



Servants of the Community or Agents of Government?

**The role of community-based organisations
and their contribution
to public services delivery and civil renewal**

Final Report for bassac

June 2006

Authorship and Acknowledgements

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EXECUTIVE SUMMARY

Introduction

This is an Executive Summary of the Final Report of a Study carried out by the Institute for Voluntary Action Research (IVAR) for bassac between February and May 2006. The Study had one principal aim:

To understand and explore the role of community-based organisations and their contribution to public services delivery and civil renewal.

Part One: Our Approach to the Study

In Part One we describe our approach to the Study. The IVAR Study followed a survey conducted by bassac in December 2005 to assess the impact of funding changes on its members. The bassac study raised questions about the extent to which the twin themes of public service delivery and civil renewal could successfully be followed in tandem by bassac members.

IVAR's Study comprised 27 semi-structured interviews with senior staff and trustees from nine bassac member organisations and one member of Community Matters. They worked in different, predominantly urban, geographical locations in England, and provided a wide range of services and resources to members of their local communities. We also interviewed eight staff from statutory sector bodies with responsibility for funding aspects of voluntary and community sector (VCS) activity.

The Study was a qualitative one, designed to elicit views on matters related to the impact of policy and funding changes on Study organisations. Study participants' views are presented anonymously, in relation to key emerging themes.

Part Two: The Study Context

In Part Two we describe the context in which the Study has taken place. We note the importance of two major strands of the UK public policy agenda which have particular relevance for the VCS as a whole: public services delivery and civil renewal.

We describe how initiatives such as the Treasury's Cross-Cutting Review (HM Treasury, 2002) and ChangeUp (Home Office, 2004b) have had an impact on the role of the VCS in delivering public services. We also note how government interest in civil renewal reflects its concern with reduced levels of civic engagement. We highlight ways in which earlier research has questioned the feasibility of the VCS implementing both policy goals simultaneously. We refer to the changing funding context for the VCS.

Finally in Part Two we draw attention to recent changes at central government level, including moves towards 'double devolution' and the establishment of the new Department for Communities and Local Government, which are likely to affect Study participants and the VCS as a whole.

Part Three: The Study findings

In Part Three we set out the findings from the 27 semi-structured interviews with Study participants and eight statutory funders. We present the findings under eight main headings:

- Organisational mission and purpose
- External policy changes affecting the organisation
- The funding situation
- The impact of funding changes
- Organisational implications of changes in the policy and funding environment
- Relationships with other VCOs
- The experience of managing and responding to change
- Ways in which bassac can help its members deal with the challenges they are facing.

Organisational mission and purpose (section 4)

Study participants described their mission and purpose in terms of providing choices, opportunities and resources for local people, and helping them to improve their quality of life. They tended to see their role in terms of meeting the needs of individuals through provision of services rather than in relation to facilitating their engagement in communal activities. They expanded on this theme by describing the range of services provided by their organisation. Their views as to whether their organisation was a 'public service provider' varied; while some clearly saw their organisation as fulfilling this function, others were adamant that this was not their role. Still others were unclear about the precise meaning of the term 'public services provider'. Statutory funders held a variety of views about the mission and purpose of community-based organisations.

External policy changes affecting the organisation (section 5)

Study participants described a number of policy influences affecting their own organisations and the VCS more broadly. They were particularly aware of the government's desire to see voluntary and community organisations (VCOs) take a more substantial role in the provision of public services. Several of them also referred to, and had been affected by, the government's regeneration agenda. They described how central government policy is often interpreted in different ways at the local level.

Policies relating to particular client groups, especially children, were also affecting the nature and scope of Study organisations' work, and had in some instances restricted its range.

Other policy initiatives, such as Local Area Agreements, Local Strategic Partnerships and *ChangeUp* were not yet having much impact on Study organisations.

The funding situation (section 6)

Study participants considered that local authority funding can no longer be relied on as a substantial source of income. Some had had to cope with reductions in local authority funding or even its complete loss. Others had had to plan for time-limited funding reaching its end, either because of the cessation of the funding programme itself or because funding had been available to their organisation for a fixed term. Some organisations found it difficult to replace expired time-limited funding.

Study participants noted a gradual shift away from grant funding towards contracts or service level agreements. While some were positive about the advent of contract funding, others experienced problems in relation to the increasingly competitive environment surrounding the commissioning process and the 'transaction costs' of tendering.

A move towards more 'prescriptive funding', with more externally set targets, was also noted, along with the loss of more flexible funding streams such as the Single Regeneration Budget.

Study participants, however, often indicated that the number and range of funding sources had increased in recent years; many cited a complex array of different statutory sources plus money from charitable Trusts, the Big Lottery Fund, contributions from service users and self-generated income. Although this helped to spread risks more widely, it also led to more complex financial management processes.

Despite the above, Study participants also frequently referred to problems covering 'core' / central management costs and the full costs of delivering services.

The impact of funding changes (section 7)

Study participants described the impact of recent funding changes on their organisations';

- Mission and purpose
- Independence
- Ability to provide a range of services and activities
- Sustainability and financial security.

Study participants varied in their views as to whether recent funding changes had affected their mission and purpose. While some were strongly of the opinion that there had been no impact, others considered that their organisational priorities had shifted, and that they were now focusing on some aspects of their mission and purpose more than others because of the availability of funding for particular areas of work.

Likewise views about organisational independence varied. Most Study participants felt that their organisations were still essentially independent; they were, however, aware of remaining dependent on their funders, even if the number of funding sources had increased. They also reported a substantial increase in their need to provide financial and other statistical information, in particular to statutory funders.

There was little evidence from statutory funders of any 'proportionality' in the accountability required of community-based organisations.

Study participants held a variety of views about the impact of funding changes on their ability to provide a range of services and activities. Some organisations had grown in recent years, mainly as a result of securing contracts with statutory bodies, and were providing a wider range of services than a few years ago. In some instances these additional services could be described as 'centrally designed' or 'standardised' and often funded under central government funding programmes, rather than developed locally to meet local need.

Study participants also provided examples of services that had had to be reduced in scope or curtailed altogether, either because the work did not now meet funders' priorities or because time-limited funding had expired and could not be replaced. Study participants noted that it was particularly difficult to secure funding for work of a community development nature.

Study organisations were still able to function as multi-purpose organisations, often through generating their own unrestricted sources of income; in some cases, however, closure of activities and services had narrowed the range of organisations' activities.

Study participants varied in the extent to which they considered their organisations to be sustainable and financially secure. Some felt they were much more secure because their range of funding streams, and in some instances the longevity of those sources, had increased. Others, however, thought that their security was reduced, usually because they had experienced reductions in local authority funding. Some had insufficient funding to cover their costs, or to provide services they felt were needed by the community. The short-term or retrospective nature of some funding sources had a major impact on some organisations' financial security.

Study organisations had adopted a number of funding strategies to help them address these problems; some were keen to generate more unrestricted income through social enterprises and sales of services.

Organisational implications of changes in the policy and funding environment (section 8)

Study participants described how the management and governance pressures on their organisations have become more complex, particularly financial management tasks. Staff also needed to spend more time dealing with the regulatory and monitoring demands of statutory authorities. These demands, together with the need to keep up with policy and funding changes, have led to an increased volume of work for both staff and trustees.

Relationships with other VCOs (section 9)

There was no discernible pattern in Study participants' comments about the impact of policy and funding changes on their relationships with other VCOs. Some were involved in various forms of collaboration or more formal partnerships as a pragmatic response to environmental changes; for others involvement in VCO partnerships had come about because statutory funders required it.

At the same time, Study participants considered that the move towards commissioning of services had led to an increase in competition between VCOs.

The experience of managing and responding to change (section 10)

Study participants identified a number of areas in which they felt policy and funding changes had been beneficial for their organisations. Some, for example, felt that external changes had provided them with an opportunity to review their mission and purpose, while others had seized the chance to develop new areas of work. Some had benefited from the availability of longer term sources of funding. Others had perceived as a positive opportunity the need to become more enterprising and to develop sources of unrestricted income.

Study participants described the ways in which their organisations had developed strategies for managing change: these variously included carrying out a strategic review, adopting innovative approaches to using the skills present in their staff group and, as indicated above, developing more entrepreneurial approaches to income generation. Other organisations had focused on the substantial assets provided by the buildings they occupied, and were considering major capital ventures.

Study participants were, however, pessimistic about the implications of the current funding and policy environment for community-based organisations, feeling that the smaller ones in particular lack the resources to address the challenges of the changing environment.

Ways in which bassac can help its members deal with the challenges they are facing (section 11)

Study participants suggested five main ways in which they thought bassac could help its members deal with the policy and funding challenges they face:

- Lobbying central and local government on the impact of policy and funding changes
- Promoting the work of member organisations
- Acting as a communication channel
- Providing support to enable members to be more sustainable
- Facilitating networking and peer support.

They were keen to see bassac continue to lobby central, and in some cases local, government about the impact of policy and funding changes. Some saw this as a role that bassac could play in collaboration with Community Alliance partners; others stressed the need for lobbying to be done alongside bassac's member organisations.

Study participants were keen to see bassac continue to promote the work of its members; some envisaged this primarily as an awareness-raising exercise in explaining the demands of running a community-based organisation, while others wanted bassac to promote their role as service providers.

Study participants wanted bassac to continue providing them with information about relevant policy and funding changes. They also sought support in finding ways to be more sustainable.

Finally they wished to see bassac continue to facilitate networking amongst its members, especially at the regional level.

Part Four: Analysis and Discussion

In Part Four we reflect on the Study findings and suggest some practical implications for bassac as an infrastructure organisation with responsibilities for policy advocacy and building the capacity of community-based organisations.

We describe the ways in which changing government policy in relation to public services and civil renewal poses three broad areas of challenge for bassac members:

- Responding to the policy environment
- Responding to the funding environment
- Developing appropriate management and governance.

We highlight the substantial impact that the policy environment is having on Study organisations, and the fact that some are struggling to maintain their ability to set their own priorities in the face of external policy pressures. We note how some organisations have been drawn by the availability of funding away from community development and community responsiveness towards delivery of public services and services designed externally rather than in direct response to local need. We suggest that, in making this shift, their potential to act as agents of community change or as advocates for local people has been diminished.

We therefore suggest a potential role for bassac in building the capacity of its members to make more informed choices about organisational goals and activities. bassac might also consider providing more opportunities for members to learn about the shifting patterns of public policy and the implications for the VCS. A further option might be to help members find ways of developing their advocacy function and influencing the local policy agenda.

We again stress how the Study findings demonstrate the fact that funding is increasingly available for activities which:

- Follow central and/or local governmental priorities;
- Follow externally set standards and patterns;
- Constitute delivery of services;
- Meet individual rather than community needs;
- Are part of time-limited projects; and/or
- Are subject to strict accountability and monitoring requirements.

We suggest that the cumulative effect of these changes is that community-based organisations have become less able to be responsive to local circumstances and increasingly preoccupied with providing public services and with ensuring their own financial sustainability. The latter appears to be at the expense of carrying out activities that would contribute to civil renewal and neighbourhood governance. We therefore suggest that bassac needs to use the evidence obtained from its membership to lobby national and local policy makers about the practical consequences of their current policy agenda.

Study organisations appear, as a result of the policy and funding changes discussed, to be ‘sliding into change’; moving gradually to become public services providers or social enterprises without necessarily ever having made an explicit decision to do so. We suggest that it is important for paid staff and trustees to receive appropriate training and support to enable them to take control of the direction in which their organisation moves. bassac, then, might provide sympathetic ‘capacity building’ support to enable its members both to understand the reasons for the policy and funding challenges they face and to develop the skills to make appropriate strategic decisions. Our Study also suggests that community-based organisations might benefit from help in recruiting, training and retaining trustees with the skills and commitment to deal with this complex environment, make policy and act as ‘boundary spanners’ between their organisation and the external environment.

We conclude by summarising the crucial roles that bassac can play in helping its members deal with the challenges they face:

- Building the capacity of members to make more informed choices about organisational goals and activities, and to plan more strategically in response to the pressures of the external environment
- Providing learning opportunities in relation to the shifting patterns of public policy and its implications for the VCS
- Helping members develop their advocacy function and their ability to shape the local policy agenda
- Using evidence from the membership to lobby national and local policy makers about the practical consequences of the current policy agenda
- Helping staff and trustees equip themselves with the skills to make strategic decisions that are appropriate for their local circumstances
- Helping organisations recruit, train and retain trustees with the skills and commitment to deal with the complexities of the current environment, and to act in a ‘boundary spanning’ capacity.

INTRODUCTION TO THE FINAL REPORT

1. This Study

This is the Final Report of a Study carried out for bassac by the Institute for Voluntary Action Research (IVAR) between February and May 2006.

The Study had one principal aim:

To understand and explore the role of community-based organisations and their contribution to public services delivery and civil renewal.

It had five main objectives:

- To identify the core functions and purposes of community-based organisations
- To identify changes (including sources, conditions, goals and outcomes) of funding to community-based organisations over the last three to five years
- To identify multi-stakeholder perspectives on the reasons for these changes
- To consider the perceived benefits and challenges of these changes
- To identify the strategies developed by community-based organisations to deal with these challenges.

2. Terms and Working Definitions for this Study

For the purposes of this Study, we have used a number of working definitions:

‘Public services’

We understood the term ‘public services’ to mean ‘services that are wholly or partly funded, or could be funded, from the public purse, including national, regional and local government and statutory agencies at all levels’ (HM Treasury, 2003).

‘Civil renewal’

We understood the term ‘civil renewal’ to be a shorthand term referring to the various policy themes which encourage citizen participation in grassroots political and social action, community self-help and the building of ‘social capital’.

‘Community-based organisations’

The term ‘community-based organisations’ is used in this report to refer to organisations such as settlements, social action centres, multi-purpose community centres, community associations, development trusts, tenants’ and residents’ associations, village halls and community farms / gardens, which are committed to working at the local and neighbourhood level. Their origins frequently go back many years, and their roots often lie in a strong desire on the part of their founders

to tackle poverty and to meet need (social, recreational, economic or cultural) and improve the circumstances of local people through a range of services and activities. Often they use a 'community development' approach which they see as being 'about building active and sustainable communities based on social justice and mutual respect' and about 'changing power structures to remove the barriers that prevent people from participating in the issues that affect their lives' (Community Development Exchange, 2006).

bassac describes its members as 'diverse community-based organisations and development agencies that work with people facing discrimination and disadvantage, to change their lives' (bassac, 2006a). Many bassac members pride themselves on their independence from local and central government, their ability to be multi-purpose and to engage closely with members of local communities. Such organisations are increasingly seen to constitute a distinct sub-sector of the voluntary and community sector (VCS): the potential of settlements and social action centres, community associations and development trusts to act as key local 'anchor' organisations was highlighted by the Home Office in its *Building Civil Renewal Report* (2003) and again in its *ChangeUp* report (2004b), where it was noted that 'Multi-purpose centres, development trusts, tenant management organisations and other regeneration organisations provide a more substantial resource in some more deprived urban areas. There is a need for much more universally available support that is inclusive and accessible for local self-help and start-up activity' (Home Office, 2004b, p.49).

3. The Structure of this Report

In Part One of this Final Report we describe our approach to the Study. In Part Two we outline the context in which the Study took place. In Part Three we focus on the Study findings, in particular Study participants' views about the way in which the policy environment has affected their work; the funding changes they have experienced; the impact of those funding changes on their mission and purpose, independence, ability to provide services and to function as multi-purpose organisations. We describe their strategies for managing change and highlight their suggestions about how bassac might assist its members in addressing the challenges they face.

In Part Four we discuss the issues emerging from the Study findings and the ways in which bassac might help its members respond to the challenges they face.

PART ONE: OUR APPROACH TO THE STUDY

1. Aim of the Study

This Study was conducted by the Institute for Voluntary Action Research (IVAR) following a survey carried out by bassac in December 2005 to assess the impact of funding changes on its members (bassac, 2006b). bassac's research was motivated by concerns about the impact of policy and funding changes on community-based organisations. It found that a move away from grant aid towards contracts and service level agreements for delivering public services was reducing the range of work members were able to carry out. Of those members who had seen a reduction in grant funding, 73% said the decline was making it harder for them to be sustainable, 50% felt their independence had been compromised and 42% felt that they were becoming less community-based. There was also a substantial decline in the ability of members to act as multi-purpose local centres. The findings raised further questions for bassac about the extent to which the twin themes of public service delivery and promotion of civil renewal could successfully be followed in tandem by their members.

IVAR's Study, then, had one principal aim:

To understand and explore the role of community-based organisations and their contribution to public services delivery and civil renewal.

1.1 Methodology

In order to gather information and ideas about the role and contribution of community-based organisations to public services delivery and civil renewal, we carried out semi-structured interviews with senior staff and trustees from nine bassac member organisations. We also included one member of Community Matters, a partner of bassac in the Community Alliance¹, because Community Matters and bassac staff felt that bassac and Community Matters members shared some concerns in relation to the impact of the policy and funding environment.

Across the ten organisations we interviewed all ten Chief Executives, eight other senior staff (for example finance managers or staff responsible for a particular service area) and eleven trustees (usually the Chair and / or Treasurer). In two organisations we interviewed two trustees together. All interviews (27 in total) were carried out face to face except for two that had to be conducted by telephone. Interviews lasted between one and three hours.

We also interviewed eight staff from statutory sector bodies with responsibility for funding aspects of voluntary and community sector (VCS) activity in the locality of the organisations studied. All of these interviews were conducted by telephone and lasted between one and two hours.

¹ The Community Alliance is a partnership of bassac, Community Matters, the Development Trusts Association and the Scarman Trust. It aims to build four strong organisations that can work in deep partnership and provide support for anchor organisations and the delivery of community service agreements.

1.2 Interview questions

We asked senior staff and trustees broadly the same questions, covering:

- The way in which they would describe their organisation's mission and purpose
- The main policy changes at national and local levels that had affected their organisation in the last 3-5 years
- Recent changes in their funding situation
- The impact of any funding changes on their: mission and purpose; sustainability and financial security; services provided; independence; ability to function as a multi-purpose organisation
- Other changes experienced in their organisation that they could attribute to the external policy environment
- The ways in which they were managing and responding to change
- Their perspectives on the implications of policy and funding changes for the community sector
- Their ideas about how bassac might help its members deal with the challenges they are facing.

We also asked senior staff to provide some factual information about their organisation in advance of the face to face interviews, including a description of its activities, staff size, main user groups and a breakdown of their annual income.

The interviews with statutory funders sought to elicit information about their funding policy and practice. In pursuit of this aim, we asked them about:

- The form in which they provide funding to the VCS (e.g. contracts or grants)
- The policy influences that affect their funding decisions
- Their practice specifically with regard to community-based organisations (e.g. whether they treat them differently from other voluntary and community organisations; what requirements they have of them).

1.3 Organisational details

Nine of the ten organisations that participated in the study were bassac members; as indicated earlier, the tenth was a member of Community Matters. They worked in a range of different, but predominantly urban, geographical locations in England, and reflected the different sizes (in terms of staff numbers and annual income) of bassac members. Seven of the ten provided services and activities for a very broad range of local people, and offered a multitude of resources such as educational classes, childcare, activities for young people, legal advice, 'healthy living' activities, lunch clubs for older people, advocacy, groups for drug users, assistance for homeless people and so on. One organisation worked primarily with young people. Two focused their activities on the local BME community, one providing a broad range of services similar to those described above; the other concentrated mainly on arts activities (but also provided some services, such as a nursery, to the wider community in the area). All of their buildings also acted as a base for other local community groups, either for regular meetings, one-off events or office space.

Numbers of staff employed by Study organisations varied between three and 120. In nine of the organisations many staff were employed on a part-time basis; full-time equivalent figures were generally not available. Annual income ranged from £139,000 to £2.3 million.

The summary organisational details are as follows:

Organisation	Location	Total annual funding for year 2006-7	Number of paid staff
Organisation A	London	£2.3 million	81
Organisation B	South Yorkshire	£1.3 million	85
Organisation C	London	£2.1 million	84
Organisation D	West Yorkshire	£758,000	30
Organisation E	London	£200,000	6
Organisation F	Bristol	£228,000	13
Organisation G	Warwickshire	£139,000	3
Organisation H	West Midlands	£677,000	120
Organisation I	Devon	£1 million	45
Organisation J	East Yorkshire	£147,000	7

1.4 Presentation of data

The data from the interviews have been organised thematically, resulting in the emerging findings presented in Part Three.

Given that this is a qualitative and not a quantitative study, we do not attribute numbers to those holding any particular point of view, although we do highlight points made by several interviewees. We are presenting the findings anonymously; we refer to ideas as being put forward either by 'Study participants' (when referring to the views of paid staff and trustees from the organisations involved in the Study) or 'statutory funders'. Unattributed quotations are presented throughout this Final Report in italics. We illustrate some points with longer case study examples for which pseudonyms are used.

PART TWO: THE STUDY CONTEXT

2. Introduction

This Study has taken place at a time when a number of public policy themes and initiatives are of particular importance to those involved with voluntary and community organisations (VCOs). The two major strands of the current UK government policy agenda which have particular relevance for the VCS as a whole are public services delivery and civil renewal. Both are driving change in all parts of the VCS; in conjunction with other policies these themes are influencing the form in which funding is provided to community-based organisations and other VCOs and the nature of their funding relationship with statutory bodies.

In this Part Two of the Final Report we outline in turn:

- Policy on the role of VCOs in public services delivery
- Policy on the role of VCOs in promotion of civil renewal
- The feasibility of implementing both policy goals simultaneously
- The changing funding context for the VCS
- Recent central government changes and initiatives.

2.1 Policy on the role of VCOs in public services delivery

There has been increasing interest in the role, or potential role, of VCOs in public services delivery since the latter years of the last Conservative government; this grew under the incoming New Labour administration and accelerated in the early years of the new century. As we noted earlier, 'public services' have been explicitly defined as 'services that are wholly or partly funded, or could be funded, from the public purse, including national, regional and local government and statutory agencies at all levels' (HM Treasury, 2003).

The Treasury's Cross Cutting Review (HM Treasury, 2002) highlighted what it considered to be the distinctive features of the VCS such as specialist knowledge, access to the wider community and unique methods of involving people in service delivery, and considered that the sector is often better placed than the public sector to deliver services to marginalised members of society. The theme of the sector playing a role in delivery of 'world-class public services' was reiterated in a more recent Treasury Report (HM Treasury, 2005), and by the National Audit Office (2005), which referred to the Home Office having a target to increase the sector's involvement in public service delivery by 5% by 2006. The Home Office itself suggested that the potential contribution of VCOs is often overlooked by government decision makers who focus on private or public sector solutions to problems at the expense of the VCS (Home Office, 2004a).

As well as facilitating, through a variety of funding arrangements, the involvement of VCOs as direct providers of public services, government has also encouraged the involvement of the sector, and individual VCOs, in implementing a range of public policy programme initiatives, including, for example, Local Strategic Partnerships, Sure Start and aspects of the regeneration agenda such as New Deal for Communities.

Recent initiatives, in particular *ChangeUp* (Home Office, 2004b) have sought to 'build the capacity' of the sector to deliver public services, and have begun to have significant impacts on the configuration of infrastructure services to the VCS as well as heightening awareness of the sector's growing role in service delivery.

2.2 Policy on the role of VCOs in promotion of civil renewal

In addition to enhancing the capacity of the VCS to deliver public services, the current government has also indicated a desire to see the sector increase its role as an agent of 'civil renewal', a term used, as we noted earlier, to refer to citizen participation of various kinds. It has been defined as 'a way to empower people in their communities to provide the answers to our contemporary social problems' (Home Office, 2003, p.1). In 2003 the then Home Secretary, an active proponent of the concept of civil renewal, considered that local communities were better than outside agencies at dealing with their own problems because of their networks, knowledge and a sense of what would work locally. Civil renewal was seen (Blunkett, 2003) as having three essential ingredients:

- 'Active citizens' who contribute to the common good
- Strengthened communities in which people work together to find solutions to problems
- Partnership between local people and public sector bodies in improving the planning and delivery of local services.

Government interest in civil renewal reflects its concerns about reduced levels of civic engagement as exemplified by participation in political processes and systems, anti-social behaviour and a lack of 'community cohesion'. The latter is defined as 'a shared sense of belonging based on common goals and core social values, respect for difference (ethnic, cultural and religious), and acceptance of the reciprocal rights and obligations of community members working for the common good' (Community Cohesion Unit, 2002, section 3.2).

2.3 The feasibility of implementing both policy goals simultaneously

The government's perception of the VCS's twin role in delivering public services and promoting civil renewal was highlighted in the Foreword to the Cross Cutting Review, which describes the sector as having the ability to 'reform the operation of public services and build a bridge between the needs of individuals living in those communities and the capacity of the state to improve their lives' (HM Treasury, 2002, p.1). There is some evidence that co-option of VCOs by the state as a vehicle for public services delivery and public policy implementation may adversely affect their ability to contribute to civil renewal. For example, by increasing demands for accountability and regulation, and by placing greater demands on trustees and other volunteers, features such as user participation, the role of local people in governance and the contributions made by local volunteers may be reduced (Scott and Russell, 2002; Lewis, 1996).

Other research suggests that some of the positive attributes of community-based organisations are being eroded by the requirements of legislation and regulation (e.g. Rochester, 2001). While the government's policy agenda puts great emphasis on the role of the VCS generally in providing public services, and on community-based organisations in particular in facilitating civil renewal, there are questions about the extent to which these twin policy strands are compatible and

about how far they compromise the traditional role of community-based organisations. The extent to which both policy goals can be implemented simultaneously by one organisation is one of the issues explored in this Study.

2.4 The changing funding context for the VCS

As VCOs have become increasingly part of the 'mixed economy of care' (Lewis, 1996), so their funding relationship with statutory bodies has changed from dependence on grant aid towards a contractual arrangement for provision of services. Numerous government reports and other studies have, however, commented on a range of problems with all aspects of the contracting relationship, including lack of knowledge about contract opportunities (Home Office, 2004a), poor funding practices on the part of local authorities (National Audit Office, 2005), short-term contracts not being renewed (Garlick, 2003) and increased competition for funding (Wilkinson, 2004). The need for community-led organisations to restructure and change their management in order to take on public services delivery has also been noted (Garlick, 2003).

2.5 Recent central government changes and initiatives

As this Study was in progress a number of changes at central government level took place which potentially have an impact on our Study participants, other bassac members and the VCS as a whole. In a speech on 13 March, David Miliband MP, then a Minister in the Office of the Deputy Prime Minister (ODPM), put forward the intention to devolve more power to members of local communities, to give more choice to citizens and to help communities take control of physical assets and generate social enterprises (Miliband, 2006). This initiative (usually referred to as 'double devolution') potentially has major implications for bassac members, other community-based organisations and those they engage with.

As part of the ministerial reshuffle of 5 May 2006 and realignment of central government responsibilities, a new Department for Communities and Local Government (DCLG) was created, taking over aspects of the work of the former ODPM. DCLG describes its role as being 'to help create sustainable communities, working with other government departments, local councils, businesses, the voluntary sector, and communities themselves' (DCLG website, 2006). The department unites the 'communities' and 'civil renewal' functions previously undertaken separately by ODPM and the Home Office. At the same time, a new Charity and Third Sector Finance Unit has been established within the Treasury, drawing together the different parts of central government that previously dealt with VCOs and social enterprises.

It is against this background that our Study explores the contribution of community-based organisations to public services delivery and civil renewal and the extent to which implementation of the two policy agendas is possible within the one organisation.

PART THREE: THE STUDY FINDINGS

3. Introduction

In Part Three we set out the findings from the 27 semi-structured interviews with senior staff and trustees from the ten Study organisations and with eight statutory funders. As we noted in section 1.3, these organisations were situated in different locations around England, but predominantly in urban areas, and offered a wide range of resources and services to their local communities. Although they could all be described as ‘community-based organisations’, they did not, however, generally use this term themselves, usually preferring the broader ‘voluntary and community organisations’ (VCOs). We shall therefore use this terminology in presenting the Study findings, unless the Study participants themselves used alternative wording.

As indicated earlier, we refer to the Study findings as emanating from ‘Study participants’ (when referring to the views of paid staff and trustees from the organisations involved in the Study) or ‘statutory funders’. Pseudonyms are used to preserve the anonymity of the Study participants in the longer case study examples.

We present the Study findings under eight main headings, reflecting the principal areas covered in the interviews:

- Organisational mission and purpose
- External policy changes affecting the organisation
- The funding situation
- The impact of funding changes
- Organisational implications of changes in the policy and funding environment
- Relationships with other VCOs
- The experience of managing and responding to change
- Ways in which bassac can help its members deal with the challenges they are facing.

4. Organisational mission and purpose

When we asked Study participants to describe their organisational mission and purpose, their responses focused on the importance of providing choices, opportunities and resources for local people, and improving their quality of life:

‘it is about giving people opportunities, support and enabling them to do things for themselves, so it’s about access, opportunity, support and independence’;

‘the catch phrase is about enabling change; promoting opportunities and increasing choice’;

‘the mission is to assist young people to live healthy, secure and satisfied lives by enabling them to make informed choices’.

While Study participants often used the word 'empowerment' in their responses, the concept was seen primarily in relation to helping individuals improve their quality of life by giving them choices, opportunities, skills or resources rather than to enhancing their ability to be involved in political or community development processes: *'to promote and support community empowerment and stability by listening to community needs, empowering individuals, assisting local businesses and improving the built and green environment'*.

Nor did Study participants generally see their mission as being about facilitating individuals' engagement in communal activities; the emphasis tended primarily to be on meeting the needs of individuals through provision of services and, as a by-product of that, building a more inclusive society. Comments such as *'it's to develop the community wealth of the area and promote a diverse and inclusive society in which all are free to participate'* were relatively uncommon. And while services and activities were usually developed as a response to perceived local need, the idea of being 'community-led' did not feature strongly. All of our Study organisations provided resources to other local organisations and groups in the form of administrative support, use of rooms or other physical resources, but appeared to see this as much part of an income generating strategy as an aspect of community development.

Study participants, then, tended to focus on their role in meeting the needs of individuals; they often expanded on this theme by describing the range of services provided by their organisation:

'our mission and purpose is to provide services for the local residents through the different work streams we have';

'I think it's about alleviating need, and addressing local need in one of the poorest local UK boroughs through the provision of a range of services';

'We're here to provide access to physical, mental and spiritual resources for people who are in need..... We've gradually expanded to cover all sorts of aspects to try to accommodate the requirements of the clients. Serving the community is what it is all about'.

While Study participants saw provision of services as the major part of their mission and purpose, their opinions as to whether they were 'public service providers' varied considerably. Some were unclear about the precise meaning of the term 'public services'. Some were explicit about not being public service providers – *'we are not a substitute arm of local or central government'* - while others acknowledged that they were in reality public service providers because they delivered services funded by means of a contract with the local authority. They often, however, emphasised that they were simply continuing to do work they had always done (albeit funded on a different basis), and which members of the community had once requested. Some saw their mission as having slipped by default or circumstances into public service provision: *'it's almost as though we're a community association distracted by public services'*. And others again viewed their organisation more explicitly as being about the provision of public services: *'the concept of being a public services provider very much fits'; 'we provide public services on behalf of the city council'; 'it's to provide services on behalf of public bodies that they used to provide or aren't as good at doing'*.

Case study example – community-based organisation and public service provision

Underhill Youth Project offers a wide range of services for young people aged between 13 and 25. These include various services with an emphasis on mental health; a sexual health facility provided in conjunction with the PCT², counselling, a programme of confidence-building activities and advice on a wide range of issues. Senior staff see Underhill's mission as being about '*assisting young people to live healthy, secure and satisfied lives by enabling them to make informed choices*'. They describe their work as being based on listening to young people's needs and preparing them to take control of their lives. Services focus on particular issues that concern young people.

Underhill's Chief Executive describes the organisation as offering services '*somewhere between public services and community-based services*'. While trying to focus on young people and their needs, they also have significant contracts with central government departments and with the Primary Care Trust and a service level agreement with the local authority to provide an advocacy service. She commented that '*we are definitely playing an increased role in provision of public services. This has seen a shift from a relationship with young people that is totally voluntary on their behalf to one where in some instances if the young people do not engage, we are obliged to inform the statutory sector*'.

Statutory funders echoed Study participants' range of views about the mission and purpose of 'community-based organisations', commenting that, for example:

'it could be any of providing public services, community-led services or facilitating community engagement';

and:

'community organisations and the VCS are increasingly being seen as key partners in service delivery and through a procurement strategy they are identified as key delivery agents'.

In sum then, statutory funders and bassac Study participants shared a perception of 'community-based organisations' as having a variety of organisational purposes, but focusing on the provision of services to individuals more than on facilitating their engagement in the community.

5. External policy changes affecting the organisation

Study participants identified a number of external policy changes which they felt affected their organisations. We refer in turn to:

- The increased role of VCOs in provision of public services
- The government's regeneration agenda
- Local authority implementation of central government policy
- Policies relating to particular client groups.

² Primary Care Trust

In later sections of this Part Three we discuss in more detail the impact of these changes on Study organisations.

Study participants also referred to a number of policy initiatives with a bearing on the VCS which they had expected to affect their organisation, but which have not yet done so.

5.1 The increased role of VCOs in provision of public services

Some Study participants referred explicitly to central government's desire to see VCOs take a more substantial role in the provision of public services. For example, in one organisation: *'they want us to become service providers and work in partnership with local authorities'*; while in another: *'the main policy change seems to be a much greater acceptance and understanding on the part of central government that organisations like us have a very important, and increasingly important, role to play in the provision of services and enabling people to meet their needs'*. Others implied an awareness of this trend in their references to the Treasury's (2002) *Cross-Cutting Review*, in their descriptions of the services their organisation offered and their reasons for providing them, or in their comments about changes in funding regimes and a move from grants to service level agreements or contracts. They were aware that these changes were initiated by central government, but felt that policies could be interpreted differently at the local level.

We return to these issues in later sections of Part Three.

5.2 The government's regeneration agenda

Central government's regeneration agenda was referred to by a number of Study participants. Those working in areas of significant regeneration expressed concerns about some of the perceived negative impacts on the VCS of regeneration initiatives. In one area Study participants were working to try to ensure that the needs of the community were taken into account in the major regeneration project that was going on; while they had received some initial reassurance from the local authority that community needs were being taken into account, they were still concerned about community cohesion – *'the borough has a policy on mixed developments – but that won't just happen because people are forced to live together. It needs support and facilities to create cohesive communities'*.

In an urban area, the presence of the local regeneration agency was, in the view of Study participants, creating a more unstable environment amongst VCOs:

'that organisation has so much money to play around with that they are duplicating a lot of work. They were providing all types of advice. They would use people from the benefits agency to provide welfare benefits advice when the whole point is that it is meant to be independent. And those advisers weren't skilled enough to sort out the issues. They are competing with a lot of the smaller voluntary organisations. The area is awash with smaller VCOs because regeneration agencies keep creating them'.

In another locality, a Study participant commented that: *'they are more interested in setting up their own projects than to support established projects and some of*

the things they initiated last year have folded. If they funded an established organisation with the infrastructure already in place, they might have been more sustainable’.

5.3 Local authority implementation of central government policy

Study participants in some areas referred to the way in which their particular local authority’s interpretation of central government policies was having an impact on their organisation. For example, one Study participant commented that *‘the council tries to respond to government policy, but has a strange take on them. They said that it was government policy to support infrastructure organisations so they would make sure that the council focused on infrastructure organisations and would only fund organisations that were part of an infrastructure consortium’.*

Another Study participant cited ways in which the local authority’s changing interpretations of ‘Best Value’³ had affected their organisation; an incoming Chief Executive’s strict interpretation of Best Value led to numerous problems over VCOs’ building leases; in their particular case *‘this led to the council attempting to delay sorting out our lease on the building for 18 months, which cost us £10,000 a month to keep the building going’.*

A third example of the filtering of national policy through local authorities and ultimately impacting on the VCS was provided by the Study participant who considered that *‘I would say that the main thing affecting the funding of the voluntary sector is that the local authorities have almost ditched their social ethos and adopted a corporate approach to service provision and funding. Central government is key to this change in ethos. They’ve placed a lot of pressure on the local authorities by making them focus on short-term economic issues’.*

Case study example – local interpretation of central government policy

Middleway Social Action Centre is a large, long-established organisation in a very disadvantaged area. They received money over the last few years from the Community Empowerment Network and from the Children’s Fund. The Chief Executive felt that *‘at the national level there was evidence of a belief that the VCS is professional and is best placed to know how to spend money in the sector’.* This year, however, both funds have been taken back into the local authority and hardly any funding from these sources has come to Middleway or to other VCOs in the area. Staff of Middleway believe that these changes have come about as a result of pressure from local government to central government, because local authority staff are struggling to understand the VCS. *‘The VCS works in a different way to the statutory sector and there have been so many meetings where the local authority has been complaining about not understanding the VCS and the way that it operates’.*

In our discussions with statutory funders it was apparent that some of them felt that their relationships with VCOs were guided mainly by local factors, for example: *‘at the moment my work is guided solely by the county’s Community*

³ ‘Best Value’ was introduced by government in 1997 to replace Compulsory Competitive Tendering of Local Services. Its main purpose was to guarantee that local authorities would seek to deliver continuous improvement in all their services.

Plan. This is our main policy driver. The Plan sets out the guidelines for funding, as well as things like targets'. Others put more stress on national policy issues: 'the national policy environment is the main factor, especially the Cross-Cutting Review'. A more common view was to see a mixture of local and national policies as having an impact, or to view national policies as being interpreted in different ways according to the local context: 'the national agenda is about getting closer to communities, but they are not always too prescriptive about how that should be done..... There is flexibility locally about how that is delivered'.

5.4 Policies relating to particular client groups

Study participants described the impact of recent government policies and initiatives relating to particular client groups on their organisation. They discussed how government policy has affected both what work they are able to do and in some cases how it is carried out. Most of their comments focused on the welfare of children and young people, but some referred also to other age groups. One Study participant, for example, felt that central government policies on health and social services and community care, and in particular the emphasis on maintaining older people's independence, had enabled her organisation to develop and fund a variety of activities for active older people. Another Study participant referred to the 'Valuing People' White Paper, which has led to a '*gradual shake-up of local policy*' in relation to people with learning disabilities and to the inception of 'spot purchasing' for services for individuals rather than 'block contracts'.

The need to comply with child protection policies and to take account of other childcare legislation was stressed by Study participants, who noted how compliance has affected the nature and scope of their work. In one organisation a staff member commented that: '*Every Child Matters has affected individual staff teams and the organisation as a whole – all staff need an understanding of child protection even if they do not personally work with children*'. Elsewhere, staff described how the organisation's activities had been substantially affected by the requirements of the Children Act - a few years ago they used to run a large programme of holiday activities for children: '*we used to have 400-500 children here a day; now that sort of provision falls under the same legislation as nurseries. We used to get a lot of parental involvement, but as legislation about child ratios, CRB checks etc have come in we have to have more staff*'. The same organisation had also had to close two nurseries – the combined effect of childcare law and the Minimum Wage legislation meant that they could no longer afford to keep them open.

Study participants generally welcomed government initiatives in relation to the welfare of children and young people, noting, for example, that they have encouraged more inter-agency working, generally seen as a positive development. Some potentially detrimental impacts were, however, suggested: '*Every Child Matters and Youth Matters have had a big impact on youth work. These policies are still changing the way the government is allocating funding. A specific proposal is the Youth Opportunity Card. So Youth Matters might have a potentially negative impact because payments might be based on a 'spot' contract basis. That will make it hard for a VCO like us to cover core costs and service costs*'.

5.5 Other policies and their impact

We asked Study participants about other policy initiatives and changes taking place at different levels of government that might be expected to have an effect on their organisation, including *ChangeUp* (Home Office, 2004b), Local Area Agreements (LAAs) and Local Strategic Partnerships (LSPs). Study participants were generally of the opinion that these initiatives have so far not affected their organisations. Likewise they made minimal reference to policies concerned with promoting civil renewal. Where they did, it was generally as a passing reference to the way in which their services might facilitate social cohesion, for example: *'the social impact from integration of different services under one organisation is one of inclusion'*.

ChangeUp seemed not to have had an impact; it was felt that it may do so in time, but it is too early at present to discern any effect: *'the ChangeUp hubs may have an effect in the future. It's in that limbo stage where everyone is fighting to get into them and it's too early to know what the outcomes will be'; 'I don't think I can see any particular impact, but it's early days'*. But it was also suggested that organisations need to be proactive in order to benefit: *'we have not really engaged with it because of where we were at internally. A lot of national and regional stuff passes us by – missed opportunities. As a large organisation we need to work out who needs to know what and when'*. A variation on this point of view was provided by another Study participant, who felt that information about the potential of *ChangeUp* has remained largely with national VCS infrastructure bodies, who may benefit to the detriment of local organisations: *'the danger of ChangeUp is that the big nationals become stronger (through their ability to deliver public services even though they don't necessarily have the local knowledge) and that local VCOs will be subsumed because they don't have the capacity'*.

Local Strategic Partnerships appear to have had little impact on Study participants' organisations. In one area it was noted that *'the LSP pays less attention to the VCS than it should do. There's work to be done in ensuring the VCS has a bigger voice in local planning'*. One Study organisation had benefited from their involvement – but only because they had been alert to forthcoming developments in their locality – *'the county council distributed a large amount of money through the LSP, so if you weren't aware, you wouldn't be able to get any of the money. Because I was in the know, I was able to secure the match funding for our ESF⁴ project from this LSP money'*.

As with *ChangeUp*, Study participants felt that Local Area Agreements might have an impact on their organisations in the future, but considered that the potential relevance is still unclear: *'I am very unclear about how Local Area Agreements will make a difference'; 'this borough will be getting LAA status next year, so if our concerns aren't addressed that could result in the VCS being even more left out'*.

⁴ European Social Fund

6. The funding situation

We asked Study participants to describe the changes they had experienced in relation to their funding over the last three to five years. They spoke in particular about:

- The uncertain nature of local authority funding
- Loss of some funding sources
- The move towards contracts
- Moves towards more 'prescriptive funding'
- A wider range of funding sources
- Difficulties in covering core and full costs.

6.1 The uncertain nature of local authority funding

Study participants were generally of the opinion that local authority funding to the VCS is diminishing, and that it can no longer be relied on as a substantial source of finance. Those in receipt of local authority funding indicated that this source of income had not increased over the last few years. Some had already experienced cuts:

'we get zero support from the local authority, although we have delivered support well to the local community for many years';

'the biggest change since I've been here is that the council is running at a huge deficit and has had to make savings; so they are cutting back on the funding they give to the VCS, which is having an impact on lots of VCOs'.

Others were uncertain about the future availability of local authority funding:

'there could be funding cuts in the next six months because the city council is changing the way it funds VCOs';

'our main funding source is the PCT which is relatively secure; the second biggest funding source is from the local authority and that has been much more uncertain'.

6.2 Loss of some funding sources

Study organisations have had to cope with reductions in local authority funding or, in some cases, its complete loss. Others have needed to plan for time-limited funding reaching its end, either because of the cessation of the funding programme itself (for example the Single Regeneration Budget or Sure Start) or because funding had been available to their organisation for a fixed term, as with the Community Fund / Big Lottery Fund, Opportunities for Volunteering and some charitable Trust funding.

Some Study participants suggested that money that might have been available to VCOs was being diverted elsewhere, to the statutory sector or to major regeneration initiatives. One Study participant commented that *'We used to get SRB funding and there was quite a bit to that. The social agenda has changed, for example the money is now geared towards crime and community safety, so if funders don't think the arts contribute to that agenda, we can't get access to*

funding. These are driven by political agendas and by what politicians think we need rather than what the community needs'.

In some instances Study organisations found it very difficult to replace expired time-limited funding. Some also commented on a perceived reduction in availability of charitable Trust funding.

6.3 The move towards contracts

The interviews with statutory funders indicated that their funding to VCOs is provided in a range of different forms, although the interviews make it clear that more funders are making use of contracts than they were five years ago. Some authorities were about to change their practice as the Study was in progress; one statutory funder, for example, described his department as *'in limbo between one or two different ways of administering funding that have been current in the last three to five years and things becoming clearer about the best way of administering funding arrangements for children and young people'*.

Study participants also identified a gradual shift away from grant funding towards contracts or service level agreements as part of a complex changing pattern of funding from statutory sources. However, it was pointed out that the move from 'grants' to 'contracts' did not necessarily entail much change in practice to the way funding was administered by statutory funders: *'the local authority really does try to have their cake and eat it; some things that purport to be contracts maintain some characteristics of grant aid; I'm sceptical whether these contracts really are contracts'*.

Although some felt the contracting process had some advantages for them, others described a range of problems they had experienced. For example: *'we now have to tender for the work; this has an impact on the service you can deliver because of the timescales set for the process. When these run over they impact on our ability to set budgets' and 'it's a learning process and the difficulty is, if you don't get the funding the service is gone. Culturally it's had a big impact on the staff.*

Other problems referred to included an increase in competition for work, not only with other VCOs but also with businesses: *'they want to get the services as cheaply as possible so some of the work is now going outside the sector to private contractors who pay less in salaries'*. Additionally, *'it is hard to renegotiate a contract if a bad initial decision was made about taking it on at a certain price'*. One Study participant suggested that contracting can contribute to an erosion of the VCS's distinctive features: *'the more you move towards commissioning / contracting, the more difficult it is for the voluntary sector to add value and contribute its own 'something'.*

The 'transaction costs' of the tendering process were also referred to. One Study participant illustrated this by saying *'there is a more transparent tendering process, but it's so costly in terms of time and the competition element of it means the whole agency is on tenterhooks until the outcome is known. Who pays for that time? God knows how many hours it took to write the tender. Also it's based on unit costs, and this approach doesn't fit with services to people – you might as well be talking about sausages'*.

Another Study participant felt that the move towards contract-based funding has been advantageous; it is easier to make it clear what a funder is paying for – *'you're selling unit costs, whereas with grant aid you're offering the world'* and *'the money is provided relatively quickly, whereas the committee cycles in Trusts can be very slow, and for relatively small amounts of money'*. The fact that contracts may be of longer duration than grants was also seen as positive.

6.4 Moves towards more 'prescriptive funding'

A commonly expressed view was that the funding environment for VCOs has become more 'prescriptive' and less flexible. Study participants described two aspects of this trend: one is the demise of flexible forms of funding; the other is the increased tendency to attach targets to funding, especially to contracts and service level agreements with statutory agencies.

Study participants referred to the loss of flexible funding streams:

'the local SRB⁵ programme finished in March, and although money now goes into NRF⁶ and other things, SRB was a lot more flexible than other funding streams';

'the end of SRB and things like that; whatever SRB's faults it was possible to be reasonably holistic; SRB money could be used for a range of different things and a reasonable programme constructed for a geographical area'.

Where some more 'flexible' sources of funding are still available, Study participants felt their organisations had benefited: *'Neighbourhood Renewal suited us – we have had a lot of funding – and quite flexible funding. It has enabled us to get back to the traditional community development we did back in the 60s, which had reduced'*.

Study participants were very much aware of, and affected by, a trend towards target-focused funding: *'the major change is the trend towards more prescriptive statutory funding'* - in terms of, for example, numbers of clients using a particular service. They cited examples of 'prescriptive funding':

'bits of Sure Start, Learning and Skills Council money etc are all tied to sector-specific outputs';

and:

'ESF funding is project funding and we have to achieve certain targets (outputs to get people into employment)'.

Case study example – more 'prescriptive funding'

Eastshires Community Centre used to run a wide range of recreational and vocational courses for local people, along with numerous other social and leisure activities. They have gradually had to reduce their range of services over recent years in line with the reduction in local authority funding.

Cont.

⁵ Single Regeneration Budget

⁶ Neighbourhood Renewal Fund

Recently, one of the main policy changes that has affected their work is the way in which money from the Learning and Skills Council has to be spent. *'The main thing is about the vocational qualifications we offer; we have to redirect what we offer. The funding from the LSC – they, in line with government policy, have said money has to be spent in key priority areas'*. This has meant that the Centre has had to reduce the amount of recreational courses they run and increase the number of vocational courses. Courses like computer skills in particular have increased. For the more recreational courses they either have to require students to pay or raise the money from other sources.

6.5 A wider range of funding sources

When describing their sources of funding, Study participants indicated that the number and range had increased in recent years. They highlighted a complex array of different statutory sources - local authority, central government, area-based initiatives and so on (through both grant-aid and contracts) - plus money from charitable Trusts, the Big Lottery Fund, contributions from service users and self-generated income. One of the smallest organisations in the Study commented that they have *'many more sources of funding; we have just got more funders than ever before, lots of smaller contracts, many more contracts and SLAs'*⁷. Another, larger, organisation, reported having nine different Service Level Agreements with the local authority, five contracts and two grants plus a number of relatively small amounts from other statutory and voluntary sources and a complex mix of income sources from users and other VCOs using their premises or other services. While this mix of funding sources led to more complex financial management processes, Study participants also felt it could spread the risk more than if they were reliant on one source alone.

Case study example – spreading the risk through multiple funding sources

The Endeavour Street Centre runs direct services in five main areas: arts; sports and fitness; family and community; training and employment. Five years ago it had about ten staff; at the beginning of 2002 this increased to 40 and it has kept on growing until now it has over 80. The number of income sources and the range of income types has grown: *'there is a huge cocktail'*, including ESF funding, contracts with the local authority and several other statutory bodies, grants, loans and a substantial amount of self-generated income. Each project has more than one source of funding; very few have only one funding source. *'Complexity is more usual than simplicity; it's more difficult to manage, but it spreads the risk. 'Because of that cocktail we're not an organisation that has ever relied on one particular source for core funding'*. The Chief Executive thinks that if one project lost funding that would affect the organisation's infrastructure, but the Centre would still survive.

⁷ Service Level Agreements

6.6 Difficulties in covering core and full costs

Some organisations reported having problems covering their 'core' costs (by which they tended to mean central management costs): *'while our strength is the range of sources, what threatens us is our lack of core funding'; 'commissioning officers can shave costs from year to year by not allowing central costs'*. Organisations had to adapt to the loss of, or reduction in, 'core funding' by being creative in the ways in which core costs were included in contracts and project costs. One Study participant felt that one of the effects of this situation is that staff whose main objective was service provision have also had to become more business-like: *'they have to make the business case for each project, which impacts on the way operational managers look at their roles'*.

Problems over full cost recovery were also noted: *'whilst the local authority may fund us to a certain degree, the funding we receive never covers the full cost of the services we provide; that means there is always a shortfall'; 'we are trying to be clearer with the local authority about the full cost of services; it is easier to get them to cover the real cost of new services than it is with long-standing services'*.

These difficulties were seen as adding to the problems of financial planning and management that Study participants were experiencing.

7. The impact of funding changes

Study participants discussed the impact of recent funding changes on their organisations':

- Mission and purpose
- Independence
- Ability to provide a range of services and activities
- Sustainability and financial security.

7.1 The impact of funding changes on mission and purpose

Study participants were divided in their views as to whether recent changes in their funding situation had affected their organisational mission and purpose. Some were strongly of the opinion that there had been no impact; they were aware that they could make choices about their future and considered that they did not have to change organisational direction in order to secure funding. Responses to our question about whether their mission and purpose had been affected included: *'We are very conscious of trying not to be funding led'; 'there hasn't been any impact on our mission and purpose'; 'no, because we haven't let it'*.

Others considered that they had so far been immune to external pressure on their mission and purpose because they had financial reserves: *'this makes us behave slightly differently to other organisations that worry about where the next penny is coming from'*, or because their mission and purpose were sufficiently broad to allow them some flexibility: *'it all still fits – our mission and purpose are so broad'*.

Case study example – maintaining organisational mission and purpose

Valley Road Community Project describes itself as *'an organisation with a very strong mission and purpose'*. Staff see their work as very much 'needs-led'. They feel that this creates 'pressure points', either because it is difficult to secure funding to do particular pieces of work or because funding regimes are changing, making it harder to use new sources of funding to meet community needs. *'Because all these things are going on we need to think about what we are doing about this particular situation; it is down to our sense and strength of purpose that we are now able to use that to steer us. We're pretty good at saying 'this is what we need to do and how can we find someone to pay us?'* Staff feel that they are good at spotting gaps in needed services and finding funding to help them fill those gaps – but sometimes there are gaps in services because there is no money to fund them.

Some Study participants suggested that the availability of funding for particular areas of work meant their organisation had changed its priorities, focusing on particular aspects of their mission and purpose to a greater extent than others. One organisation, for example, had developed its work with older active people and with BME communities because of the availability of funding streams for those areas of work. Another had concentrated on running vocational training courses rather than recreational courses, and had almost completely abandoned organising social activities for local people, because of funding constraints: *'services have to be viable; we can't do them just because local people want them'*.

Other examples of changed priorities were provided by Study participants who suggested that:

'There have been effects, for example the ESF funded a 'Volunteers into Work' project. It wasn't originally part of our mission to place people into employment; it's an extension of our original purpose. So we've looked at what we do and said yes, we can do this. There's no reason why we can't, so why not? Most of the people that come here will want to work';
while another organisation had:

'stood back and asked if we should be doing this; should we cut the service and do something truer to our mission on a smaller scale, but if we can find courses to deliver and jump through the right hoops for the funder we can carry on'.

Some Study participants were aware that their mission and purpose might be affected in the future. Although they did not feel this had happened yet, they could discern *'gradual and incremental'* changes which in the future might have more of an impact and distract them from their core purpose. In one organisation a senior staff member was aware that colleagues were questioning the impact of funding changes: *'some staff are wondering whether the organisation is maintaining its ethos and is it just chasing pots of money'*. Elsewhere a Study participant commented that:

'there's a danger we might end up just providing services that we can afford to run. So we might lose our social agenda which is to look after those most in need. There's a danger that accountants might start to run the organisation in the same

way as they run a business. We need to say 'to hell with the books'. This service should be provided irrespective of whether it's financially sustainable. We're in danger of becoming Voluntary Sector PLC'.

In summary, then, while some Study organisations have been able to retain their mission and purpose, others have focused on particular aspects more than others because of the availability of funding. Some were concerned about the possibility of 'mission drift' in the future.

7.2 The impact of funding changes on organisations' independence

Study participants were again divided in their views as to whether, and to what extent, recent funding changes had compromised their independence. Most still felt that they were essentially independent: *'we think of ourselves as independent and others see us as independent'*; *'we're still very independent because we get funding from different parts of the local authority'*. But numerous examples were given of ways in which organisations' independence has been reduced, in particular as a result of:

- Dependence on funders
- Reporting and accountability mechanisms
- Collaboration and competition with other organisations.

7.2.1 Dependence on funders

As discussed earlier (section 6.5), Study participants have acquired a wider range of funding sources than they previously had. But they were aware of still being dependent on funders – albeit on a greater number of them – *'if the local authority collapsed, we'd have a problem'*; *'we're reliant on getting money in and people who dish out money; we're all dependent on someone'*. Some Study participants felt their independence would be increased if they were more able to generate their own funds through enterprise activity. We discuss this issue in more detail in section 7.4.4.

Study participants in general still considered themselves able to challenge the views of their funders, although some felt that this depended on the nature of the relationship: *'we can still challenge the council about its decisions and policies, but this all depends on how the council values us'*. Another organisation had successfully challenged the local authority's decision not to provide transport for children attending a playscheme (partly, staff felt, because as major service providers they were in a strong position). One person commented that it is easier to challenge the views of local funders rather than national bodies: *'the city council may say 'here is some money and this is what we want', but it is easier to have a dialogue and work out together what you will do, but relationships locally and regionally can be uprooted by a dictat from the centre'*.

One local authority had insisted on a 'gagging order' for any contracts it issued; any organisation entering into a formal partnership with the local authority would need to sign an agreement not to criticise the council. The organisation in question decided to forego the possibility of funding.

7.2.2 Reporting and accountability mechanisms

Study participants reported a substantial increase in their need to provide financial and other statistical information, in particular to statutory funders. In some cases this was the result of individual funders requiring more detailed information than previously; *'increased scrutiny and monitoring requirements do lead to the need to keep more detailed records than we might otherwise need or want to'*; *'I think over the period I've been involved there's a sense that the commissioning officers have become more diligent and demanding about meeting targets'*. Some Study participants noted an inconsistency across different departments of the same local authority in terms of their reporting requirements.

In other instances taking on a new source of funding led to increased reporting requirements:

'I thought when we lost the local authority money that [the amount of monitoring by statutory bodies] would be reduced, but it's just been replaced by the Learning and Skills Council; the Adult Learning Inspectorate visited last November – twelve inspectors here for five days. They checked absolutely everything';

'The bureaucracy associated with City and Guilds is crazy. The trainers (gardeners) generally are overcome by the paperwork required because they are not bureaucrats. So I end up doing it, which diverts my attention'.

More commonly, Study participants considered that the need to spend more time on monitoring aspects of their work and providing information to funders was a direct result of having more sources of funding. They did not object to regulation and monitoring in themselves – *'there is more regulation and monitoring than there used to be, and, in theory absolutely right; we're given public money for public goods'* – but to the amount of time taken up by the process. *'There has been no increase on the part of individual funders, but it adds up to a lot of monitoring in total'*; *'too many people want a piece of you and you have to spin too many plates'*.

Statutory funders themselves reported that their treatment of community-based organisations, in terms of monitoring and reporting requirements, was the same as that of other funded bodies. In some instances the weight of regulation appeared quite demanding, for example: *'all funded organisations are subject to a twenty page long monitoring checklist'*; *'organisations that we fund on an ongoing basis have to meet a set of baseline standards, thirteen at the moment'*. Their responses to our questions suggest that, in most local authorities, there is little 'proportionality' in their treatment of organisations of different sizes and types.

7.2.3 Collaboration and competition with other organisations

Study participants described how their involvement in partnerships with other VCOs has increased in recent years. While they felt that collaborative working has had many positive effects in terms of the services they have been able to provide, it has also in some cases reduced their independence: they have needed to make decisions about future work based not only on their own capacity to deliver, but on what other organisations were doing. One Study participant described how *'we wouldn't set up a community café if they're (another community-based organisation with whom they worked closely) doing something; we wouldn't do work with Kashmiri and Pakistani elders because another organisation is doing*

that. Another commented that *'we have to position ourselves, carve out a niche, protect what you've got, expand where you can'*.

We address the question of relationships amongst VCOs again in section 9.

7.3 **The impact of funding changes on organisations' ability to provide a range of services and activities**

Study participants held a variety of views about the impact of funding changes on their ability to provide a range of services and activities. Those that had managed to secure funding, often in the form of contracts with statutory bodies, were able to provide a wider range of services and activities than previously, some of which could be described as 'centrally designed' or 'standardised' rather than shaped as a direct response to local circumstances. Those who had experienced funding cuts, or been unable to replace time-limited funding, had had to curtail some activities and services. We describe in turn Study participants' comments in relation to:

- Enhanced range of services
- Standardisation of services
- Reductions or cessation of services
- Ability to act as a community development agency
- Ability to be multi-purpose.

7.3.1 **Enhanced range of services**

Some Study organisations had grown in recent years, and were providing a wider range of services than they did a few years ago, or had expanded the scope of already existing services, mainly as a result of securing contracts with statutory bodies. For example, one organisation had extended its range of legal advice services, its nursery and advocacy service. Another was providing a broader range of services for people with learning disabilities and adult learners; a third was offering more services to young people. Some income generating activities, such as cafes, a catering business, a gym, and the hire of premises for office use or one-off events such as conferences and meetings, also broadened the range of services available to local people and community groups.

7.3.2 **Standardisation of services**

As discussed in section 6.4, moves towards more 'prescriptive funding' have had an impact on the services organisations are able to deliver. A number of the newer services provided by Study participants' organisations could be described as 'centrally designed', or 'standardised', rather than developed locally to meet local need. Study participants whose organisations received funding from the Learning and Skills Council provided some of the clearest examples of this situation: *'the situation with the LSC is an example of a pull towards centrally designed training, although it is still possible to find ways of continuing with other training'; 'the main thing is about the vocational qualifications we offer; the funding from the LSC – they, in line with government policy, have said money has to be spent in key priority areas'*.

Others too felt that they were increasingly providing standardised services and activities with major features prescribed by other organisations; examples were

given of involvement with Sure Start, health-related initiatives, regeneration programmes and a whole range of services for young people.

7.3.3 Reductions or cessation of services

Study participants also provided examples of services that had had to be reduced in scope or stopped altogether because the work was no longer funded, either because it did not now meet funders' priorities or because time-limited funding had ceased. Some work for which there was a proven need could not be done because it was impossible to fund it.

Case study example – cessation of service

Peter Street Community Base works mainly with its local BME community. Recently it has had to reduce the scope of some of its services and cut others altogether. It used to run a very successful employment agency, working with people on a one-to-one basis until they found employment. The local authority, who funded the service, even received an award because it was so successful. Then suddenly the funding stopped.

'When the funding stopped we carried on offering the service for a few months using our own funds. Unfortunately this couldn't go on for ever. We ran out of money and the service ceased. Now we just point people in the direction of the statutory sector, whose track record of finding employment for young black men, for example, isn't that good. This has also happened with other services such as housing and legal advice.'

Examples given of services that had ceased included some work with children – *'at the micro level some funding has been withdrawn, for example we had problems with continuity of funding from the local authority for some children's programmes'* – while in other areas nursery provision, social activities for older people, a handyperson service and work with asylum seekers had ceased because funding was no longer available. Some organisations had tried to meet the shortfall by introducing charges for users, but found that they were often unable to pay: *'we could send a tutor to deliver a course to stroke victims, but when we say we have to charge they don't take it up'*.

7.3.4 Ability to work as a community development agency

Study participants felt it had become more difficult to do community development work because of an inability to fund it. For those who were able to do some work of this nature, it generally formed a fairly small part of their total activity, usually because of funding constraints. One Study participant commented that: *'if you're going to make the cohesion of the borough work, you need to help groups grow from small to medium. There's lots of help to start up, but not much help to move on'*.

When describing their activities and services, Study participants focused on services they had set up themselves rather than activities springing from community initiatives. And their descriptions of relationships with other local organisations tended to focus on the provision of premises and facilities rather than on joint work to develop new ventures. One person considered that *'there is*

no statutory money for innovative or development work any more or for work that doesn't help the council achieve their floor targets'. One organisation had secured money from the Neighbourhood Renewal Fund to do community development work, but this was relatively unusual.

7.3.5 Ability to be multi-purpose

When we asked Study participants about their ability to function as a multi-purpose organisation, some felt that the closure of some of their services and activities had made them less of a multi-purpose organisation, although they often still delivered a considerable range of services. In other cases the influx of fresh sources of funding and new projects meant that organisations had become more multi-purpose than previously. The addition of income generating initiatives often contributed to this picture: *'I don't think there is another organisation that provides such a wide range of activities'*; *'because of the variety of initiatives over the last five years, if we're on the ball and can respond to them we've been able to be more multi-purpose'*. One person commented that the funding situation, particularly the existence of many different sources within one organisation, makes it easier to function as a multi-purpose organisation.

7.4 The impact on organisations' sustainability and financial security

As with other aspects of the impact of funding changes, Study participants' views about the impact on their sustainability and financial security varied: some considered that they were *'much more secure'* because they had a multitude of funding sources, some of them guaranteed for longer than a year, and hence were spreading their risks around different funders. Others, however, felt that their security had been substantially reduced, usually because they had experienced reductions in local authority funding. But all of them identified factors that could contribute to a reduction in sustainability, and suggested strategies that could lead to greater financial security. Factors leading to reduced security and sustainability were thought to include:

- Insufficient funding to cover costs
- Short-term or retrospective funding
- Lack of funding to cover services that meet community needs.

Study participants suggested that organisations could enhance their financial security by developing a funding strategy, and, as part of this, generating some unrestricted income by adopting a more entrepreneurial approach.

7.4.1 Insufficient funding to cover costs

As indicated in section 6.6, organisations experienced problems covering both the costs of their organisational infrastructure ('core' posts such as Chief Executive and Finance Manager) and the full costs related to delivery of services. One Study participant commented that *'funders are not thinking about full cost recovery – where else are core costs going to come from if they are not part of your contracts?'* while another considered that *'full cost recovery is a big issue; there is plenty of support and understanding for the idea, but it is still hard to secure the money to cover all costs'*.

In one organisation staff were working reduced hours and *'there is insecurity for the future; the city council have just threatened not to cover the core costs; this could lead to us making somebody redundant'*, while in another *'because there is so little core funding, the projects are used to subsidise the core services; people are paid to work on the project and then volunteer to support the core services'* (i.e. do additional work without being paid for it because there is no funding available).

7.4.2 Short-term or retrospective funding

Short-term funding, whether in the form of grants or contracts, had a major impact on organisations' financial security, and also on the willingness of staff to cope with lack of secure employment. Uncertainties over the amount of money available from the local authority, and in some instances when it would be available and for how long, made forward planning extremely difficult.

'Because of the nature of contracts you never know until the last moment if they are going to be renewed; staff don't know where they are from one year to the next; they can't plan; management can't plan'.

'They are all short-term projects; the consequence is that the Legal Advice Service staff will no longer be on permanent contracts because there is no guarantee that there will be funding in one year's time'.

Retrospective funding was also identified as a barrier to financial security: *'a lot of these funding streams offer retrospective funding and fund 1-3 months in arrears; that can play havoc with your cash flow'.*

Some organisations had had to make staff redundant when projects came to an end and replacement funding could not be found, whereas longer-term funding was seen as a substantial aid to financial (and also staff) security: *'we've got three year funding from the PCT; hopefully we'll get further funding for another large PCT project. If we are successful with another tendering process, we will also get three years' funding for that... It would help with more effective planning because there would be a three year cycle rather than at present, where there is just one year's funding'.*

7.4.3 Lack of funding to cover services that meet community needs

Some Study organisations, of all sizes, but including both BME organisations studied, had experienced serious problems securing ongoing funding to provide services they considered were needed in their area. As well as affecting their ability to provide what they considered much-needed services, they also felt that their own organisational security was under threat: *'it's a battle each year to survive; we have to treat it as a business to survive; we try to build on what was done last year, but we are looking at reducing'.* They felt caught in a vicious circle where they could not secure sufficient money to provide needed services, thus affecting their organisational viability and hence their continuing ability to provide services.

7.4.4 Funding strategies

Study organisations had developed strategies for increasing their sustainability: their plans included paying greater attention to full cost recovery, changing their internal financial systems, employing a fundraiser and, for many, developing a more entrepreneurial approach, aiming to raise some unrestricted funds through income generation. Study participants variously suggested that *'in order to be sustainable it is necessary to be business-like and attract lots of different types of activity'*; *'I've always taken the track that the building is an asset and we need to impact with the local economy and use the building as an asset to generate money for ourselves'* and *'when you see something you're passionate about you develop entrepreneurial skills'*.

A number of Study organisations reported that their funding mix now included a substantial amount generated through traditional activities such as room hire and renting out office space, but also from nursery and other childcare fees, running a café, bar, outside catering and in some instances fees from individual service users. As one Study participant put it: *'the star of social enterprise has risen'*, and another *'a big change has been the increase in self-generated income, which we believe is the future'*. In some organisations it appeared that such income generating activities were a natural extension of what staff and trustees saw as their core work of meeting the needs of local individuals and organisations; in others they had been developed in response to reductions in other sources of funding and had taken organisations in new directions. One organisation had, for example, set up a small catering concern as part of its attempt to keep afloat in the face of local authority funding cuts.

Study participants identified some problems with this type of entrepreneurial approach. One person commented that *'I can't bear the idea of being forced to sell shoes to fund a legal advice service'*, while another described the difficulties of balancing meeting need and making a profit: *'everything is about the good of the community, but we have to make a profit'*. Some organisations had experienced problems in trying to charge community groups for premises hire – those that could not afford the cost had simply gone elsewhere. And asking users for payment had sometimes had a similar outcome: *'we're dealing with people who are on a very small income. This means that when we're forced to ask people to pay another pound for a service this has a knock on effect on their life. Some people just can't afford to pay the extra, or to pay anything at all. We have to be aware that charging prevents some people from coming. This means they never get out at all and become totally isolated and cut off from the community'*.

8. Organisational implications of changes in the policy and funding environment

When we asked Study participants about the organisational implications of the changes they were experiencing in the policy and funding environment, they indicated that the management and governance demands on them have become more complex. In particular, organisational finances have become increasingly complicated; there are also heightened needs to comply with the demands of statutory funders, regulatory bodies and new legislation. This in turn leads to an increased volume of work for paid staff and trustees.

8.1 An increasingly complex financial situation

As discussed in section 6.5, Study participants described how they need to manage an increased number of funding streams; in most cases the number of their income sources had grown in recent years. One larger organisation that participated in the Study had ten funding streams five years ago; this has now doubled. Study participants also have to manage a mixture of grants and contracts and self-generated income. This required both senior staff and trustees to have an ever more sophisticated understanding of the financial environment. One Study participant, for example, commented that *'there is the increased complexity of managing multiple funding sources. There are also a wider set of skills expected of senior managers now – we've got to have a fair bit of business acumen, for example designing projects that complement each other to achieve economies of scale'*.

Another (trustee) noted that *'because the funding environment is dynamic, our trustees take budgets very seriously and there is always discussion about the financial viability of one service or another. That has become more intense over the last five years, and managing the finances has become more complex'*. In one organisation a Study participant commented that staff now have to spend far more time on 'internal' rather than 'community issues' because of the funding situation and pressures of service delivery – *'we don't have time to attend meetings – [I] only attend if there is an outcome to be got We spend time thinking about which contracts to go for and fundraising'*.

8.2 Increased demands for regulation and monitoring

As we noted in section 7.2.2, Study participants feel that they are required to spend more time dealing with the regulatory and monitoring demands of statutory authorities:

'the whole environment is so much more regulated, so there are issues now that we wouldn't have had to deal with ten years ago, e.g. regular risk assessments, declarations of interest';

'there is also more work associated with trying to keep up with the requirements of the Quality Mark';

'all of the policies we have to have in place – there are many more than over the last two years, e.g. bullying and harassment policy; this is partly because of the culture we are living in, but it's also about increased accountability requirements'.

While Study participants were not averse to being accountable for their organisations' actions, they were aware that the need to comply with the demands of funders and other bodies, and to remain up-to-date with legislative changes, is very time consuming.

8.3 Increased volume of work for staff and trustees

As one Study participant put it: *'there is a great deal of work involved in responding to change, contributing to policy and dealing with funding changes, and the real costs of this cannot be passed on to funders. People put in massive amounts of hours to deal with it'*. And another: *'the pressures on staff are*

ridiculous compared to the private and public sectors. We can trace everything back to the difficulty of remaining financially viable, so everyone has to do two or three jobs with lower terms and conditions than in the other sectors'.

While there was general agreement that changes in the policy and funding environment have increased the volume of work for paid staff, opinions varied about the extent to which trustees have been affected. Some clearly have taken on more work, not necessarily willingly – in one organisation it was suggested that trustees *'have expressed the view that they do not wish to be unpaid servants of the local authority'*. But elsewhere some paid staff were of the view that their trustees need to be more involved than at present: *'with the governing body there are people on it in name only who don't constructively involve themselves; there are a minority of people who are managing or trying to manage'; 'unfortunately, what the policy environment means is that the governing body needs to spend more time dealing with issues facing our organisation. This is a crucial role they have to take on'*. It was suggested that in some instances trustees lack the time or skills to play an effective role in the governance of increasingly complex organisations:

'the governing body may have to take on more of a significant role than they have in the past. Because of increased regulations it could be quite difficult to recruit trustees who can give enough time. VCOs usually end up with a group of trustees that are supportive of the organisation, but do not necessarily have the skills. Now they definitely need specific skills and abilities. There is a need to look for trustees to fill a particular role, which is harder'.

9. Relationships with other VCOs

When we asked Study participants about the impact of policy and funding changes on their relationships with other VCOs in their locality, there was no uniform pattern of responses. Some felt that there was an increase in competition, while others were involved in more partnerships and collaborative ventures than they had been a few years ago (and, as we described in section 7.2.3, felt that collaboration at times reduced their independence). The comment of one Study participant that *'we are trying to manage competition; we are trying to put in a management system to foster an environment where we can proactively collaborate'* perhaps sums up the complex relationship between competition and collaboration.

9.1 An increase in partnership working

Some Study participants were involved in various forms of collaboration or more formal partnerships as a pragmatic approach to dealing with the external environment: *'there is talk about collaborative working because people know it can help in terms of funding; people work collaboratively if there is something in it for them'; 'we are working more collaboratively to deliver services to clients; government policies and regional policies encourage you to do so, but we were doing so anyway, so it's not causal, more coincidental'.*

Others noted the fact that some statutory funders, particularly European and some central government bodies, explicitly require partnerships to be established: *'buy big – they want a strategy for the city or the region, but it is up to the providers to make the partnership'*. Some local authorities too appeared to be requiring organisations to collaborate: *'there has been an expectation that we work more*

together and don't compete'. In some areas a degree of pressure towards merger was also discernible, although Study participants did not generally view merger as a positive step: *'I am not sure that merger would actually help – it would just spread our reserves too thin. The real answer is full cost recovery'*.

Study participants had also encountered some problems with partnership working, including the lack of time to build trust and understand each others' way of working, and a tendency on the part of larger partner organisations to ignore the smaller ones – *'larger organisations take the money and don't work with the smaller ones'*.

9.2 An increase in competition

Study participants considered that the move towards commissioning of services through a tendering process had led to an increase in competition amongst VCOs. *'We are competing for the same pots of money when anything comes up'; 'one effect is that we are now more in competition with certain agencies as a result of the tendering process'*. One person also described an increase in competition between local and national organisations: *'there have certainly been instances of national organisations bidding to get a foothold in the city by underwriting their bids'*. Competition also arose as a result of some organisations including full costs in their bids, while others did not, or because different departments in the same organisation wanted to apply for money for the same purpose.

It was also suggested that *ChangeUp* has led to an increase in competition for funding, for example one Study participant's organisation had secured *ChangeUp* money to do a specific project with local organisations operating in their field of work. As a result: *'although this piece of work should have been seen as added capacity, it has been viewed by infrastructure organisations as competitive'*.

10. The experience of managing and responding to change

We asked Study participants to describe their experiences of managing and responding to changes in the policy and funding environment, and to suggest what they felt were the implications for the wider community sector.

10.1 Benefits and opportunities

Study participants described a number of areas in which they felt policy and funding changes had provided them with the chance to assess their strategy and working practices and operate in new and different ways. They referred in particular to opportunities to:

- Review their mission and purpose
- Take on new work
- Become more sustainable
- Become more enterprising.

10.1.1 Review of mission and purpose

It was suggested that external change can force organisations to consider the *'what are we here for? questions'* and to focus on what services and activities they should be offering and how they are funded: *'the funding changes have forced us to be more creative and resourceful about how activities are organised. Just*

carrying on as we were has not been an option for some time'. Elsewhere: 'doing the feasibility studies for the new building and the café means that you can identify your objectives and include them in work plans'.

Case study example – review of mission and purpose

Peter Street Community Base works with its local BME community. Its range of services once included mental health provision, legal representation and help with accessing housing. As a result of a number of cuts in its statutory funding the organisation has had to reduce access to its services and exclude men aged between 25 and 60. They decided to review their services and concentrate on being a more specialist rather than generalist organisation:

'We've reviewed our services and are no longer trying to be all things to all people. We're specialising in particular areas and gaining a degree of expertise. We're making sure we're providing services for the statutory sector that generate a decent income for us. In other words we've adopted a capitalist ethos and do things for money. Whilst we are putting in funding applications we need to look at non-traditional funding sources and build up relationships with things like private companies and local employers. We've been toying with the idea of approaching local businesses and saying this is what we do, will you fund us?'

10.1.2 Taking on new work

Some Study participants felt that changes in the policy and funding environment had opened up opportunities for them to develop new areas of work: *'there should be more opportunities to work with five to eleven year olds through Children's Trusts and the commissioning mechanism for them because there is not currently enough provision for that age group in the area'*. Another organisation also identified opportunities to extend their provision for children: *'there is an opportunity with the proposed Children's Centre for the area for us to operate a satellite centre'*. One organisation felt that the availability of Neighbourhood Renewal Fund money had enabled them, for the first time in many years, to add a community development focus to their work while also extending the range of services they could provide through gaining local authority contracts.

10.1.3 Increased sustainability

In some instances the availability of longer-term funding (i.e. three years rather than one year) had increased organisations' sustainability. One Study participant, for example, suggested that *'the main opportunities, in terms of sustainability and security, are provided by the move to longer-term'*. Elsewhere, success in securing three year contracts was seen as potentially helping to lever in other funding.

10.1.4 An increase in enterprise activity

As discussed in section 7.4.4, Study participants were keen to generate sources of unrestricted income for their organisations. They generally viewed what they perceived as a need to become more enterprising as a positive opportunity, helping them to retain a degree of independence and become more sustainable. One Study participant described the situation thus:

'We've become more enterprising. We have been pushed in that way a little bit but it's a benefit. The more we become self-funding the more our independence is confirmed, so it's a good direction to be going in. It's both a benefit and an opportunity. It's certainly taught us to be more versatile and to look at different ways and means'.

10.2 Strategies for managing change

Study participants generally wanted their organisations to remain at their present size, or perhaps slightly larger, providing a wider range of services over the next five years; most of all they wanted to be more financially secure and sustainable. They described four types of strategy for managing change and enabling them to meet their objectives:

- Strategic review
- Different use of staff skills
- Increased entrepreneurial activity
- Focusing on their building as an asset.

10.2.1 Strategic review

Several Study participants had either recently carried out a strategic review or were about to do so. They felt this would help them focus on their strengths and decide what internal changes they needed to make in order both to meet external challenges and provide effective services: *'we are undertaking a strategic review that will critically examine the mission statement. This is very important – it will consider all aspects: finances, income generation, identifying strategic objectives. We are going to take a very rigorous approach. If done properly it will challenge and develop the board, which is good'.*

10.2.2 Different use of staff skills

One organisation had revised its management structure and grouped its activities into programme areas under two (soon to be three) programme areas under senior managers and the Chief Executive. The aim of this restructuring was to free up some of the Chief Executive's time to develop external relationships with key partner agencies, make the organisation more visible and *'give a voice to the communities we support'*. Others had taken on new staff with a focus on income generation.

Another organisation was looking more closely at the skills possessed by staff and trustees to see whether these could be used in different ways to benefit the organisation and its users: *'we are looking amongst the staff and volunteers to see whether they can utilise their skills more broadly for the benefit of the centre; for example, the chef now runs a course on basic cooking for the vulnerable. We are trying to use and expand upon what we've got because we don't want to buy in expertise'.*

10.2.3 Increased entrepreneurial activity

Mention has already been made (section 7.4.4) of Study participants' aims to generate sources of unrestricted income. And as we also described in section 10.1.4, the opportunity provided by the funding environment to develop a more

entrepreneurial approach was seen as a positive development. Money generated through social enterprise was seen as a means to secure a measure of independence and financial security and also as a way of funding work that could not easily be supported by statutory sources: *'Agencies like us that do a bit of everything will be squeezed more and more. This is because of the way that funding regimes will work by rewarding highly efficient agencies that deliver highly specialised services. This may indeed be good, but a lot of the stuff we are really good at doesn't lend itself to that way of working. How do you fund people to empower new Muslim groups? It's not something you can write a spec for'*.

10.2.4 Buildings as assets

Study participants were aware that their buildings comprised substantial assets that could not only act as the base for delivery of a variety of services, but also provide them with further unrestricted income and additional security: *'as an organisation we're here to improve the quality of life of the people who live in the area; we also manage a building to enable that to happen'*. Some of them therefore had plans for capital programmes which in the longer term would, they hoped, make their organisations more sustainable and act as a springboard for further developments: *'our buildings are run-down and space is tight, so there is a plan to renovate the existing buildings and build two new ones. This will cost a great deal of money, but it will create an income-generating asset and reduce energy costs'*.

10.3 Implications for community-based organisations

Study participants were of the opinion that the policy and funding environment does not favour community-based organisations, especially the smaller ones. It was suggested that funders prefer to 'buy big' – *'commissioning bodies on the whole want one contract for a single span, not lots of little ones'* and that *'all government policies are aimed at the bigger organisations. The implications of this are that the smaller grassroots organisations are being left behind'*.

Study participants felt that smaller community-based organisations are experiencing problems dealing with the policy environment and the demands of legislation. One person commented that organisations in her area are *'swamped by legislation and changes they can't understand because they don't have the time. They have heard of Every Child Matters, Children's Trusts, etc but they don't really understand them and know how to respond'*, while another suggested that *'a lot of organisations ignore the policy environment, which is understandable, but it can be a problem if it relates to issues like child protection and can put children and volunteers at risk'*.

Study participants anticipated that the policy and funding changes they had described would cause further problems for the wider community sector, and might lead to the demise of some organisations. *'The sector is in for a kicking', 'I really don't know how they're existing'* and *'their days are numbered'* were some of their comments. Others suggested that the VCS in general might lose its distinctive features and be drawn into a *'market model – the model used by private industry'* with the VCS ending up with a *'four supermarket brand model'* in order to survive.

Statutory funders shared many of the concerns expressed by other Study participants; they recognised the worries expressed about continuity of funding, insufficient funding, full cost recovery and so on. One of them expressed the dilemma for funders thus:

'Statutory organisations want the services provided by the voluntary sector for free. Historically they've been getting services for free. All the time I keep hearing 'why should we pay them, it's a charity'. As a funder I can get more mileage out of a voluntary organisation than I can out of a private or public sector one for the same amount of money. However, I make a point of encouraging the charities to claim full costs for the services they're receiving. The main difficulties are with the other funders who are reluctant to pay what the service is really worth. I tell the various voluntary organisations I deal with that they must work out all of their costs and claim for them. It's very difficult though'.

11. Ways in which bassac can help its members deal with the challenges they are facing

Study participants suggested five main ways in which they thought bassac could help its members deal with the policy and funding challenges they face:

- Lobbying central and local government on the impact of policy and funding changes
- Promoting the work of member organisations
- Acting as a communication channel
- Providing support to be more sustainable
- Facilitating networking and peer support.

11.1 Lobbying central and local government on the impact of policy and funding changes

Study participants were keen to see bassac continue to lobby central government (and in some instances local government) about the impact, and in particular the challenges, of policy and funding changes. Some of them saw this as a role that could be carried out in collaboration with other Community Alliance members. They suggested that there needs to be *'a way of generating a national debate with government around policy and funding issues'*; lobbying over the impact of short-term funding – *'it's created chaos, we have to reinvent ourselves to keep this funding and keep projects going'* – and *'an organisation to challenge issues such as tendering at a higher level'*.

Study participants felt it was important for bassac to play a lobbying and influencing role in close collaboration with members, rather than on their behalf: *'it might be an idea for some representatives of bassac's member organisations to go along with Ben (Hughes, bassac's Chief Executive) when he's attending these high level functions and meetings and voice their concerns'*; *'bassac's influencing role with policy makers is really important, but it needs to be done with members'*.

One Study participant stressed what he saw as the importance of lobbying on behalf of bassac members, and its impact, thus:

'We've got to be even more certain of what we (i.e. bassac members) are about and what we want out of life and not be blown about by the vagaries of politicians.'

We need to realise that we've got more clout than we realise – they need us more than we need them. If we don't know that already we need to learn it very quickly. The advent of the Community Alliance is forcing the government's hand..... The government is finally sitting up and taking notice'.

11.2 Promoting the work of member organisations

Study participants were also keen to see bassac continue to promote the work of its members to funders and policy makers, although their opinions varied as to what they wished to see bassac promote. Some wanted bassac to help funders and policy makers understand the realities of running a community-based organisation: *'bassac nationally should inform government and the Big Lottery, etc to get them to understand the reality of operating a local community organisation in an inner city area'; 'they need to raise the profile, the fact that these organisations exist; they may be small but they are still part of the community'.*

Other Study participants, from larger organisations, particularly wanted to see bassac promote their role as service providers, and:

'put the case that the network of community centres has potentially a large capability to provide services on behalf of the public sector, and is better placed to do it locally and more successfully than it being filtered through local authorities';

or

'maintain a good dialogue with central government to ensure that this vaguely supportive environment is maintained and developed, and to see bassac members as well-placed to provide a lot of services at a very local community-based level'.

11.3 Acting as a communication channel

Study participants felt that bassac can play a useful role in providing members with relevant information about policy and funding changes that have an effect on their work. Their ability to be *'first with the knowledge'* was noted; additionally: *'they need to filter out the things that aren't relevant to their members and make it available in a very succinct and simple way'.* It was also suggested that bassac might circulate information about potential funding sources.

11.4 Providing support to be more sustainable

As discussed earlier, Study participants were keen to generate unrestricted income, in some cases based on the resource provided by their buildings, as a route to becoming more sustainable. They welcomed support from bassac to develop an asset-based strategy, suggesting that, for example, bassac might provide:

'Support with income generation because every charity must be in the same situation. We could also do with more pooling of ideas about how charities can generate more of their own funding and how you can make the best use of your resources to raise money. bassac and its members must have hundreds of ideas that they can share. Whatever way it can, bassac should facilitate the sharing of these ideas e.g. through email, websites, virtual networking etc. Meetings are expensive so using new technologies would be the most efficient way'.

11.5 Facilitating networking and peer support

Study participants valued peer support, and wished to see bassac continue to facilitate networking amongst its members through events such as the annual conference and various fora, both as a means of shared learning and mutual support. *'Networking with peers is very important'; 'I would like to see bassac continue to hold forums through which members can meet and learn together'*. The idea of mentoring was also suggested; it was felt that more established Chief Executives might perhaps play a useful role in mentoring those new to the bassac network.

The idea of networking at a regional level was particularly favoured: Study participants felt that there were benefits to be gained through meeting and sharing ideas with others operating in the same policy environment: *'bassac are doing a lot of what we need; I would like to see more regional workshops – it's still quite south-east focused'; 'their regional presence needs to be stronger'*.

The idea of regional events being run in conjunction with bassac's Community Alliance partners was also put forward, since *'a lot of things that affect organisations are not limited to one organisation, for example legislative issues affect lots of organisations'; 'they need to foster regional and more local networking and, where appropriate, work with other members of the Community Alliance'*.

PART FOUR: ANALYSIS AND DISCUSSION

12. Introduction

In Part Three we described the findings from our interviews with Study participants from community-based organisations and with statutory funders. In particular we highlighted the ways in which organisations that participated in the Study have been affected by central and local government policies and changes in funding policy and practice. We described Study participants' experiences of the organisational implications of these changes and their thoughts about the ways in which bassac might help its members address the challenges they face.

In this Part Four of the Final Report, we discuss the three main areas in which Study participants are experiencing organisational challenges and suggest some practical implications for bassac as an infrastructure organisation which has particular responsibilities with respect to:

- a. policy advocacy; and
- b. building the capacity of community-based organisations.

13. The challenges faced by bassac members

The Study findings suggest that changing government policies in relation to public services and civil renewal have given rise to three broad areas of challenge for bassac members:

- Responding to the policy environment;
- Responding to the funding environment; and
- Developing appropriate management and governance.

We consider in turn each of these challenges and make some suggestions about possible responses by bassac.

13.1 Responding to the policy environment

It is clear from analysis of the interviews with Study participants that external policies are having a substantial impact on the ways in which community-based organisations operate and provide services. Study participants spoke of policies affecting particular client groups (especially children) changing the ways in which they work and, in some instances, leading to the curtailment of services. They referred to the desire of central government to see the VCS take an increased role in the provision of public services and they described ways in which government at the local level can sometimes put its own particular interpretation on central government policy. The interviews with statutory funders further demonstrated that local factors still have a considerable impact on the work of the VCS.

Paid staff Study participants, especially Chief Executives, were generally knowledgeable about the policy environment, national and local, and about central government initiatives affecting the VCS. This did not, however, apply to all senior

staff; nor did it necessarily extend to all trustees. Some of the people we interviewed were unclear about key policy themes such as 'public services' and some were apparently unaware of the roots of their organisations in community action. Furthermore, we found little evidence of organisations being active in lobbying or advocacy work. The potential of these organisations themselves to act as agents of community change, or as advocates for the local community, appears to have been restricted by their service-providing role and by the lack of availability of funding for them to act in a 'community development' capacity. This trend has the potential to restrict and undermine their critical role in the new 'neighbourhood governance' agenda (ODPM, 2006).

However, the Study also reveals that, whereas some community-based organisations are struggling to maintain their ability to set their own priorities in the face of external policy pressures, and are trying hard to continue to meet expressed local needs, others have embraced the public policy priorities, even when these are clearly different from their traditional approaches or their own perceptions of need. Thus we found organisations which were delivering services for which they could find funding, rather than services and activities which local people necessarily wanted or considered important; organisations which had moved towards specialisation or the provision of 'externally designed' services rather than general community responsiveness; and organisations whose emphasis was on meeting the needs of individuals rather than those of the local community as a whole. In short, it seemed that the 'community development' approach and the expected role of 'community anchor' had become lost beneath the pressures of the current policy environment.

As constitutionally independent organisations, bassac members do of course have the right to set their own goals as they see fit. However the Study findings suggest that often community-based organisations are changing their goals, not because of proactive strategic planning, but because they are being led by funding opportunities linked to governmental priorities. In so far as this is happening, it raises the question of whether there is now a role for bassac in building the capacity of its member organisations to make more informed choices about their organisational goals and activities, as well as more proactive strategic plans, in the face of the external pressures exerted by the public policy environment.

For example, interactive workshops could enable trustees and staff to consider the range of choices available to them and the medium and long term implications of different paths. More traditional training events could also provide learning opportunities for bassac members about the shifting patterns of public policy and the implications for the voluntary and community sector. Such events could help them to avoid short term opportunism, rationalised as the need for organisational survival at all costs. It might also ensure that decision-making in community-based organisations is founded in knowledge of organisational roots and structures, the nature of the voluntary and community sector, and the way that policy options are shaped.

Beyond its role in empowering community-based organisations to make informed choices about goals and priorities, bassac might also have a role to play in helping them to find appropriate ways of developing their advocacy function and influencing the local policy agenda which plays such a big part in their organisational lives. The challenge is to help community-based organisations become 'policy shapers' rather than 'policy takers' (Harris, Cairns and Hutchison,

2004; Mullins and Riseborough, 2001) through increasing their advocacy and lobbying skills and their organisational self-confidence.

13.2 Responding to the funding environment

Study participants described the ways in which they have been affected by the uncertain nature of local authority funding, reductions in some funding sources, a move towards more 'prescriptive funding' and problems covering 'core' costs and the full economic costs of services provided. While some have managed to secure a wider range of funding sources, and hence to extend their services, they have needed to grapple with the demands of the contractual relationship and the accountability complexities of multiple income streams. Organisations that have grown in recent years appear to have done so largely as a result of securing additional contracts with statutory bodies.

Some organisations described how they have had to cut services valued by the local community that were no longer financially viable or for which funding could not be found. Services that have particularly suffered appear to be those of a more social or recreational nature that provide local people with opportunities to meet together as well as to enjoy the activities themselves (in other words, activities which contribute to the building of 'social capital'). Study participants also reported that it was increasingly difficult to carry out community development work because of problems in finding money to support it.

In general, then, the funding environment for community-based organisations is one in which available funding is increasingly for activities which:

- Follow central and/or local governmental priorities;
- Follow externally set standards and patterns;
- Constitute delivery of services;
- Meet individual rather than community needs;
- Are part of time-limited projects; and/or
- Are subject to strict accountability and monitoring requirements.

Many community-based organisations had turned to self-generated forms of funding in an effort to increase their independence, spread the risks arising from dependence on governmental funding and obtain core funding for central management and administrative costs. Some had turned to 'vendorism' (sale of goods and services so that profits can be ploughed back into the core business) and entrepreneurial activity (setting up of social enterprises such as community cafes). While providing income streams which can be used more flexibly than income from contracts, vendorism and entrepreneurialism also have the potential to deflect organisations from their core community benefit goals.

Our Study suggests that the cumulative effect on community-based organisations of these funding trends is already evident in the way in which they are moving away from community development approaches and activities which foster local social interaction. They are becoming less and less responsive to local circumstances and more and more preoccupied with providing public services and with their own organisational sustainability.

These trends raise important questions for public policy makers because they suggest that community-based organisations are finding it difficult to respond to

the public services policy agenda whilst *at the same time* retaining other features for which they have been valued in the past; for example, their ability to empower people at the local grassroots, to build social capital and to act as a focal point for community development. Paradoxically one public policy goal (more provision of public services by the voluntary and community sector) may be being achieved at the expense of another - the 'civil renewal' public policy goal which includes building social cohesion; enabling local people to respond to local problems; establishing 'community anchors'; and tailoring responses to local circumstances.

Further, and as we noted earlier, the ability of community-based organisations to act as agents of community change, advocates for their local communities or participants in neighbourhood governance appears to be severely curtailed. At the same time, the independence of the community sector – its ability to set its own approaches and goals – is also being undermined by aspects of current funding regimes.

With respect to the funding environment of community-based organisations, then, the role of bassac could be less about supporting and enabling individual organisations and more about using the evidence it obtains from the membership to lobby national and local policy makers about the practical consequences of their current policy agenda.

The 'public services' policy agenda is, it seems, being implemented at the grassroots but it is often happening at the expense of achieving 'civil renewal' policy goals.

13.3 Developing appropriate governance and management

The Study makes clear that community-based organisations are grappling with overwhelming pressures from their policy and funding environment. While many in the organisations we studied were keen to hold on to their mission of providing choices and opportunities to help local people improve their quality of life, they were finding it increasingly difficult to resist pressures to be deflected from their community and local focus. At the same time, there are major threats to their autonomy because of the nature of their funding sources and the demands of funders and others to whom they are accountable.

Many Study participants were worried by these trends, but could not see how they could fight the overwhelming odds. Some community-based organisations had taken positive steps to respond to the pressures they faced, for example by cooperating with other VCOs or by increasing the number of projects they took on, but often those responses generated further unanticipated organisational consequences such as limiting their independence or causing organisational fragmentation. In some cases the changes appeared to have been so gradual and subtle that their effects on the organisation's mission and purpose might only be discernible over a period of several years.

In these circumstances, there is a real risk of community-based organisations which do not have authoritative and skilled staff and trustees 'sliding into change' (Billis, 1993); moving to become public services providers; or social enterprises - without having any prior positive intention to become so. Community-based organisations are entitled to move away from their local and community roots if their trustees so decide, but the decision to do so should be a proactive one,

driven by rational analysis of the organisational environment and possible future scenarios. Because of their legal and constitutional roots in community and local action, major changes in the organisational mission and goals of community-based organisations should not happen by default, nor should they be driven by a desperate drive for organisational survival at all costs. Trustees and staff, it seems, need to be able to deal with the quality and accountability demands of the public services agenda whilst also enabling their organisations to retain their autonomy and ability to make appropriate strategic decisions.

It is therefore important for trustees and staff to receive appropriate training and support so that they are able to take control of the direction in which their organisation moves; in short, community-based organisations need to be empowered to control their own destiny. Here again there is a key role for bassac as an infrastructure organisation. What community-based organisations now need, our Study suggests, is sympathetic 'capacity building' for both staff and trustees such that they are able not only to understand the reasons for the policy and funding pressures they face (as discussed above in 13.1 and 13.2) but also to develop the necessary skills to enable them to make long term strategic decisions appropriate for the local circumstances they face.

Our Study also suggests that many community-based organisations would benefit from help in recruiting, training and retaining trustees with the skills and commitment to grapple with the complexities of the current internal and external organisational pressures. What is particularly needed, our Study suggests, are trustees with the capacity to act as formulators of policy and as 'boundary spanners', both representing the agency's activities and policies to the outside world and bringing in knowledge from that external world (Harris, 1996).

14. Conclusion

Our Study, then, has provided evidence that community-based organisations are being considerably affected by changes in their policy and funding environments. Some are having difficulty maintaining their mission and independence; while some are continuing to provide a wide range of services and to act as multi-purpose organisations, others are having to curtail services and activities, in particular those that perform a more social function. It appears that the co-option of community-based organisations into public services provision is to the detriment of their potential role as agents of civil renewal and their role as community anchors and advocates on behalf of their local communities. In effect, the 'voice' function of community-based organisations is in danger of being silenced.

From the standpoint of those with an interest in an expanded role for VCOs in public services delivery and in developing social enterprise activity, the climate is positive; it holds out the prospect of benefits for those who take advantage of the opportunities to win public service contracts and / or generate their own income through profit-making enterprise. But for those who wish to remain not only community-based, but also working alongside local people to plan for, meet and advocate on behalf of local needs, the Study raises profound concerns. At a general level, the Study suggests that policy makers might need to take greater account of the evident tensions and contradictions between public services delivery and civil renewal. More specifically, our findings highlight the important contribution to be made by infrastructure bodies like bassac and, indeed, others in the Community Alliance and beyond.

The suggestions made by our Study participants about ways in which bassac could help them were set out in section 11 of Part Three and were:

- Lobbying central and local government on the impact of policy and funding changes
- Promoting the work of member organisations
- Acting as a communication channel
- Providing support to be more sustainable
- Facilitating networking and peer support.

These proposals complement those we have made ourselves in Part Four. Our own suggestions are rooted in the findings of the Study about the impacts of policy changes on community-based organisations, and can be summarised as follows.

bassac's potential role in supporting its members

- Building the capacity of members to make more informed choices about organisational goals and activities, and to plan more strategically in response to the pressures of the external environment
- Providing learning opportunities in relation to the shifting patterns of public policy and its implications for the VCS
- Helping members develop their advocacy function and their ability to shape the local policy agenda
- Using evidence from the membership to lobby national and local policy makers about the practical consequences of the current policy agenda
- Helping staff and trustees equip themselves with the skills to make strategic decisions that are appropriate for their local circumstances
- Helping organisations recruit, train and retain trustees with the skills and commitment to deal with the complexities of the current environment, and to act in a 'boundary spanning' capacity.

The role of bassac as a membership organisation becomes ever more important as the pressures on its members increase, and as they grapple with the tension between their traditional role as servants of the community and their role as agents of government.

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