NCIA Inquiry into the Future of Voluntary Services

Working Paper 9

The State of the Voluntary Sector: Does Size Matter?

Paper 1

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Foreword

This paper has been produced as part of the NCIA Inquiry into the Future of Voluntary Services. The Inquiry is specifically concerned with those voluntary organisations that deliver *services* in local communities, especially those that accept state money for these activities. These are the groups that have been particularly affected by successive New Labour and Coalition Government policies regarding the relationship between the voluntary and statutory sectors, and attitudes and intentions towards the future of public services. In this and other papers we refer to these as Voluntary Services Groups or VSGs.

It has long been NCIA's contention that the co-optive nature of these relationships has been damaging to the principles and practise of independent voluntary action. The nature and scale of the Coalition Government's political project – ideologically driven - to degrade rights, entitlements and social protections, and to privatise public services that cannot be abolished is now laid bare. This has created new imperatives for VSGs to remind themselves of their commitment to social justice and to position themselves so that they can once again be seen as champions of positive social, economic and environmental development.

Our Inquiry is a wide ranging attempt to document the failure of VSGs, and the so-called 'leadership' organisations that purport to represent them, to resist these shackles on their freedom of thought and action. But it is also an attempt to seek out the green shoots of a renaissance that will allow voluntary agencies to assert their independence and reconnect with the struggle for equality, social justice, enfranchisement and sustainability.

This paper is one of a number that has been produced through the Inquiry and the first of two that deal with the issue of size. Together these papers describe the different experiences of and outcomes for large and smaller voluntary organisations engaged in service provision, and examines the extent to which organisational size is a factor explaining the changes we are seeing in the voluntary services landscape. These two papers have been prepared for NCIA by Linda Milbourne and Ursula Murray to whom we offer grateful thanks.

For more information on the NCIA Inquiry please visit our website – www.independentaction.net.

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1. Introduction

This research contributes to a growing picture on the state of the voluntary sector, examining the different experiences of and outcomes for large and smaller voluntary organisations engaged in service provision.

This is one of two linked papers. We start by considering why size matters and some recent trends. We go on to describe our approach to this piece of research. This first paper also considers the state of the sector and its emerging economic context, examining two aspects where some of the size disparities emerging from recent changes are becoming more visible. In the first, we consider trends in redistribution of income, including different financial streams underpinning a selection of large charity organisations involved in welfare delivery. Subsequently, we summarise key themes emerging from area based studies and explore cases we have drawn from our interviews with different infrastructure organisations and local authority commissioners. This provides the basis for an analysis of the significance of size in recent changes and for discussing some of the dilemmas this raises for large and smaller voluntary organisations in the present competitive environment.

Our second paper focuses on different service fields and we explore a series of illustrative cases drawn from our interviews to consider whether and how size plays out in these different contexts. The second paper then draws out themes from this material, offering further insights into the divergent experiences of large and smaller voluntary organisations in a rapidly changing environment.

2. Does size really matter?

As those studying and working in the voluntary sector know well, the amazing diversity among voluntary organisations underlines the risks of oversimplification; and as our research illustrates, the already disparate goals, features and activities of large and smaller voluntary organisations are fragmenting further. However, differences that we have found do not only relate to size, and our cases highlight other ways in which values, approaches and responses to the current changes are dividing voluntary organisations.

Nevertheless, our research indicates that size has become a growing factor in distinguishing organisations' experiences and approaches; and this is reflected across different welfare fields and different areas of the country. Several recent reports (Baring, 2014; CSJ, 2013; NCVO, 2013a) have highlighted a significant redistribution in income, typically resulting in larger charities acquiring an increasing share of overall charitable income; and smaller, locally based organisations suffering disproportionately from the reduction in resources available and pressures on local services.

Winners and losers among voluntary organisations are emerging from recent changes, and large organisations are tending to predominate among winners. For example, one in five small charities responding in a national survey (CSJ, 2013) admitted to being at risk of closure but there are no reports of anticipated closures amongst the largest charities. However, our findings also suggest that the overall picture is complex and if we are to understand this increasingly competitive environment around welfare service outsourcing better, we need to acknowledge some of these complexities. Among voluntary organisations, there are those that feel that they have to compete and maintain their provision at any cost; there are new and existing entrepreneurs keen to grow and profit from a changing environment; and there are those defining clear 'lines that they won't cross', unwilling to compromise their missions; and each of these categories can include all shapes and sizes.

Disquiet is also evident among many longer-standing, small and medium sized voluntary organisations that have a history of localised service provision, who perceive a triple threat. Corporations with little experience of, or interest in, specific service users are gaining an increasing share of the scaled-up service contracts, extracting profit from welfare funding and often excluding them from the supply chain. Secondly, new, entrepreneurial, purportedly non-profit, entrants to an area are successfully competing for scarce funding, often with low priced bids, based on casualised labour and minimal overheads. Thirdly, there is a growing mistrust of very large charities, for appropriating funding and services, with little regard for the casualties left behind, whether through the loss of local expertise and specialist services as small centres close, or the loss of local jobs and volunteer experience. As both Rees et al (2013) and Ishkanian (2014) have shown, as service contracts are scaled-up and contracts are managed increasingly at a distance, there is a shift towards homogenisation of services – a 'one-size-fits-all' approach - and for local beneficiaries and providers lower down the supply chain to lose any influence over delivery models, resulting in impoverished provision.

3. Our approach to this research

We planned to explore how recent changes are affecting different kinds of voluntary sector organisations, differentiated by size. However, as our introduction signals, we discovered a more complex picture with variations across different areas and different service fields. Broadly our aim was:

- To examine the different experiences and outcomes emerging for large and smaller voluntary organisations involved in service provision resulting from recent changes in public service programmes.

Within this broad aim we set out to identify redistribution in allocation of provision and funding; the extent to which some of the largest charities may be beneficiaries of this redistribution; and the effects of changes on local services and small VSGs. We were also concerned with the varied strategies adopted to address anticipated changes and how these reflected different values and approaches. In the course of the research this aspect raised questions for us around differences between organisations, sometimes irrespective of size, in their complicity with, or resistance to, the changing welfare environment.

The research involved several methods of approach:

- Reviewing existing literature and publications on emerging trends in welfare services and among voluntary organisations, including financial returns and annual reports;
- Reviewing recent empirical and area based studies in the public domain, for example those undertaken in regions, including: in Greater Manchester[1] (Dayson et al, 2013),

[1] http://www.gmcvo.org.uk/greater-manchester-state-voluntary-sector-2013

Newcastle and the North East[2], Nottingham[3], Birmingham[4] and Yorks and Humber[5]; and a national survey of voluntary and community sector workers[6];
- Detailed empirical studies undertaken in specific local authority areas, including information drawn from surveys, focus groups and interviews;
- A series of cases drawn from interviews in specific service fields, including Criminal Justice, Mental Health and Domestic Violence, Housing and Homelessness, Children and Young People's services, and Volunteer services. These are the focus of Paper 2.

Overall we undertook some 20 interviews, two focus groups and one primary survey; in addition, we accessed surveys conducted in two other local authority areas and discussed contents with key informants. Informants also included local authority commissioners. All the area based cases below are from English metropolitan areas or their suburbs, areas included deliberately as reflecting different socio-economic characteristics, based on 2010 national deprivation indices[7]. In accessing information on local authority areas and on service providers in an area, we drew on the knowledge of local infrastructure organisations or councils for voluntary services, which enabled us to select a purposive sample of organisations for interview. Where possible, we aimed to compare experiences of large and smaller organisations working in the same area or field of service but that was not always possible, and to some extent we also used snowballing to identify further interviewees. Where we undertook area based studies or interviews with specific organisations and individuals, we have adopted pseudonyms for people and places to protect identities (unless information is already in the public domain).

Exploring detailed cases from different service fields, together with the information available in different areas, has enabled us to compare and contrast experiences using different lenses, and to triangulate information in developing an analysis of possible patterns. In both papers, we have also located our findings within the broader socio-economic context and political changes in welfare to shed light on some of the reasons for winners and losers in the emerging environment, which go beyond size or organisational strategy. This is, however, a small study conducted within a short time frame, which therefore limits its scope and the generalisability of conclusions we can draw.

For the purposes of this research we have distinguished between major and large charities - the largest registered charities - (some 2% that receive over 70% of the sector's total income), from micro, small and medium-sized organisations. Categorising size is not an exact science partly because of variations in definitions and how data sources are compiled; and the figures below are therefore broad indicators only. NCVO (2014) also distinguishes 'major' charities, some 450 charities with incomes of over £10m (although several run into several £100m) that account for just over half of the total income to the UK charity sector

[2] http://www.cvsnewcastle.org.uk/assets/files/representinginfluencing/our_research/Surviving_or_Thriving_Final_Report___Newcastle_April_2013.pdf
[3] http://www.nottinghamcvs.co.uk/files/The%20Reality%20Cheque%20-%20NCVS%20State%20of%20the%20Sector%202013.pdf
[4] Birmingham City Council (2013) '*Health of Birmingham's Third Sector*', Report from Overview and Scrutiny Committee, Birmingham City Council.
[5] http://www.involveyorkshirehumber.org.uk/our-work/research-and-information/third-sector-trends-survey-2013/
[6] https://unison.org.uk/upload/sharepoint/On%20line%20Catalogue/21929.pdf
[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6871/1871208.pdf

from large charities with incomes of £1m to £10m. Medium-sized organisations describe those with mean incomes of some £350,000 (over £100,000 and less than £1m), where small organisations have less than £100,000 and micro-organisations, less than £10,000 income (NCVO, 2014). Micro-organisations receive less than 1% of the total charitable income despite making up some 60% of the sector (McCabe and Phillimore, 2010). The charity register is a key source of information about voluntary organisations in England and Wales but many small and micro-organisations are not registered as charities (and therefore invisible in these figures). Registered charities make up less than 20% of an estimated 900,000 civil society associations (Carnegie Trust, 2010), placing the imbalances in size and income in sharp relief.

4. Cuts and the emerging economy of the voluntary sector

The banking crisis of 2007-10 has led to unprecedented cuts in public services, with consequent effects on public funding of the voluntary sector. Overall local councils will have lost 43% of their budgets in real terms, between 2010 and 2015 (Betts, 2013[8]). In addition, the 10 most deprived local authorities and communities, such as Liverpool and Newcastle, have faced the highest levels of cuts averaging 25% each year between 2010 and 2015 (Watt, 2014[9]). However, finance is not the only root of change: there is a powerful ideological commitment to the notion of a smaller state and curbing the scope of local government at the heart of current social policy (Watt, 2013[10]), which is privileging the corporate sector in a market driven approach to public service delivery. Yet competition and profit motives are blatantly inappropriate for welfare and in producing good quality services in supposedly caring services.

Sub-contracting and supply chains are no longer confined to 'for-profits' but spreading as ways for smaller organisations to maintain a foot in provision, and competition for scarce resources is intensified. However, services are often impoverished and there are growing anxieties about under-funded community services, unmet needs among vulnerable people and the effects of reduced statutory welfare provision. Questions about the frailty and longer term sustainability of small and medium size voluntary organisations are mounting, as they drain rapidly diminishing reserves to meet rising welfare demands. There are also fears about having to close services; about doing a poor job because of impossibly harsh contract terms; about managing large overall resource reductions; and intense competition within the sector for a diminishing number of funding pots. Alongside these threats, many organisations are experiencing a decline in donations (Baring, 2014).

Allowing unbridled competition and cost-cutting to determine winners and losers in welfare outsourcing at the same time as ensuring that few safeguards are left through shrinking local government, raises wider questions about the overall fragility of welfare and public services. As a survey of commissioners and providers identified:

> *'The current approach may deliver cost reductions but is likely to exclude smaller players … contributing to inadequate provision for service users with complex needs* (Crowe et al, 2014[11]).

[8] http://www.theguardian.com/local-government-network/2013/nov/11/big-council-budget-cuts-clive-betts
[9] http://www.theguardian.com/society/2014/jan/30/local-government-cuts-poorest-areas
[10] http://www.theguardian.com/politics/2013/nov/11/david-cameron-policy-shift-leaner-efficient-state
[11] http://www.instituteforgovernment.org.uk/sites/default/files/publications/Beyond%20Big%20Contracts.pdf

The ways that changes are being played out can depend on the political and cultural complexions of procurement and commissioning in an area. However, a national survey of workers[12] indicates that organisations with longstanding experience of areas and specialist services are increasingly being displaced by large contractors (both charity and private sector), distanced from knowledge about services or areas, enabling services to change hands rapidly. This is leaving service users confused and deterred, with chaotic provision as new services start up and others close (Rees et al, 2013). As one interviewee identified:

> *'it's building services on rocky ground, and sooner or later, if services are underfunded, corporates will pull out. And if voluntary organisations down the supply chain are asked to carry too many risks, they'll collapse or pull out too. It's happening already.'* (Janine, infrastructure organisation).

5. The state of finance

In an overview of finance, there is little dispute about sector wide disparities: small and micro-organisations (excluding non-registered groups) make up more than three-quarters of the voluntary sector, but account for less than 4% of the sector's £38b income, while the largest charities, fewer than 2% in numbers of organisations, capture some 70% of the income (NCVO, 2013; CSJ, 2013; Baring, 2014). Our study, however, suggests that with growing competition for diminishing funds, disparities are growing. As we indicated above, the figures come with a health warning - exactly how the numbers are made up varies according to sources; and there are recent questions about how some new agencies being set up as charities - effectively public bodies, such as Academy schools - are accounted for.

Reduced overall income

Using conservative estimates, the voluntary sector overall is likely to lose some £1.8b a year (not accounting for inflation) over the next 3 years (NCVO, 2013b). Reduced income from 2009-10 began to reverse a period of steady growth, largely related to outsourced public services and projects. With local authorities facing 43% cuts over 5 years small grants are largely disappearing. The hardest hit areas are invariably the least affluent, and have fewer voluntary resources and community facilities (Mohan, 2014). As new welfare programmes with scaled-up contracts are rolled out, resources are also being drained from public and voluntary welfare providers to corporate contractors and enterprising sub-contractors.

The third drain on voluntary sector income is in underfunded provision. 'State of the sector' reports in different areas show that failing to get full cost recovery in service contracts is a widespread experience[13] with organisations mining their reserves and voluntary resources to cover the gap between the cost of delivery and contract (or sub-contract) payments. This reinforces earlier statements about the fragile financial foundations of new welfare programmes. The use of corporate contractors - rationalised as providing financial security because of their operational size - appears equally precarious for reasons widely recorded around lack of probity and efficacy, such as in cases of fraud allegations and repayments for

[12] https://unison.org.uk/upload/sharepoint/On%20line%20Catalogue/21929.pdf

[13] See figures in regional reports - footnotes above - and service fields for example, in criminal justice: http://www.clinks.org/file/clinks-state-sector-full-reportpdf

tagging several thousand phantom offenders[14].

While fees for services and government funding represent the largest proportion of income (and therefore potential loss) for many charities that have engaged substantially in delivering services (see Appendix 1), there is significant variation in levels of dependency on this source. However, individual donations also appear to be falling markedly (NCVO/CAF, 2012), while both business and charitable donations greatly favour large charities (NCVO/CAF, 2012), exacerbating the gap between the potential fund-raising power of larger and smaller charities. Equally, some causes, such as children's charities are significantly more likely to attract both public and commercial donors, while other unpopular causes, often involving particularly vulnerable groups, such as those with mental health, drug and alcohol issues tend to rely heavily on state support (Breeze, 2013; Baring, 2014).

Redistribution: winners, losers and financial sustainability

Despite improved statistical information on the voluntary sector, there has been limited work which assesses trends in, and reasons for, the apparent dominance of large charities, or which considers the implications of the seemingly growing divide between larger charities and smaller voluntary organisations (Backus and Clifford, 2013). This lack of research is all the more problematic because large charities are being encouraged to compete in a growing market of outsourced public services, increasingly taking on managing and sub-contracting roles. In contrast, smaller voluntary organisations are largely excluded, relegated to sub-contracting or to supporting voluntary action while somehow maintaining frontline support for those in desperate need.

It is not surprising then, that the largest charities are recipients of the lion's share of overall charitable income; that they are growing; and that their share of income from commercial sources is also growing. These findings are borne out by multiple sources: area and service based surveys; our analysis of available annual reports and accounts (see Appendix 1); and our interview data. The reverse is evident for many smaller voluntary organisations that are struggling to make ends meet and flagging in the face of a surfeit of demands. This leads us to conclude that disparities between winners and losers in terms of income are becoming more marked (CSJ, 2013), and that there is a shift in distribution of income towards the largest, and away from smaller voluntary organisations (NCVO, 2013a).

All this highlights real, and in some cases, unplanned consequences of the recent scaling up of contracts: the risk that many small community organisations will be put out of business, jeopardising locally based and specialist provision. And as a recent report from a social justice think-tank close to the Conservative party emphasised (CSJ, 2013), society needs the wide diversity of small community groups to cultivate and maintain local creativity and innovation, and specialist approaches in responding to wide social needs. In an environment where one in five small voluntary organisations fear closure, and between a half and three-quarters are digging heavily into meagre reserves to meet beneficiaries' needs[15], financial sustainability for smaller voluntary organisations is clearly in question.

[14] http://www.theguardian.com/business/2014/mar/12/g4s-repay-overcharging-tagging-contracts

[15] See figures in regional reports - footnotes above - and service fields for example, in criminal justice: http://www.clinks.org/file/clinks-state-sector-full-reportpdf

As the recent Baring report (2014, p20) highlights: *'redistribution of income may be the most significant development'.* Redistribution, however, is not only about resources shifted *within* the charity sector increasingly towards large charities, it also reflects public funds distributed away from public and voluntary agencies and towards private and corporate contractors; and away from service delivery per se into the transactional costs of procurement and sub-contracting chains.

Overall income reductions and redistribution only underline a part of the story; there is also growth among some large charities and new social enterprises. There are also widespread differences in areas and in different service fields, reflecting the political complexion of an area, the level of financial pressures and the speed of introduction of changes in different service programmes.

Income sources and growth

Given the focus of this paper, we included for study some of the largest charities whose incomes depend heavily on government funding for service provision (see Appendix 1). By assessing the annual accounts and reports we analysed and compared the proportions of income from different sources, references to growth, and where that growth appeared to come from. However, detailed comparison was difficult because of dissimilar categories used for accounts. Nevertheless, in all the cases we reviewed, overall growth is reported, with the two main sources of growth being from increased service contracts and increased support from commercial donations. Barnardos provides an illustrative example of a major charity continuing to grow despite austerity. Drawing on information in its 2013 annual report and accounts, Barnardos' income grew by £12m or 5.3 per cent overall from the previous year. The largest proportion of its income comes from fees for services, which had increased on the previous year by £7.6m. Trading and retail profits also increased by some 11%. (For further detail see Pudelek, 2013[16] and Appendix 1).

Given the overall decline in income to the voluntary sector, it follows that as far as service provision and government grants and contracts are concerned, growth for some is resulting in serious losses for others. The picture is, of course, complicated by the redistribution of public funds to private sector contractors, to new social enterprises and the subsequent inclusion of some smaller voluntary organisations in supply chains; and closer analysis of winners and losers through area case studies which follow and those in paper 2 is revealing.

Commercial sponsorship and partnerships

Diverse 'news' stories (for example, Pudelek, 2014; Little, 2014), supported in the annual reports of different large charities, confirm the more aggressive stance that some of the largest charities have taken to raising funds through corporate support and 'partnerships'. Some 'causes' find it much easier to attract sponsors but large charity 'brands' seem able to attract corporate sponsors and business partners where smaller organisations find this kind of fund-raising or attempts to gain project partners yields limited result for the efforts involved (Breeze, 2013). Money or goods in kind rarely come without strings attached. Partnerships with corporate donors imply a special relationship, and there has been

[16] http://www.thirdsector.net/Finance/article/1220768/Barnardos-reports-12m-rise-total-income-2581m-year-March/?HAYILC=LATEST

speculation on the extent to which dependence on commercial sponsorship has compromised goals and prevented charities from maintaining an independent and critical voice (Nutt, 2013; Ishkanian, 2014). The latest Baring report (2014) also points to worsening levels of self-censorship and 'gagging' for those heavily engaged in service contracts.

As more numerous examples of partners in large welfare programmes emerge – between NACRO and SERCO in criminal justice[17]; between Barnardos and G4S, with Barnardos providing welfare support to families detained at Border Agency facilities, and for prisoners' families in G4S run prisons[18] - the questions about limits on independent voice and activities multiply. Questions in public debate like 'would you get into bed with Serco?'[19] highlight growing concerns about the rising number of large charities working as partners with corporate firms; whose reputations have become sullied through lack of probity in welfare and justice programmes[20]. Below several examples of growth in partnerships and corporate sponsorship to large charities are also reflected in an increased proportion of their total income, and consequently greater potential influence from these sources.

- Save the Children increased its income from corporate partnerships (for UK and international projects), with a rise from £3.9m in 2009 to a projected £22.5m in 2014. Its partnership with supermarket chain, Morrisons has raised £7m in three years since 2011. The charity attributes its successful growth overall to new commercially focused strategies. In 2012, its income reached £284m, surpassing its target income by £10m. Morrisons' employees raised money through traditional fundraising activities: baking sales, fitness challenges, Christmas sales and collections and included customers in activities and donations. Partnerships with business for fundraising and investments – also include Unilever, Arsenal Football club, Lloyds banking, and the multinational Reckitt Benckiser, responsible for a plethora of household brands selling domestic products;

- MIND, the mental health charity, despite finding it harder to attract donors, has tripled its corporate sponsorship by a third to £600,000, with a 3 year sponsorship from Zurich's Community Trust arm. In recognising that general public support for mental health charity work falls well behind support for international disasters or UK children in need, MIND identified some of its success as in working with another beneficiary partner - in this case Alzheimer's – and both charities are likely to benefit from employer supported volunteer schemes, and benefits in kind;

- Jaguar Land Rover is donating £2m to the British Red Cross's Support At Home programme, intended to reach 13,000 people, primarily in rural areas. This is a part of a £15m support package over the next five years, planned for 25 projects run by the British Red Cross and the International Federation of Red Cross and Red Crescent Societies. This is growth in sponsorship built on a long history of links and supply between Land Rover and the Red Cross.

There is no shortage of other examples: some focus on charities with a strong presence in

[17] http://news.bbc.co.uk/1/hi/england/merseyside/8126090.stm
http://www.theguardian.com/society/2011/aug/23/pre-departure-accommodation-centre-barnardos
[18] http://www.opendemocracy.net/ourkingdom/john-grayson/outsourcing-charity-—-g4s-way
[19] http://tactcare.org.uk/news/would-you-get-into-bed-with-serco/
[20] http://www.civilsociety.co.uk/finance/news/content/14634/g4s_subcontractors_on_work_programme_not_delivering

UK welfare services, heavily reliant on public service contracts; others have a higher profile internationally. However, as British charities and INGOs increase their attraction of corporate sponsorship and partner with big business, they themselves adopt corporate strategies: financial investment, marketing and branding - becoming 'the new superbrands' among NGOs (Wootliff and Deri, 2011, p157). Dependency on corporate funds is becoming an indispensable way of life that may rebound, just as public service dependency is currently rebounding for smaller and medium sized charities. This is not just about limitations on activities and openly expressed opinions through accepting money and goods in kind, it is also about empowering big business with its associated competition and strategies, and weakening critical and alternative models. Large charities have done well in gaining public trust over recent years but sustaining this trust is unlikely, if criteria for success shift from social missions to growth, away from active campaigns and systemic change, to running bigger projects.

For corporations, partnering with publicly trusted charities boosts their reputation for social responsibility and deters critics. It also advertises their products. However, for charities and multinational NGOs, partnering with corporate money comes at a high price, which risks loss of public trust and active membership as their activities morph towards reinforcing the social, economic and political systems they originally wanted to reform. 'Small' isn't necessarily 'beautiful' and 'big' isn't always 'bad,' but these trends in financial 'partnering' raise crucial issues about charities' roles and objects. LeBaron and Dauvergne (2014) ask whether chasing the money and growth have transformed big social welfare providers into big business, with *'corporatisation narrowing "the limits of the possible"'*.

6. Information from area studies: how does size feature?

As outlined above, we have reviewed recent empirical and area based studies in the public domain, which provide an overview and context for our own empirical studies undertaken in specific local authority areas. These included information from surveys, focus groups and interviews, including with representatives of infrastructure organisations and local authority commissioners. The snapshots of areas and cases below highlight the range of insights that we gained.

Area studies support the apparent dominance of larger charities compared with other parts of the voluntary sector in terms of their increasing share of overall income from services, outsourced contracts, partnerships in new welfare programmes, and their positioning in local and national government arrangements (also Baring, 2014). However, this overall picture of a divide between the experiences of larger and smaller voluntary organisations, while marked, is far from simple. Just as there is enormous diversity among voluntary organisations overall, the approach among large charities varies, with arguably the nationally *federated* organisations, such as Age UK with some 170 local branches, appearing to maintain greater local variations in patterns of provision through locally organised bases.

Similarly, there are small entrepreneurial organisations keen to profit from the shake-up in services, even though this can lead to closures among longstanding local VSGs; while there are other VSGs looking for alternative ways to fund their services which will avoid the constraints of being a sub-contractor and the often impossible terms of payment by results (PbR), or of subsidising corporate contractors. There are also local authority commissioners looking for alternative models, and we identified some more positive examples, described below. But in some service areas, political and financial pressures and the speed of change precipitated by government programmes, has meant that there had been little time for these ideas to be well developed.

What became apparent from our research was the extent to which patterns varied in different areas. National and regional voluntary organisations reporting feedback from a wide membership in different regions or service fields have similarly highlighted significant variation between different areas (Davies and Evans, 2012; GMCVO, 2013); and this is borne out in our cases below. A wide number of factors came into play in different areas affecting outcomes differentially:

- the regard of commissioners for VSGs that have offered local services over time;
- the extent of an organisation's reliance on service funding;
- the level of public service cuts in an area;
- and above all, the stance of local politicians in relation to the changing environment and future providers.

This signals that local area politicians do retain some power to affect outcomes for small VSG providers, and can embed barriers deterring larger charities in tendering processes or facilitate collective momentum around consortia.

The cases, however, reinforce an analysis that there is a growing divide between the experiences and outcomes of large and smaller voluntary organisations, and that there are winners and losers emerging. Winners in the areas that were less creative with respect to alternatives, or the least progressive politically, were often distinguishable by their inclination towards growth, diversification and entrepreneurialism. As one interviewee summed up the emerging picture:

> *"The whole contracting model favours large organisations – and that includes large charities, but excludes small and medium size organisations with limited financial reserves... The new survival diet has a very clear pecking order in terms of size, and capacity to bear risks, with a structured supply chain, big to small.* (Janine, infrastructure organisation)

Summary of common themes emerging from area studies

VCOs fears and threats:

- Widespread concerns about financial survival and future funding;
- Some 25% smaller VSGs feared closure (this figure varies considerably across areas);
- Majority were concerned about not meeting increased service demands and not surviving;
- Rapidity of changes meant neither commissioners nor VSGs felt well prepared;
- Some 80% VSG providers reported a transfer of financial risks – especially for PbR, underfunded contract costs and needing upfront funding to enable service delivery (Crowe, Gash and Kippin, 2014[21]);

[21] http://www.instituteforgovernment.org.uk/sites/default/files/publications/Beyond%20Big%20Contracts.pdf

- Widespread reports on use of financial reserves to meet service demands, meagre resources left to call on, especially among smaller VSGs;
- Smaller VSGs reported declining funds and not being able to meet growing needs in longer term;
- New providers with no experience or expertise of client group or local needs taking over.

Opportunities:
- Bigger more ‘savvy’ VSGs anticipated increases in income through new larger contracts, some through partnerships for bids;
- More organisations considering links with businesses – most on a local basis;
- Increased use of trading, renting premises, considering charging or already charging fees for services;
- Larger VSGs saw opening up of geographic boundaries, including infrastructure services being outsourced.

Effects on VCOs – workers and volunteers:
- Increased pressure to use volunteers to cover previously paid roles;
- Increased casualisation and decreased stability in VS workforce: use of temporary and zero hours contracts, people leaving, holding multiple part-time jobs to make ends meet.

Commissioners:
- Attitudes varied: marked differences can arise among commissioners in one area and between areas;
- A longer history of relationships with VSGs often meant more being done locally to keep smaller VSGs in the ring;
- Often a mismatch between commissioners and VS perceptions;
- Some commissioners were attracted by the idea of VSGs collaborating to take on scaled-up or packaged contracts;
- Most believed VSGs needed to diversify, raise income in other ways, become less dependent on local government funding;
- Others quoted new social enterprises (SE’s) that were articulating cost saving ideas and willing to work in ‘new ways’; contrasted with ‘traditional’ VSGs that needed to change their mindset;
- In many areas, the value that smaller local VSGs brought to local and specialist services was recognised – including working with hard to reach groups and understanding local needs;
- Some commissioners had limited knowledge of volunteers and assumed many paid roles (e.g. adult social care) could be taken on by a VSG managing volunteers at a distance.

Differences between local authority areas

Overall we gathered information on seven local authority areas. As in the research published in broader based regional material, we found that the relationship of VSGs with their local authority could be strikingly different, sometimes between neighbouring local authorities, and there was often a mismatch of information or misperceptions of VSGs and commissioners about each other.

In one London borough the pattern of grant support to small local groups seemed to have survived so far relatively untouched - but a transition to tendering for contracts was being anticipated by 2015. Some of the large commercial charities had sought to participate in preparatory discussions and events with local commissioners but had been prevented by requests not to attend. In contrast, on the opposite side of London, the involvement of the local council in a strategic partnership with a private company was generating anxiety that the local CVS was itself being corporatised. Elsewhere, an infrastructure organisation in another borough predicted that nothing would be left of their local voluntary sector as larger commercialised, regional and national charities were winning most contracts and replacing smaller local projects. There was no longer a CVS and they suggested that 'only the Settlements' with access to more secure core funding from their own trust funds would survive.

Providing an example of trends now becoming more widespread, Woodleigh, a local authority in a fairly affluent suburban area, has outsourced VS infrastructure services. These were split between contracts for volunteer services, skills and capacity building, and a remaining support service for VSGs, effectively narrowing the focus overall and limiting the exchange of ideas across different parts of the infrastructure network. The tender for the first two services was won by the regional branch of a large national charity (total budget of some £140m), with its office, where the volunteer co-ordinator worked mainly online, some 10 miles away from Woodleigh. This charity had gained one previous contract of this kind but VS infrastructure co-ordination was a considerable diversification from its core mission.

Before this contract, Woodleigh had an active volunteer network focused around a volunteer centre, and voluntary facilities extending to meet some emerging gaps in services, such as in libraries. However, the new arrangements reduced face to face volunteer support to a fortnightly meeting in a library, and created barriers to recruiting and retaining volunteers because of requiring a (mainly older) volunteer force to register online and define a minimum of hours. The loss of the volunteer centre also diminished the social value of volunteering, widely recognised as important for older volunteers (Rochester et al., 2010) and the possibilities of mutual shared support networks. New arrangements also displaced all training and elements like CRB checks to the VSGs placing volunteers. In addition, packaging and commodifying infrastructure support into contracts monitored by measurable outcomes reduced the CVS and volunteer services to technicised criteria, marginalising and effectively de-legitimising important aspects, such as the political organising and representational roles of CVSs.

In sharp contrast to this pattern, a different local authority commissioner described the very deliberate steps and detailed discussion that they had engaged in, to protect the local voluntary sector in the tendering process, especially through a sensitive drafting of specifications. The result was that large charities not based in the area had failed to win contracts. However, as the financial crisis in local government intensifies, with the need to radically rethink services, commissioners had identified new social enterprises as offering seemingly more innovative and attractive problem solving approaches, compared to traditional VSGs. The latter were too closely associated with the professionalised service models that had been imposed on them previously. The commissioner observed wryly that:

> *'some of the voluntary sector have become extensions of us… they have picked up our bad habits. …responsiveness to users is key and some come up short'.*

We studied changes in some local authority areas in greater depth and have included two of these examples below.

Area 1: Basborough

Basborough, with a population of just below 200,000, is a socio-economically mixed area, characterised by a blend of fairly affluent suburbs and pockets of significant disadvantage. Deprivation figures have increased alongside higher unemployment figures in the last few years. It includes traditionally working class areas, including terraced housing and large estates of high density social housing – now also populated by a range of minority ethnic groups and recent refugees.

Politically, there is a strong commitment to public services and the VS and including VSGs in future services. There is also an active volunteer centre and network, and the local authority continues to fund the CVS, while also criticising its tendency 'to bite the hand that feeds it'. The local authority acknowledged the value brought to services by VSGs in *'maintaining care in welfare work rather than simply watching the bottom line'*, in '*reaching, and understanding the needs of vulnerable groups which large providers may not be able to cater for as effectively'*.

VCOs varied in their response to changes facing them: a third of smaller VSGs identified a decline in income, while larger organisations tended to be more optimistic about *'gaining from new tenders'*. A lot of organisations, however, were considering ways of raising alternative finance through renting premises, trading activities, new fundraising activities and fees for some services to cover shortfalls.

Very large charities were less prevalent here than in some of our other cases. VSGs seemed generally more aware of the reality of changes on the ground, finding it hard to meet growing demand on services. Others planned to depend more on voluntary activity and membership incomes. VSGs reported a much more competitive environment for all funding sources, with perhaps one in ten bids attracting some funding or sponsorship, where a few years ago this might have been one in three.

Commissioners overall seemed to regard the new environment of scaled-up tenders and changes to public services as inevitable, and that if VSGs *'helped themselves better'*, increased their use of volunteers, and the CVS helped to build skills, capacity and collaborative bids, *'everyone would benefit from a growth in outsourcing'*. There was a divide, however, among commissioners: those who appeared more supportive, understood VCOs' work better and had built up trust through a longer working relationship, such as in children's services; and those fairly new to commissioning who stated support for *'smarter'* providers with *'can do'* attitudes, willing to *'change to suit the times'*.

There was also a level of annoyance expressed that commissioners felt constrained by political members' support for the VS, with comments, such as *'VSGs don't understand how well they've been protected from cuts to date'*; and *'they need to get on with shaping up as better partners if we're to weather this storm'*. A number of commissioners also lacked knowledge on the work already going into volunteer co-ordination or the costs of supporting volunteers, and saw volunteers as 'added value' that VSGs could offer in adult social care, for example, as a simple cost reduction.

Area 2: Wharton

Wharton is an inner city area with a population of just under 300,000. It has high levels of disadvantage based on national socio-economic indicators, and a very diverse population ethnically, with some 170 languages spoken and many refugee groups. While there are some more affluent areas, and traditional working class housing, there are also large high density social housing estates and neighbourhoods with a history of intergenerational unemployment, where multi-purpose children's centres and extended school learning projects have been targeted. At least two major national charities are represented in the area and have been involved in some of these recent projects.

Compared to Basborough, the overall political approach from the local authority appeared more entrepreneurial. There had been a longstanding commitment to the VS but reports of a recent strategic meeting quote a spokesperson as saying that the LA would not be able to protect VSGs into another financial year because of the severe cost saving pressures Wharton faces. Monica, CEO of SFA[22], the local branch of a large federated VSG also suggested that VSGs in the area faced *'the beginning of the end'* with *'things reaching crunch point'* in 2015, as more large welfare programmes are implemented and *'the impact of loss of small grants and massive LA cuts hit home'*. Because of the wide range of SFA's provision and support from their national office, she felt they would probably fare better than many smaller VSGs in the current year. But she was very worried about maintaining their services and what it would mean for vulnerable people they worked with in the future.

She was working in partnership with one of the largest charities in the area towards future contracts where their complementary expertise might maximise their chances of winning in competing with corporate contractors. Despite adopting competitive strategies which would secure future resources, Monica appeared very committed to the local area and closely connected to the family support services SFA provided, and overall was quite critical of the competitive environment which seemed to be decimating small providers she had collaborated with 'for years'.

Other longstanding local workers also expressed worry about the capacity of new contracts to meet needs in the right neighbourhood or to adequately meet needs at all. The shake-up of services so far has seen contracts going to large organisations or partnership bids and to new SE providers with little or limited experience in the area. For example, recently allocated youth services' contracts had been packaged into some 40 projects altogether where previously there were nearly 150 providers. Less than 25% were successful, and of those, more were larger than smaller. The CVS has also collaborated with a large children's charity on submitting other service bids. But not all winners have been large. A young women's health and drop-in centre run on a LA premises is now to be run by a small social enterprise, delivering less specialist youth services in different locations borough wide.

Church, cultural and refugee community centres have also lost funding for youth work. Where previously part-time workers supported volunteer networks, it is unclear how the provision will be sustained, especially where the premises are attached to, or in church or cultural ownership.

[22]Support for All – providing family, older and young people's support in caring roles

Alternatives can exist!

There are elements of experiment and chaos as a result of rapid changes in some areas. In those, specific neighbourhood experience and knowledge are already being displaced by more generic provision, rationalised by rhetoric on cost savings and government programmes, and leading to exclusion from contracts and closures among some small VSGs.

Across regions and other local areas, there is, however, evidence that recent pressures have also prompted different kinds of experiment: a new level of investment in partnerships, including with local business; promoting collaborative bids among VSGs; proposals for co-production of services; the use of social investment and mutuals; tenders broken into smaller packages; and commitment to social value and social sector providers. These are examples of more positive approaches, encouraging better relationships locally, and run counter to increasingly competitive climates elsewhere. However, to date, alternatives, such as co-production seem not well worked through, though the commitment of some LAs collaborating with VSGs to achieve better local service outcomes offers future hope for welfare.

7. Size matters but it raises other dilemmas

From the information we have explored in this Paper 1, it is clear that size matters, or has a significant bearing on the experiences, activities and outcomes of VSGs, but our varied information from areas demonstrates that this is not the only story: chasing contracts, scaling-up, capacity building, sub-contracting under harsh conditions, are not the only ways to go to survive.

Our second paper also makes this clear through exploring cases in service fields. Commissioners' exhortations for traditional VSGs to change their mindsets may have some merit in terms of thinking more creatively and exploring alternatives. However, often local authorities failed to seek creative possibilities; rather to regard the mainstream of changes as inevitable and their VSG colleagues as recalcitrant if they resisted compliance. If VSGs are to avoid complicity in the undercutting of welfare services, they need to work in alliance with local area workers and co-construct ways forward with local authorities concerned to sustain social value and social sector providers within local services. This may require thinking in different ways and accepting that neither local government nor the voluntary sector can remain quite as it was.

The central government policy response to austerity: cuts to local authority budgets and the privileging of corporations in a privatised public services market have ensured that there's no chance of 'business as usual'. The speed of changes has also undermined organisations' abilities to develop more creative responses. But then, as one interviewee above and our section on the state of finance in the voluntary sector confirm, there are some problems with the road that the larger 'professionalised' VSGs have gone down. Recent partnerships with business have both exacerbated these problems and are creating a world of welfare where some major charities are effectively empowering business and enhancing profits, while they themselves continue to grow or at least maintain their 'size' at the expense of closures among small local VSGs. In terms of incomes, the redistribution in the share of overall charitable income and the significant growth of a number of major charities tell their own stories.

Despite worrying trends in growth, investments and service acquisition among major charities, which are drawing them closer to 'for-profit' business models, it may still be preferable for charities to be engaged in these contracts, rather than large corporations driven by profit motives. Charities are run by trustees whose goals and interests are embedded with the charity's core mission; they are essentially non-profits.

Yet some of our examples suggest that their activities in financial growth, diversification, acquisition of services and business partnerships may be moving them away from these core purposes. This gives rise to questions about underlying motivation which may need further research to answer fully: are these trends about attempts to survive and thrive for the benefit of their core work? Alternatively, is there an 'isomorphic[23]' transition going on where charities' underlying purposes are gradually being subsumed by business assumptions about the virtues of growth, financial needs and a changing internal culture? In other words, to what extent are large charities willing agents in these changes and what drives them?

However, by remaining silent in critical discussion about the direction of changes, instead asserting the need to secure their own futures, such charities appear complicit with agendas which undermine broad charitable aims in three problematic ways. First, they are empowering business encroachment into charitable terrain and services; second, they are enabling a re-shaping of overall voluntary sector activity at the expense of small local VSGs; and third, they are accepting involvement in poorly funded contracts, contributing to the reduced quality, integrity and potential frailty of public services.

In addition, they are entering willingly into restraints on their independent activities and voice. As one interviewee commenting on the new kinds of larger organisations that were winning contracts locally said, *'they will get to a size where they will be corrupt'*. In relation to their size and scale, she thought that their governance was not a sufficiently public form of accountability to protect society (Marion, local infrastructure organisation).

All these issues pose significant dilemmas for charities - should they strive to maintain services at any cost, not least because they are likely to be better contractors to work for than either large corporate or small entrepreneurial entrants to service markets (who are widely using temporary and zero hours contracts). However, the extent to which large charities may be doing things better is not self-evident, and examples arose in our study of large charities seemingly trading on a more trustworthy 'brand' in gaining new contracts. But their growth was accompanied by poorer working conditions, leading to swift staff turnover and necessarily unstable services. In such cases, they are hardly working with local areas or small VSGs to seek alternative models, nor challenging inadequate welfare arrangements.

Our second paper considers cases in different service fields in more depth and continues to examine this debate – is charity complicity in this market mitigating the conditions for longer term welfare or should large charities better use their bargaining power to opt out of these 'dangerous liaisons' (Fraser, 2013).

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[23] Institutional isomorphism is a process whereby organisations – whether consciously or not - take on the features of dominant organisations in the surrounding environment. For more explanation, see: http://www.independentaction.net/?s=Milbourne&submit=Search

What of smaller VSGs? The wide diversity of experiences between, sometimes neighbouring, areas which is evident from regional documents and our local studies, demonstrates the different political perspectives at work. In some areas, marketisation is being given free rein, local expertise is being whittled away and geographic boundaries are being eroded. Costs count above experience or specialist knowledge and this often means winners chosen from those willing to be the most entrepreneurial or compliant, such as in cutting costs. This is where small VSGs are most at risk and rapid changes in providers are producing confusion and also loss of specialist provision.

In other areas, forms of resistance and alternative models are being aided and abetted, small VSGs are being encouraged to work together and with local commissioners to 'co-construct' solutions. We therefore need to avoid defining either voluntary organisations or local authorities in any homogeneous way. There is the will and capacity in some areas still to support the agency and collective initiative of smaller VSGs for a variety of reasons underpinned by political roots of one sort or another. Nevertheless, financial support for this will come under increasing strain as the funding crisis in local government deepens.

All this points to the need to recognise complexity as well as diversity, and that values and ideology underpin both the recent responses of large charities and small voluntary organisations, and those of commissioners and local authority politicians. There is a growing divide between many large and small voluntary organisations in their apparent characteristics and activities, and this is significant currently in defining dominance, and winners and losers. But there are also qualitative differences between similar sized organisations, and it is ultimately their values and motivations that need to be understood.

As outlined above, a decade or more of changes have encouraged increased competition among voluntary organisations with associated shifts in size, organisational cultures and arrangements. But since 2010, that competition has intensified, exacerbated by the introduction of Open Public Services (Cabinet Office, 2011) and scarce resources. Some VSGs have remained resolutely *community facing*; while others became *state facing* as income and projects outsourced from the state grew. These are often the organisations with the most to lose from declining local government funding, and now face 'market' or 'community' oriented choices. Many VSGs, however, and among these, especially the largest charities, have become increasingly *market facing*, seeking competitive advantage alongside *'new opportunists'* - entrepreneurs keen to gain from the rapidly shifting market - willing to engage in ways that neither respect nor value either traditional sector or locality boundaries. If *'community facing'* - small, local and specialist VSGs are to survive, their added value needs to be understood better, not only locally but also by large charities that are currently complicit in undermining their existence. Political collaboration and alliances are also needed to develop alternatives to over-technical, economically biased market forms, patently inappropriate for achieving the social objectives of welfare.

In our second paper, we examine detailed case studies in six service fields, adding to the insights from our local area studies. These cases capture detailed patterns of uneven development among voluntary organisations - of potentially rapid decline alongside areas of growth - revealing how size of organisation is interacting with the impact and dynamics of intensified competition.

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Appendix 1: Annual income at 31/3/13 (simplified from accounts) showing proportions of total income

	Barnados	Action for Children	Salvation Army	AgeUK	NACRO	Children's Society	MIND
Total income	**258,112,000**	**180,029,000**	**181,516,000**	**80,489,000**	**47,465,000**	**33,188,000**	**29,074,000**
Total aggregated with branches				**158,897,000***			
Fees for services & provision	158,324,000 62%	157,514,000 87.5%		6,975,000 9%	46,306,000 97.6%	14,157,000 43%	
Public sector income (incl EU)	10,699,000 >5%		2,233,000 >2%			14,157,000 43%	9,630,000 33%
Total donations including commercial, gifts in kind, legacies	32,843,000 13%	18,110,000 10%	98,084,000 54%	38,875 48%	405,000	17,387,000 53%	7,090,000 24%
Total trading income	48,274,000 19%		18,320,000 10%	3,2970,000 41%		682,000	12,110,000 42%
Investment income	3,814,000	1,068,000	3,525,000	618,000	125,000	662,000	140,000
Other income – property/rental	4,158,000	3,337,000	10,732,000 6%	1,051,000	629,000	596,000	104,000

Not all accounts were categorised in the same way making comparisons difficult; in some accounts, public sector income was listed additionally to fees for services and may also have covered both service provision and grants; in others, these are not separated. In other cases, lines were not broken down into the same categories. In some cases trading seemed to include sale of services and consultancy, which potentially also included service contract overheads. *All charities above showed income growth overall on previous year.*

In the case of federated national organisations with local branches (e.g. AgeUK), the local accounts, and therefore public sector income raised for services delivered locally were not aggregated with the national office accounts. This gives a misleading picture on size of overall income (*which is calculated for Age UK for illustration) and the balance of public sector income or fees for services, which local accounts indicate as a much higher proportion. Information on income from commercial sponsorship or partnership income was not always disaggregated but often a point of detail in accompanying annual reports.

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