication of their impact.

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, who have often been service users.

Immigration continues to be a major concern for much of the population and hostility towards refugees intensifies. When the public is given more control over allocation of **Lottery** funds, the group's unpopular mission fails to win support and a vital source of funding is lost. After **campaigning** for changes to local services for refugees, their funding from the local authority is reduced. The group successfully uses the **Compact** to assert their right to campaign and get their funding reinstated.

With limited resources, the group find it increasingly difficult to provide the quantity and quality of information that their funders expect. To meet these demands, and to secure more stable funding, the organisation seeks to grow and become more professional. They turn to local **infrastructure**, newly regenerated by ChangeUp, to help them build **capacity** and explore new tools such as **quality standards** and outcome monitoring, though these are still daunting. A relationship with a new funder, who is interested in building capacity as well as funding the organisation, also brings benefits.

Although the group can draw on a dedicated pool of **volunteers**, there are still challenges, including: the hidden costs of volunteering (e.g. child care); developing language skills; and retaining volunteers from what is often a **mobile population**. Following the Russell Commission recommendations, and with support from a national refugee organisation, they are able to initiate a small scheme for young "gap year" volunteers, which rewards volunteers by enabling them to work towards a recognised advice workers qualification and gain credits towards higher education degrees.

The Organic Clothing Campaign* is a social enterprise and campaigning organisation. It has 7 paid staff, all of whom work from home, and a growing membership of 1,500. It has an annual income of £300,000, split fairly equally between earned income, public donations and support from trusts and foundations.

Though a small organisation, *The Organic Clothing Campaign* continues to strengthen its national presence through use of the **internet** for both selling organic clothing and campaigning. Sophisticated multi-purpose use of online technology for trading, raising awareness, organising and fundraising meets the high expectations of modern citizen-consumers.

The Campaign taps into a desire for new and different forms of **participation**. The organisation is governed by a combination of elected members and others co-opted for particular influence or skills. **Campaigning** is organised around **local** bases but has a **global** emphasis as part of wider movements for fair trade and environmental protection. Members are primarily in their 20s and 30s, have their first contact with the organisation online, and consider themselves to be politically active rather than "volunteers".

Following the establishment of the **Community Interest Company** as a new organisational form for social enterprises, the Campaign sets up a CIC for its trading activities. This enables them to grow this side of the organisation more quickly by selling equity to social entrepreneurs willing to invest in large-scale expansion. Two years after setting up the CIC, the Campaign is supplying a number of high street stores.

All organisation names are fictional

5.4. Final thoughts

> *Have voluntary organisations and community groups reached a heyday?…A decade ago, the independent commission on the future of the voluntary sector was launched and, in 1996, set out an agenda and 60 proposals, most of which are now in operation or in the pipeline. These include tax changes adding £400m to income; the biggest change to charity law in 400 years winding its way through parliament; new standards by which charities can be judged; and a compact signed by ministers that protects charities in receipt of large sums for delivering public services from restrictions on their right to campaign…further changes look inevitable.*
> **Malcolm Dean, "Fears of the Leviathan", SocietyGuardian March 2005**[15]

Despite the many challenges and risk outlined in this report, the argument that we should face the future with confidence has some resonance. Why? The tsunami appeal showed that people will use voluntary and community organisations as the vehicles for their philanthropy, when they identify a need. For government, we are the partner of choice. Investment in infrastructure will improve front line operations. A Charities Act will redefine public benefit for current and future needs. And, the sector continues to reinvent itself in terms of new organisations, identities and meeting new, unmet needs.

The framework for a positive future is therefore largely in place. The challenge now is to match these technical changes (Compact, Gift Aid etc.) with the cultural changes required to implement them, and this perhaps more difficult task falls to individual voluntary and community organisations.

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[15] http://society.guardian.co.uk/societyguardian/story/0,,1432916,00.html