



The Scottish  
Government

The Opportunities and Challenges  
of The Changing Public Services  
Landscape for The Third Sector In  
Scotland: A Longitudinal Study:  
Year Two Report

Voluntary Issues





**THE OPPORTUNITIES AND CHALLENGES OF THE  
CHANGING PUBLIC SERVICES LANDSCAPE FOR  
THE THIRD SECTOR IN SCOTLAND: A  
LONGITUDINAL STUDY**

**YEAR TWO REPORT**

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## EXECUTIVE SUMMARY

### Introduction

This report outlines findings from year two of a three-year research project examining 'The Opportunities and Challenges of the Changing Public Services Landscape for the Third Sector in Scotland: A Longitudinal Study'. This report builds on and extends the research reported in the Year One Baseline Report<sup>1</sup>. This work was commissioned by the Scottish Government, and using qualitative case studies and focus groups, aims to track the way in which a selection of third sector organisations (TSOs) respond to the changing opportunities and challenges over a period of three years starting from 2009/2010.

The Scottish Government has acknowledged that the third sector has a key role to play in delivering public services that are high quality, continually improving, efficient and responsive to local peoples' needs. This work will inform future partnership-working with the third sector.

The first year of the research (see Year One report) established a 'baseline' by which subsequent years of research could be compared. The Year Two research aimed to build on and extend the original Year One objectives as well as respond to emerging policy. At a meeting of the Research Advisory Group in February 2011<sup>2</sup>, the members agreed that the focus of the Year Two research should include the following:

- Relationships/ partnerships
  - Especially involvement of TSOs in Services Design (co-production)
  - Views of new local infrastructure (interfaces) and third sector engagement at local level
  - Other partnerships
- Financing the third sector
- Outcome measurement (Social Return on Investment and other impact measurements)
- Leadership and governance
- Policy changes/ election context
- Delivering high quality services (case study examples).

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<sup>1</sup> Osborne, S., Bond, S., Dutton, M and E. Honore (2011) The Opportunities and Challenges of the Changing Public Services Landscape for the Third Sector in Scotland: A Longitudinal Study Year One Report: Baseline Findings, Edinburgh: Scottish Government.

<sup>2</sup> Research Advisory Group Minutes of the Meeting, held at Scottish Government, Victoria Quay, Edinburgh on 9 February 2011.

## **Methodology**

The methodology involved qualitative research within 20 voluntary sector organisations based in Scotland. The methodology involved two key components: (1) in-depth case studies with eight TSOs and; (2) three focus groups involving a total of twelve additional TSOs.

Case studies for Year Two were carried out approximately one year after the first visit with organisations (between January and June 2011). In Year Two the main contact in each case study organisation was again approached and asked for an interview and permission to follow up staff contacted in Year One. If original staff were not available for interview other staff covering a similar role were identified and interviewed, where possible. In-depth face-to-face interviews were carried out with staff at different levels of the organisation, depending on access made available.

Twelve organisations were divided into three focus groups of four participants. Each focus group pulled together organisations with strong interests in particular areas. These included: (a) equalities; (b) social care and health care, and (c) employability/economic development/regeneration<sup>3</sup>. One representative from each organisation (usually the Chief Executive or a member of the senior management team) attended one of the focus groups. Focus groups were carried out at six monthly intervals following the baseline meeting. This report covers key findings from two waves of focus group meetings which were carried out between October and November 2010 and April and May 2011.

In addition, a workshop was carried out in June 2011 at Edinburgh University Business School. Representatives from all participating organisations were invited to attend. Notes were taken on the discussion, and where appropriate, issues discussed are referred to in the report.

## **Changes to the policy and funding environment**

### *Changes to the policy environment*

As well as cuts to public sector funding, other key changes in the policy environment at UK Government and Scottish Government level included the following:

The introduction of the Work Programme across the UK in 2010 replaced existing employability streams with a significantly different method for contracting services. This had the potential to have a major impact on TSOs who provided employability services in Scotland, although at the time of the research the outcome was not yet clear.

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<sup>3</sup> Note that these categorisations were not applied rigidly and there was some overlap in the activities of organisations.

The Welfare Reform Bill in the UK had started to have adverse effects on some TSOs and their clients, particularly those working with single parents, carers and people with disability.

Personalisation (or self-directed support) in Scotland was becoming increasingly important on the agenda of TSOs who provided services in health and social care. Most were supportive of the principle of devolving power to service users with a number of TSOs already keen to develop personalisation for their own services. However, there was concern that the personalisation agenda had been appropriated by some local authorities as a means of cost-cutting rather than as a genuine reform of services.

The shifting nature of policy priorities presented on-going challenges and opportunities for TSOs. The perceived low priority of volunteering in policy was an issue for some TSOs who relied on a volunteer base, while it was not entirely clear how the 'Big Society' agenda would impact in Scotland. The context of ever-tightening resources had meant regulation had become increasingly burdensome for some. Variations in policy priorities between local authorities remained an on-going issue.

#### *Changes to the funding environment*

Increasingly, tendering was the main method by which funding was contracted. However, there were variations in approaches between local authorities and no standardised approach on what services should formally go out to tender. There were tentative indications that some local authorities might be moving towards allowing more input from TSOs into service delivery plans. There was also an on-going concern around the emphasis on cost rather than quality in funding decisions.

Most of the spending cuts were expected from April 2011, and therefore after most of the year two fieldwork had taken place (between Jan and March 2011). However, prior to this date actual cuts had been relatively limited. However, funders had attempted to save money prior to April 2011 through standstill funding, cutting and changing conditions to existing contracts and re-appropriating underspends.

Despite anticipated cuts, many TSOs felt that new opportunities might emerge through more contracting out by local authorities, new policy priorities as well as gaps created by other TSOs closing down.

Many TSOs had not considered applying for private loan finance because they had limited assets, security and private income, although a small number had been able to successfully access this source of income in order to invest in property.

#### *Impact of policy and funding changes*

Only a small number of TSOs noted any significant changes in demand for their services, with some reporting lower numbers of referrals (this was due to changes in how statutory services identified clients) and others reporting increased demand due to other agencies closing down.



The impact on service provision had been minimal despite funding being (at best) at a standstill and (at worst) a 15% cut. While some TSOs had had to make reductions in some services because of cuts, most had avoided this by absorbing the effects through making costs savings elsewhere or using accumulated underspends from previous years. However, the latter in particular was not a strategy that was sustainable into the next financial year.

TSOs were keen to minimise the impact of cuts or standstill funding on clients, although choice and flexibility for clients were threatened, in particular the provision of more expensive outreach services.

The impact of the policy and funding changes had been felt most acutely by staff within TSOs. There had been redundancies, reduced hours, changes to terms and conditions of staff contracts as well as increased workloads. This had created a general atmosphere of uncertainty and anxiety among many staff in TSOs, in some cases having a negative impact on staff morale.

### **Third sector responses and challenges**

#### *Responding to funding opportunities and the potential for 'strategic drift'*

There was a potential tension for some TSOs between adapting their services to ever-changing policy priorities on the one hand and maintaining their organisational "identity" on the other. This concern over the potential for 'strategic drift' had led many to recently take stock through strategy reviews which refocused and defined their purpose and strategic direction.

#### *Organisational reviews*

Strategic plans had been developed within a number of organisations. These aimed to identify what organisations needed to do in order to survive and develop and provide a strategy to achieve these aims. These helped to guide organisations through particularly challenging times.

#### *Making cost savings and remaining competitive*

Many TSOs were looking at how they could make cost savings and remain competitive, thereby improving resilience. Strategies explored by organisations included:

- Organisational restructuring
- Redundancy planning and reducing staff costs
- Considering how to best utilise property assets, through for instance, property rationalisations (closing satellite offices and centralising into one space)
- Mergers with other organisations.

### *Diversifying the funding base and social enterprise*

Many TSOs were thinking about how to diversify their funding base to become less reliant on public funding. Along with other activities such as organisational reviews and making cost savings to remain competitive, this indicates an increasingly 'social enterprising' approach to the management of TSOs. Many TSOs had also looked into the possibility of increasing income from business activity although this was not appropriate for all TSOs. Some were pursuing strategies to increase fundraising in order to diversify their income.

### *Competition*

There was on-going concern about the challenges TSOs faced from potential public and private sector competitors, particularly from local authorities who were also potential deliverers as well as funders of services.

### *Governance and leadership*

Senior management and Boards within TSOs faced a number of challenges presented by the changing policy and financial environments.

The pace of change created a need for strong, consistent leadership and the provision of direction to staff as well as challenges in maintaining staff morale and supporting staff through the changes that were happening. This demanded skills in managing change as well as leadership. Managers in smaller organisations often had to embrace a wider range of roles since increasingly important specialist support roles were not available to them, e.g. marketing, information technology, human resource management and operations management.

Board of Directors and/or Trustees of TSOs could potentially offer valuable skills, knowledge and experience to support CEOs/Directors in their role. A number of organisations noted a welcomed increase in involvement of their Boards over the last year in order to support organisations in meeting the challenges. A good spread of knowledge and experience among Board members was valued, and having some members from the private sector could provide valuable business experience.

### **Performance and outcome measures**

A number of TSOs felt that funders had become more focused on measuring outcomes within the last year, and in particular 'soft' outcomes. As TSOs felt this was an area they could particularly add value, this was generally welcomed.

In order to demonstrate the value they added to the client experience, some organisations provided additional evidence to funders on the impact their service had on clients over and above what was formally required.

A number of organisations continued to explore innovative ways in which to demonstrate client progress to clients and funders. This was a particular challenge

for clients with complex issues or where literacy and numeracy was low. Also there was no standardised way of measuring outcomes. Some had looked at using existing tools while others were involved in the development of new tools.

## **Partnership working**

### *Trends in partnership*

TSOs were aware of the importance of partnership working as a means of meeting the challenges created by the policy and funding changes. Accessing funding was a key driver for partnerships and many were keen to be involved in more 'joined up' working. Opportunities for partnership working appeared to be on the increase, but the impact of funding cuts on their existing partners presented a potential future threat.

### *Third sector infrastructure*

Intermediary bodies are those TSOs that exist to support the work of other TSOs. The research examined knowledge and involvement of TSOs in third sector interfaces. Since April 2011, each local area in Scotland has had its own third sector interface which aimed to provide a single point of access to support and advice for the third sector within the local area. However, many TSOs were not aware of the new interfaces, and of those that were, there was a mixed response. While some were supportive of the principle, others were concerned about the potential effectiveness of the interfaces, especially for TSOs who worked across a number of different local areas.

Many felt that the SCVO (and indeed the local infrastructure bodies) provided a useful forum for representing the interests of the third sector and for supporting its work. However, others were concerned about a potential conflict of interest for SCVO as a service provider and about the ability of SCVO to represent the sector as a whole.

Membership forums, often representing particular interests, were valued most in terms of offering a platform to influence policy. Direct links with the Scottish Government, where accessible, were also highly valued.

### *Partnerships with local authorities*

Many TSOs had good relationships with local authorities, and a number reported improved communication and dialogue with more opportunities to discuss how services could be organised in the light of cuts. However, others found difficulties accessing local authority staff, particularly where the local authority had undergone major departmental restructuring.

## *Involvement in service design*

The system of competitive tendering usually involved a funder specifying the service required with limited scope for contractors to input into service design. Although just out of the pilot stage, Public Social Partnerships offer the potential for greater involvement of the third sector in the design of public services. Increased dialogue between local authorities and TSOs around services and the possibility of more open tendering may offer opportunities for TSOs to become more involved in the future.

## **Conclusions**

In Year Two the all-pervading message was that of change and uncertainty stemming from new policies and funding programmes coming out of the new UK Coalition government as well uncertainty about the outcome of the Scottish elections in May 2011. As one service manager noted, *'there is nothing surer than change'*. This could create challenges for organisations, not least the rapid pace of change itself. Nevertheless, many were positive that the changes could create opportunities for improvements in the third sector.

Many TSOs were making significant efforts to respond positively and proactively to the challenges presented by the changing funding and policy environment. Many had taken the opportunity to look at their priorities and how they wanted to move forward. The majority had looked at a variety of strategies to cut costs and remain competitive, as well as diversifying the funding base (and social enterprise in particular). This presented challenges to leadership and governance, but senior management and Boards of TSOs were, on the whole, rising to meet these challenges. This suggests that many TSOs are taking a dynamic approach to change.

It is important to recognise that there is no reductive response to the current economic climate, no 'one size fits all'. For some TSOs, mergers are an appropriate response, for others they may not be. It is also important to recognise that innovation is only one response to the current situation. For others a more cautious 'sticking to the knitting' may be more appropriate. Proactive responses, like mergers and innovation, appear to offer creative ways to respond to these straitened times. However they can also consume resources at a time of resource scarcity. What the findings of this report suggest is required is a contingent response by TSOs that matches the response to the needs of their organisation, members and/or users.

A number of TSOs were also rising to the challenge of measuring 'soft' outcomes, particularly in relation to clients with complex needs and/or whose literacy and numeracy were limited. Some had made significant steps towards adapting and/or developing tools which would both demonstrate client progress to the client themselves as well as show the added value of the service to funders. While there was still no standardised way of measuring outcomes, some TSOs were making important steps towards developing tools flexible enough to be applicable across a number of different projects and funders.

TSOs were aware of the importance of partnership working as a means of meeting the challenges created by the policy and funding changes. Many were keen to be involved in more 'joined up' working and were taking advantage of increased partnership opportunities, but the impact of funding cuts on their existing partners presented a potential future threat. The intermediary bodies that appeared to be most successful in offering TSOs a platform to influence policy were specialist partnership forums (e.g. membership forums) and those with direct links with government. The experience of partnership working with local authorities varied, with some reporting better communication and dialogue while others reported lower levels of contact. There were indications that opportunities for involvement in service design by the third sector may be increasing, although it was too early to be certain if these would effectively materialise.

## INTRODUCTION

- 1.1 This report outlines findings from year two of a three-year research project examining 'The Changing Public Services Landscape in Scotland: Opportunities and Challenges'. This report builds on and extends the research reported in the Year One baseline report<sup>4</sup>. This work was commissioned by the Scottish Government and using qualitative case studies and focus groups aims to track the way in which a selection of third sector organisations (TSOs) respond to the changing opportunities and challenges over a period of three years starting from 2009/2010.
- 1.2 The Scottish Government has acknowledged that the third sector has a key role to play in delivering public services that are high quality, continually improving, efficient and responsive to local people's needs. This work will inform future partnership-working with the third sector.
- 1.3 The first year of the research (see Year One report) established a 'baseline' by which subsequent years of research could be compared. As part of that, specific objectives for the first year of research are summarised below:
  - identify the role and distinctive added value of TSOs delivering public services;
  - identify features of effective partnership-working between the public sector and TSOs;
  - assess the impact of Scottish Government and local government policy and budget priorities on TSOs' changing practice and management;
  - track the impact of the economic downturn and budget limitations on TSOs' roles in public service delivery;
  - describe how TSOs contribute to progress on the Scottish Government's national priorities and national outcomes;
  - describe how TSOs contribute to progress on Single Outcome Agreements and the work of Community Planning Partnerships;
  - enable TSOs to articulate views on the appropriateness of funders' oversight, evaluation and management procedures.
- 1.4 A full list of objectives as outlined in the original specification are provided in Appendix A.
- 1.5 The Year Two research aimed to build on and extend these original objectives as well as responding to emerging policy. At a meeting of the Research Advisory Group in February 2011<sup>5</sup>, the members agreed that the focus of the Year Two research should include the following:

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<sup>4</sup> Osborne, S., Bond, S., Dutton, M and E. Honore (2011) The Opportunities and Challenges of the Changing Public Services Landscape for the Third Sector in Scotland: A Longitudinal Study Year One Report: Baseline Findings, Edinburgh: Scottish Government

<sup>5</sup> Research Advisory Group Minutes of the Meeting, held at Scottish Government, Victoria Quay, Edinburgh on 9 February 2011

- Relationships/ partnerships
  - Especially involvement of TSOs in Services Design (co-production)
  - Views of new local infrastructure (interfaces) and third sector engagement at local level
  - Other partnerships
- Financing the third sector
- Outcome measurement (SROI and other impact measurements)
- Leadership and governance
- Policy changes/ election context
- Delivering high quality services (case study examples).

## **Methodology**

- 1.6 The methodology involved qualitative research within 20 voluntary sector organisations based in Scotland. The methodology involved two key components: (1) in-depth case studies with eight TSOs and; (2) three focus groups involving twelve additional TSOs.
- 1.7 Case studies for the Year One (Baseline) were carried out between December 2009 and May 2010 and for the focus groups between April and June 2010. The results were reported in the Year One report.
- 1.8 Case studies for Year Two were carried out approximately one year after the first visit with organisations (between January and June 2011). Focus groups were carried out at six monthly intervals following the baseline meeting. This report covers key findings from two waves of focus group meetings which were carried out between October and November 2010 and April and May 2011.
- 1.9 In addition, a workshop was carried out in June 2011 at Edinburgh University Business School. Representatives from all participating organisations were invited to attend, with 11 signing up. Seven participants attended, with apologies from a further four who could not attend at the last minute. The workshop included a presentation of the Year One findings by Professor Stephen Osborne followed by a discussion involving all participants. Notes were taken on the discussion, and where appropriate, issues discussed are referred to in the report.

### ***Initial selection of case study and group work organisations***

- 1.10 Following discussions with the Scottish Government and the Research Advisory Group, a framework was developed for the selection of research

participants. This was designed to ensure the establishment of a purposive sample of organisations working in different:

- policy areas (with a mix of social care, healthcare, and employability/economic development/regeneration providers);
- geographies (based in different locations across Scotland);
- scales (with a mix of larger and smaller organisations included);
- and to include some social enterprises.

1.11 The selection of focus groups was based on similar lines with individual focus groups bringing together organisations with strong agendas in the following areas: (a) equalities; (b) social care and health care, and (c) employability/economic development/regeneration.

1.12 Potential participants were identified through a database of 685 possible organisations provided through the Scottish Council for Voluntary Organisations (SCVO). The final selection of possible organisations was made in order to achieve the balance required by the framework above. All organisations were then contacted and invited to take part in the research for a period of three years as either: (1) a case study carried out once a year; or (2) to participate in a focus group carried out twice a year. Most first choice organisations were happy to participate, with the few who declined being replaced by other suitable organisations. In this way, the baseline sample of organisations was obtained.

### ***In-depth case studies***

1.13 In-depth case studies were carried out within eight third sector organisations between January 2011 and June 2011.

1.14 In-depth face-to-face interviews were carried out with staff at different levels of the organisation. These included: chief executives; other senior officers/managers; research/policy officers; business/planning managers; operational and line managers; front line staff delivering. The selection of staff for interview was decided in consultation with the main contact from the organisation (usually the chief executive or another member of the senior management team) and the actual staff interviewed varied depending on the size of the organisation and availability of appropriate functions. A list of interviews carried out within each organisation for Year Two can be found in Appendix B. A copy of the main interview schedule used in Year Two is attached in Appendix D.

1.15 In Year Two the main contact was again approached and asked for an interview and permission to follow up staff contacted in Year One. If original staff were not available for interview, where possible, other staff covering a similar role were identified and interviewed. In one organisation access was restricted to a smaller number of participants due to resource issues. A very small number of staff either did not reply to invitations to be interviewed, or there were difficulties in arranging available interview dates within the research timeframe.



### **Three focus groups**

- 1.16 Twelve organisations were divided into three focus groups of four participants. Each focus group pulled together organisations with strong interests in particular areas. These included: (a) equalities; (b) social care and health care, and (c) employability/economic development/regeneration<sup>6</sup>.
- 1.17 One representative from each organisation (usually the Chief Executive or a member of the senior management team) attended one of the focus groups carried out between October and November 2010 and April and May 2011. Where an organisational representative was unable to attend the focus group, telephone interviews were conducted. A common discussion framework was used – See Appendix D & E.
- 1.18 Following the focus groups in Year One, one participant left the TSO and her successor was unable to continue the participation on behalf of that organisation. However, another organisation was approached and agreed to take part in the focus group research. An initial interview was carried out with the new participant in December 2010 and this member joined the focus group for the first time in Year Two.

### **Anonymity**

- 1.19 In order to protect the anonymity of individual respondents who took part in the research, quotes have been labelled with generic job titles (e.g. Senior Manager, Manager, and Officer). A brief description of the type of organisation is also provided after each quote. Additional background information on the participating organisations is provided in Appendix C. This is intended to give context to the overall report and individual quotes without revealing the identity of participating organisations. All organisations were happy to be identified as taking part in the research (although not necessarily to have particular opinions credited to them). All participating organisations approved the approach to anonymisation that has been used. A full list of participating organisations is available on the project website at <http://www.thirdsectorproject.org>.

### **Analysis**

- 1.20 The first stage of the qualitative longitudinal research was to design a thematic analysis framework. This was based on the framework used in Year One (baseline). This provided a flexible common core framework which enabled 'comparability over time and between projects' for which 'the use of common data collection tools and reproducible modes of analysis are suggested'<sup>7</sup>.

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<sup>6</sup> Note that these categorisations were not applied rigidly and there was some overlap in the activities of organisations.

<sup>7</sup> Holland, J. (2007) Issues in Qualitative Longitudinal Research; Workshop held at London South Bank University 2007, p.10.

Thematic analysis has been carried out on individual focus group and case study data collected in Years 1 and 2. This analysis provided the basis for the longitudinal analysis as well as providing more detailed cross-sectional data, including quotes, which are used in the report.

- 1.21 For the longitudinal analysis, later data were then added to the earlier data within the thematic framework enabling accounts provided by different respondents at different points in times to be easily compared. In order to organise the longitudinal analysis, the method proposed by Lewis (2007)<sup>8</sup> was employed. Individual focus groups and case studies were subjected to a longitudinal analysis comparing data collected in the waves. This was done for each group/case study in Microsoft Excel. This data was then integrated (in Microsoft Excel) across all groups and case studies. In this way, a summary analysis of key changes between the waves was enabled and forms the basis of this report.
- 1.22 Please note that much of the report is based on the views and perceptions of interviewees within this selection of third sector organisations. These views are individual's opinions and are therefore subjective.

### ***Methodological challenges***

- 1.23 The longitudinal qualitative nature of the research presents an unparalleled opportunity to track the dynamic of change over time. However, this also presents challenges including issues of attribution, policy changes and attrition.
- 1.24 Attribution is being able to attribute changes to a specific cause. However, TSOs in Scotland operate within a complex and changing policy context, with policy emerging from different levels. The UK and Scotland level are particularly important for policy, but also policy emerging from (and interpreted through) local authorities, regulatory bodies and Europe form part of a complex background. There is also often a time lag between policy announcements and the actual impact on TSOs since these can be mediated via other bodies (e.g. local authorities in particular). Where possible the report identifies the key links, but it would be too simplistic to assume that causal links always exist or that they are straightforward in nature.
- 1.25 Over the course of a number of years, it is likely that the circumstances of organisations or individuals may change in a way that means they can no longer continue in the research (attrition). Fortunately, by Year Two of the research attrition had been minimal. Of the 20 organisations taking part in Year One (Baseline), only one focus group participant was unable to continue. However, a replacement organisation was found whose Director was able to take part in the subsequent years.
- 1.26 There was some attrition of interviewees within case study organisations. This was because of staff leaving the organisation, being unable to set up interviews

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<sup>8</sup> Lewis, J. (2007) 'Analysing Qualitative Longitudinal Research in Evaluation' in *Social Policy & Society*, Vol. 6, No. 4, pp. 5455-556

within the timeframe or because access was restricted by the key contact. Where possible, alternative participants were interviewed.

## **Structure of the report**

- 1.27 The findings from the research begin in Chapter 2 with an examination of the key Changes to the Policy and Funding Environment. These include:
- policies emerging from UK Government and Scottish Government;
  - tendering including funding cuts and new opportunities, and access to loan finance; and,
  - some of the impacts on TSOs resulting from the policy and funding changes, including changes in demand for services; impact on service provision; impact on clients; and impact on staff.
- 1.28 Chapter 3 explores Third Sector Responses and Challenges to the changing environments. This chapter examines:
- how TSOs have been responding to changing funding opportunities and the potential challenge of ‘strategic drift’;
  - organisational reviews;
  - making cost savings in order to remain competitive including: restructuring, redundancy planning and reducing staff costs, property rationalisations, mergers and the impact on internal capacity;
  - the approach of TSOs to diversifying the funding base and social enterprise;
  - the challenges of competition for TSOs, and;
  - governance and leadership.
- 1.29 Chapter 4 examines trends around Performance and Outcome Measures. This includes: measuring ‘soft’ outcomes; providing additional evidence to funders; using additional measures to demonstrate impacts, and; use of Social Return on Investment (SROI).
- 1.30 Partnership Working (Chapter 5) examines trends in partnership working reported by TSOs. This chapter also looks at: Third Sector Infrastructure such as awareness and involvement in Third Sector Interfaces; relationships with SCVO and local CVSs and involvement in other partnership forums. Finally, this sector examines partnerships with local authorities and involvement in service design.
- 1.31 Throughout the report and under relevant chapters, case study examples are outlined giving details of practices within individual TSOs.
- 1.32 Finally, a Conclusion is provided in Chapter 6.
- 1.33 All quotes use generic pseudonyms which are intended to provide some organisational and respondent role context without identifying either individuals or organisations. However, please note that the generic pseudonyms cannot encapsulate the varied roles of TSOs, especially since many organisations fall

into numerous categories, but they are necessary for convenience. Appendices B and C provide more details about each organisations. Where quotes have been taken from a focus group discussion this is indicated in brackets after the quote (e.g. *Employability FG where FG indicates 'focus group'*).

- 1.34 Interview guide questions used in the fieldwork are appended (Appendix D and E).

## 2 CHANGES TO THE POLICY AND FUNDING ENVIRONMENT

### Chapter Summary

This chapter outlines the key changes to the policy and funding environment during 2010 and early 2011 that were relevant to TSOs in Scotland. The impact of these on the organisations, their clients and staff is also explored.

#### *Changes to the policy environment*

As well as cuts to public sector funding, other key changes in the policy environment at UK Government and Scottish Government level included:

The introduction of the Work Programme across the UK replaced existing employability streams with a significantly different method for contracting services. This had the potential to have a major impact on TSOs who provided employability services in Scotland, although at the time of the research the outcome was not yet clear

The Welfare Reform Bill in the UK had started to have adverse effects on some TSOs and their clients, particularly those working with single parents, carers and people with disability.

Personalisation (or self-directed support) in Scotland was becoming increasingly important on the agenda of TSOs providing services in health and social care. Most were supportive of the principle of devolving power to service users with a number of TSOs already keen to develop personalisation for their own services.

The shifting nature of policy priorities presented on-going challenges and opportunities for TSOs. The perceived low priority of volunteering in policy was an issue for some TSOs who relied on a volunteer base, while it was not entirely clear how the 'Big Society' agenda would impact in Scotland. The context of ever-tightening resources meant regulation had become increasingly burdensome for some. Variations in policy priorities between local authorities remained an on-going issue.

#### *Changes to the funding environment*

Increasingly, tendering was the main method by which funding was contracted. However, there were variations in approaches between local authorities and no standardised approach on which services should formally go out to tender. There were tentative indications that some local authorities might be moving towards allowing more input from TSOs into service delivery plans. There was also an on-going concern around the emphasis on cost rather than quality in funding decisions.

Most of the spending cuts were expected from April 2011 and therefore after most of the year two fieldwork had taken place (Jan-March 2011). However, prior to this date actual cuts had been relatively limited. However, funders had attempted to

save money prior to April 2011 through standstill funding, cutting and changing conditions to existing contracts and re-appropriating underspends.

Despite anticipated cuts, many TSOs felt that new opportunities might emerge through more contracting out by local authorities, new policy priorities as well as gaps created by other TSOs closing down.

Many TSOs had not considered applying for private loan finance because they had limited assets, security and private incomes, although a small number had been able to successfully access this source of income in order to invest in property.

### *Impact of policy and funding changes*

Only a small number of TSOs noted any significant changes in demand for their services, with some reporting lower numbers of referrals (due to changes in statutory services identification of clients) and others reporting increased demand due to other agencies closing down.

The impact on service provision had been minimal despite funding being (at best) at a standstill and (at worst) a 15% cut. While some TSOs had had to make reductions in some services because of cuts, most had avoided this by absorbing the effects through making costs savings elsewhere or using accumulated underspends from previous years. However, the latter in particular, was not a strategy that was sustainable into the next financial year.

TSOs were keen to minimise the impact of cuts or standstill funding on clients, although choice and flexibility for clients was threatened, in particular the provision of more expensive outreach services.

The impact of the policy and funding changes had been felt most acutely by staff within TSOs. There had been redundancies, reduced hours, changes to terms and conditions of staff contracts as well as increased workloads. This had created a general atmosphere of uncertainty and anxiety among many staff in TSOs, in some cases having a negative impact on staff morale.

## **Introduction**

2.1 The Year One report outlined the policy background and context within which TSOs in Scotland operated at that time. Many of these remain relevant in Year Two. Some of the key factors highlighted in the Year One report included:

- The Scottish Government's commitment to promoting high quality public services and the importance of the third sector in on-going public service reform.
- The 2007 Concordat between the Scottish Government and local government which reduced ring-fencing and devolved control of some budgets to local authorities (LAs) and Community Planning Partnerships

(CPPs). This fundamentally changed the relationship between national and local government in Scotland. This aimed to promote the alignment of funding and activities within local authorities and other areas of the public sector with the Scottish Government's priorities and national outcomes. Key tenets of the Concordat were:

- Collaborative working and joint accountability - the relationship between central and local government to be based on mutual respect and partnership to enable local authorities to respond more effectively to local needs by reduced micro-management;
  - Reduced bureaucracy - reduction in the number of funding streams and monitoring and reporting to central government and a more focused and proportionate inspection scheme;
  - Single Outcome Agreements (SOAs) – to be established between central government and each of the 32 local authorities with the aim of aligning policy with overall government targets, taking account of local priorities. From 2009-10 Single Outcome Agreements (SOAs) were to be agreed with Community Planning Partnerships rather than local authorities.
- A major programme of change in third sector infrastructure with the announcement in March 2008 that as of April 2011 the Scottish Government would no longer fund networks of Councils of Voluntary Service (CVSs), volunteer centres, local social economy partnerships and social enterprise networks in their current form. This led to the development of new third sector “interfaces” in each community planning area in Scotland which typically involve the networks listed above. The interface is the means by which the third sector is represented on the CPP.
  - The Enterprising Third Sector Action Plan (2008-2011) which aimed to support enterprising behaviour in the third sector, including the Scottish Investment Fund (£30M) and the Enterprise Fund (£12M).
  - The public-social partnership (PSPs) model involving the public sector and the third sector working in partnership to design and deliver public services which was piloted from 2009.
  - The Social Return on Investment model (SROI) as a means of measuring how TSOs deliver social and environmental benefits
  - The Third Sector Task Group created in 2008 for a fixed term with a specific remit to improve coordination of third sector organisations in Scotland, local authorities and the Scottish Government. The main output from the Task Group was the “Joint Statement” on the Relationship at Local Level between Government and Third Sector signed by Scottish Government, COSLA, Local Government and the third sector and offering recommendations on working relationships in relation to funding, shared

services, Best Value, application processes for grant funding, strategic commissioning and procurement, re-tendering, European Procurement Law, monitoring, reporting and evaluation and partnership.

- The economic downturn and the current and future budget constraints and their potential impact on the third sector in Scotland.

2.2 In addition, since the fieldwork was carried out for the Year One report (December 2009-May 2010), there have been a number of key events in the UK policy environment. These include the formation of the Conservative-Liberal Democratic Coalition Government in May 2010. There have been a number of emerging relevant policies as a result including the introduction of the Work Programme which replaced existing employability funding streams and the Welfare Reform Bill (February 2011). These will be explored in depth in relation to their impact on TSOs later in the report (See 2.12-2.22).

2.3 On-going is the UK Government policy of deficit reduction resulting in spending cuts within the public sector. This has resulted in a reduction of the Scottish Budget in 2011-12 of £1.3 billion compared with the previous year which will translate into spending reductions of over 11 per cent in real terms between 2010-11 and 2014-15<sup>9</sup>.

2.4 The SNP minority-led Government set up the Commission on the Future Delivery of Public Services (Chaired by Dr Campbell Christie) in November 2010 in order to “examine how Scotland's public services can be delivered in the future to secure improved outcomes for communities across the country”, despite the challenging financial environment. The Commission reported in June 2011<sup>10</sup> and identified the following key priorities:

- Recognising that effective services must be designed with and for people and communities, not delivered 'top down' for administrative convenience
- Maximising scarce resources by utilising all available resources from the public, private and third sectors, individuals, groups and communities
- Working closely with individuals and communities to understand their needs, maximise talents and resources, support self reliance and build resilience
- Concentrating the efforts of all services on delivering integrated services that deliver results
- Prioritising preventative measures to reduce demand and lessen inequalities
- Identifying and targeting the underlying causes of inter-generational deprivation and low aspiration
- Tightening oversight and accountability of public services, introducing consistent data-gathering and performance comparators to improve services

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<sup>9</sup> Scottish Government (2010) Scotland's Spending Plans and Draft Budget 2011-2012, Edinburgh: Scottish Government. Available at: <http://www.scotland.gov.uk/Resource/Doc/331661/0107923.pdf>

<sup>10</sup> <http://www.scotland.gov.uk/News/Releases/2010/11/19124547>



- Driving continuing reform across all public services based on outcomes, improved performance and cost reduction
- Implementing better long-term strategic planning, including greater transparency around major budget decisions like universal entitlements.<sup>11</sup>

2.5 As the Christie Commission reported after the Year Two research was completed, it was too soon to gauge the implications of the report for the TSOs.

2.6 In addition, the Scottish elections took place in May 2011. Although the outcome was unknown when much of the fieldwork was carried out, this formed a significant backdrop for many of the TSOs. Along with many of the policies discussed in the Year One report, personalisation had moved up the agenda for a number of organisations by Year Two (and since the SNP formed a majority government in Scotland from May 2011 will continue to do so). Again, this is discussed in more detail later in the report (see 2.23-2.32).

2.7 Table 1 below presents a timeline of key policy events which have the potential to impact on TSOs in Scotland. These are set against the fieldwork timetable to highlight the timeframe within which these might have an impact. However, there is likely to be a time lag in many instances between policy announcements and impacts filtering through to TSOs and it is overly simplistic to assume a direct causal relationship between a policy event and change in the third sector (the attribution problem). The timeline is intended to set out a broader political context within which the study took place.

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<sup>11</sup> Commission on the Future Delivery of Public Services (2011) Report on the Future Delivery of Public Services by the Commission chaired by Dr Campbell Christie. Published on 29 June 2011. <http://scotland.gov.uk/Publications/2011/06/27154527/2>

**Table 1: Policy and fieldwork timeline**

<i>Date</i>	<b>UK Government</b>	<b>Scottish Government</b>	<b>Fieldwork</b>
<b>2007</b>		SNP minority government elected	
		Concordat	
<b>2008</b>		Enterprising Third Sector Action Plan 2008-2011 published	
		£30M Scottish Investment Fund opened	
		Process of creating Third Sector Interfaces began	
<b>2009</b>		Future Jobs Fund launched	
		Joint Statement between Scottish Government, COSLA, Solace Scotland and SCVO	
<b>2010</b>			<b>YEAR ONE</b>
<i>Jan</i>			
<i>Feb</i>		Self-Directed Support Strategy Consultation	
<i>Mar</i>		Public Services Reform Bill	
<i>Apr</i>			
<i>May</i>	Coalition Agreement		
<i>June</i>			
<i>July</i>			
<i>Aug</i>			
<i>Sep</i>			
<i>Oct</i>			
<i>Nov</i>	Work programme competition		
<i>Dec</i>		Self-Directed Support Draft Bill	
		Launch of Christie Commission on Future Delivery of Public Services	
<b>2011</b>			<b>YEAR TWO</b>
<i>Jan</i>			
<i>Feb</i>	Welfare Reform Bill		
<i>Mar</i>		Child Poverty Strategy	
<i>Apr</i>		All 32 Interfaces in place	
		Scottish Investment Fund extended until March 2012 with additional £3M funding	
<i>May</i>		SNP majority government elected	
<i>June</i>			

## **Changes to the policy environment**

- 2.8 Between Years 1 and 2 significant changes in the policy environment occurred: firstly, the election of the UK Coalition government in May 2010 and the various new policies emerging from this new government; secondly, the Scottish elections in 2011. Although most of the field work was carried out prior to the elections, they formed an important part of the changing context for many organisations.
- 2.9 The Year One report outlined issues relating to current policy, particularly in Scotland, at that time. These included issues relating to the Concordat, including the 'localism' agenda and community planning partnerships. The long-term general UK and Scotland trend towards increased focus on employability at that time was also noted. While the issues raised in the first year remained on-going, subsequent years aimed to explore key changes to the policy environment that took place in the intervening period and the impact these had on third sector organisations. Key policies emerged at different levels, in particular from the UK government level and the Scottish Government level, but also policy via the local authority level.
- 2.10 Broadly, UK government policy was more relevant to TSOs focusing on employability (as a non-devolved issue), while for TSOs specialising in health and social care, policy at the Scottish Government level was more pertinent. However, there was often overlap in the activities of TSOs, and policy at different levels affected most TSOs to some extent.
- 2.11 This section begins with an overview of the impact of policy changes in terms of creating increased change and uncertainty for TSOs. This is followed by a closer examination of key UK government policy in terms of the Work Programme and the Welfare Reform Bill. At the Scottish Government level, this section examines key policies of personalisation and other policy priorities. There is then a brief overview of some issues raised by TSOs in relation to regulation, followed by an overview of policy at local authority level.

### ***UK Government policy***

#### *The Work Programme*

- 2.12 A key change for a number of participants, particularly those involved in the delivery of employability services, related to the change at Westminster. In particular, the introduction of the Work Programme which replaced existing employability funding streams<sup>12</sup>.
- 2.13 The programme aims to get long-term unemployed people back to work with the use of third-party suppliers. The programme will select a small number of

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<sup>12</sup> For further information on the Work Programme see <http://www.dwp.gov.uk/policy/welfare-reform/get-britain-working/#work>

'prime contractors' to deliver services in specific regions across the UK. The prime contractors need to have substantial resources in order to operate the programme. This is because the programme is based on payment by results (e.g. a client gaining and/or keeping a job), so the majority of payments to providers would only be made, for instance, after a person previously on benefits starts work. The prime contractors are then expected to sub contract specific areas of work to other organisations. Hence, these organisations are likely to be smaller specialists. In consequence, many partnership networks around possible prime contractors had been and were being established.

- 2.14 At the time of much of the Year Two fieldwork, the outcomes of the Work Programme bidding process were unknown since funding allocations were not announced until April 2011. Some TSOs felt the Work programme offered significant opportunities for new areas of funding. However, the programme also required significant adaptations (in terms of partnerships required, tendering processes, measuring outcomes and potentially service delivery) from the third sector organisations involved, particularly those used to contracting under the pre-existing employability funding streams. Funding through the Work Programme could only be accessed by a relatively small number of very large organisations and this had created the need to develop both new and existing partnerships in order to tender for the contracts. Some felt that this had been particularly time-consuming and there was also a lot of uncertainty among the TSOs who were hoping to get funding from the Work Programme:

*The whole process [contracting via the Work programme] has been really drawn out and incredibly complex because of the numbers of potential primes you are dealing with and I sincerely hope that the DWP don't do further tenders in this way.*

*Senior Manager, Local Employability Provider*

- 2.15 Since it was uncertain which organisations would succeed in their bids to become the 'prime' e.g. main contractors, there was a potential need for TSOs to try and link with as many of the potential prime contractors as possible in order to have an opportunity to continue to deliver employability services. Some also felt that it was unclear how much of the budgets would be passed down to smaller sub-contractors from the main contractors.
- 2.16 When the results were announced in April 2011, the two prime contractors in Scotland selected were both private sector organisations and there was some concern expressed by those interviewed after that date that the third sector had been sidelined; a sentiment echoed by the Labour party and others in Scotland<sup>13</sup>. One participating TSO who took part in the research shortly after the announcement of the work programme results was disappointed to have been unsuccessful in bidding for a major contract. This resulted in the loss of

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<sup>13</sup> For instance, <http://news.stv.tv/election-2011/242237-award-of-work-programme-contract-criticised/>

significant funding for them in the short-term although there was potential to pick up some funding as a sub-contractor at a later stage.

2.17 There was also some concern as to how the new payments-by-outcomes would operate in practice and how it would affect the cash flow in smaller sub-contractors. There would also be a transition period between March and June 2011 for some TSOs where existing employability contracts ended and before Work Programme funding started creating uncertainties for staffing.

2.18 In summary, there was a great deal of uncertainty among TSOs around the Work programme. For some it presented potential opportunities for new funding, but for others the concerns included: who would be successful in contracting or sub-contracting to deliver services; for those that were involved, how the programme would work in practice; for those who were unsuccessful, how they would fill the funding gap.

### *Welfare Reform Bill*

2.19 There were also changes to policy related to the UK Spending Review, and later the Welfare Reform Bill (February 2011), such as changes to benefits for lone parents and disabled people and changes to housing subsidy. The reforms include, amongst other things<sup>14</sup>:

- the introduction of the Personal Independence Payment to replace the existing Disability Living Allowance which requires existing claimants to be reassessed for the benefit
- restricting Housing Benefit entitlement for social housing tenants whose accommodation is larger than they need
- caps on the total amount of benefit that can be claimed
- the introduction of Universal Credit to replace different and separate existing benefits, such as employment support and housing benefit
- changes to the child support system.

2.20 The impacts of these policies had started to filter through to TSOs by Year Two. One TSO had started to experience lower income because of the caps on housing benefits. However, the impacts were mostly around the client groups. In particular, TSOs mentioned the impacts on single parents, carers and people with disabilities. For instance, they reported that some clients had experienced loss of confidence and increased anxiety, as well as being distracted from their activities with the TSOs:

*Their anxieties are around this area [reviews for disability benefits] so we spend a lot of time focusing in on that rather than the actual job in hand which is getting people into employment.*

*Senior Manager, Local Employability Provider*

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<sup>14</sup> <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/index.shtml>

- 2.21 There was some concern that this had resulted in less specialist and more generic help being available to clients by large employability providers and those processing Job Seekers Allowance (JSA), i.e. TSOs were not individualising the support provided to specific clients and their needs, but treating them all in the same way.
- 2.22 In addition, there was concern that the UK policy emphasis on protecting 'front-line' services would lead to preventative services being perceived as a luxury, and would suffer cutbacks as a result.

## **Scottish Government policy**

### *Personalisation*

2.23 Personalisation (also called 'self-directed support') has become increasingly important in the UK and Scottish policy agendas. This gives adults with special needs direct control of designing their own services by sharing with them, or giving them, responsibility for the funding of their services. There is an unresolved debate about whether this is a model that empowers individuals by giving them direct control over the finances of their services or disempowers them by disaggregating and isolating individual service users. Although 'direct payments'<sup>15</sup> have been around for over a decade<sup>16</sup>, the development of personal budgets is more recent and was given a boost with the Convention on the Rights of Persons with Disabilities which came into force in 2008<sup>17</sup>. In Scotland, The Changing Lives report considered the role of social work in supporting this change, not just for disabled people, but for all who require care and support<sup>18</sup>. A consultation on self-directed support in Scotland in February 2010 was followed by a draft bill in December 2010<sup>19</sup>.

2.24 The Scottish Government defines Self-directed support (SDS) as

*The support individuals and families have after making an informed choice on how their Individual Budget is used to meet the outcomes they have agreed<sup>20</sup>.*

2.25 The same report states that 'SDS is often described as the personalisation of social and health care' (page 9). We use the term 'personalisation' in this report since that this how most of the respondents referred to it.

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<sup>15</sup> Direct payments are local council payments available for anyone who has been assessed as needing help from social services. You can normally get them if you are a carer aged 16 or over.

[http://www.direct.gov.uk/en/CaringForSomeone/MoneyMatters/DG\\_10018517](http://www.direct.gov.uk/en/CaringForSomeone/MoneyMatters/DG_10018517)

<sup>16</sup> Dickinson, H. And J. Glasby (2010) *The personalisation agenda: implications for the third sector*, Third Sector Research Centre

<sup>17</sup> *Self-directed support: A National Strategy for Scotland*, 2010, Edinburgh; Scottish Government

<sup>18</sup> *Changing Lives: Report of the 21st Century Social Work Review Group*. Edinburgh 2006

<http://scotland.gov.uk/Publications/2006/02/02094408/0>

<sup>19</sup> *Social Care (Self-directed Support) (Scotland) Bill, Consultation Draft*, Edinburgh: Scottish Government. Also see <http://www.scotland.gov.uk/Topics/Health/care/sdsbill>

<sup>20</sup> *Self-directed support: A National Strategy for Scotland*, 2010, Edinburgh; Scottish Government, page 7

- 2.26 For TSOs working in health and social care, personalisation is increasingly important to the way in which their services are likely to be delivered in the future. This was mentioned by some in Year One, but it was in Year Two that it really came to prominence, with a number of Scottish Government consultations coming out during 2010 (see Table 1, Policy and fieldwork timetable, page 26).
- 2.27 Personalisation was an agenda that had been particularly supported and promoted as policy by the SNP. Since most of the Year Two research was carried out prior to the Scottish Elections in May 2011, some TSOs were not sure what priority personalisation would have in the future if a non-SNP government was elected. However, many had already been preparing for personalisation and look set to continue to do so especially in the light of the SNP returning to power in May 2011.
- 2.28 Many of those who discussed personalisation were supportive of devolving power to service users. One was actively involved in promoting personalisation, while another was focused on person-centred care and personalisation supported that agenda. These and others had been preparing for personalised and self-directed support for some time. However, others were anticipating the potential implementation to be more of a challenge. Issues raised by TSOs regarding the implementation of self-directed care budgets included:
- the challenges of moving from institutional care provision to personalised care;
  - the potential for greater complexity in the management of staff rotas and payments for the provision of services;
  - adapting to the different way of funding presented by personalisation may require major changes to the way some organisations currently operated, although the exact nature of these was sometimes uncertain.
- 2.29 Similar issues emerged in a discussion of the personalisation agenda which took place at the Workshop held in June 2011. On the one hand, this was described as having great potential to deliver excellent services through increased tailoring to individual needs, but conversely a challenge to organisations with little existing expertise in the area in order to be able to deliver personalised services. It was suggested that this theme was particularly important to some areas (e.g. Mental Health, Social Care where personalisation was being focused) but not across all TSOs.
- 2.30 Some TSOs felt that personalisation had the capacity to change the way care was conceived, allowing more people to be supported in the community rather than in institutions (e.g. independent living) and care tailored to specific needs. However, some were concerned that personalisation was being used explicitly by some local authorities as a cost-cutting exercise and was not about a genuine reform of services<sup>21</sup>. As a result they were concerned that less finance would be available to clients:

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<sup>21</sup> though little evidence could be found to substantiate this fear at the time

*This is a Scottish Government policy which has the best of intentions but in a changing environment is being used in some situations in a negative way, to cut budgets...Personalisation has, as a policy, the capacity to make significant improvements in service delivery and be the catalyst for positive change but the policy is being used to fast track change in a way that is having a negative influence on those who use services and those who deliver them....Having choice is great but it is limited by the resources that are available financially.*

*Senior Manager, Health and Social Care Focus Group*

- 2.31 TSOs also pointed out that there were disparities across local authorities in the conceptualization and implementation of personalised social care leading to uncertainty and potentially variable access between clients living in different areas:

*In [one local authority area] personalisation appears to...be being implemented on the basis of cutting costs rather than on the basis of actually personalising services...in other places it has been done more with a view to trying to personalise services and in other places, they are just not doing it at all...It's been a bit uncertain because there hasn't been a uniform approach to it.*

*Senior Manager, National Health and Social Care Provider*

- 2.32 Some TSOs thought that because personalisation was being introduced as a cost-cutting exercise by some local authorities (or was perceived to be), this had resulted in less enthusiasm and less support within some of the third sector to implement the agenda:

*Local authorities have approached [the personalisation agenda] with a specific mindset, as a cost-cutting exercise, so people [e.g. TSO's] have not trusted it rather than grabbing it with both hands and running with it.*

*Senior Manager, Health and Social Care Focus Group*

#### *Other policy priorities*

- 2.33 There was a wide range of Scottish Government policies that impacted on the TSOs who participated in this study, although these were often specific to the area within which a TSO worked. More generally, points were made about shifting policy priorities and the run up to the Scottish elections.

- 2.34 The Year One report noted that there had been general policy shifts towards employability on the principle that work offered individuals positive outcomes. The Year One report also noted that there had been a shift to the provision of support for specific demographic and social client groups, such as older and younger people, people with addictions and BME communities. This move reflected the targeting of funding on specific groups. 2010/2011 were perceived to be years of particular change both at Scottish Government, UK Government and local authority level. Shifts in policy could favour some organisations to the detriment of others. For instance, one organisation



perceived that the greater emphasis within policy on early years could have a detrimental impact on their work with teenagers and young adults, whilst for another, the policy focus on sexual health had resulted in greater resources for their work. This raised issues for organisations about the extent to which they adapted their work to fit with changing policy priorities. Given the current period of particular change, this was prominent in the minds of many and is explored further in the next chapter; see particularly 'Responding to funding opportunities and the potential for 'strategic drift', 3.3–3.7.

## **Volunteering**

2.35 Another key policy area for some TSOs was that of volunteering, though it was by no means universal. For some TSOs volunteers were at the core of their organisational philosophy whilst for others they were a distraction from professionalised service delivery. Volunteering was also perceived to be low on the Scottish Government agenda. This dichotomy was reflected in the Project Workshop for study participants in June 2011. Some third sector attendees felt that there was a lack of focus on volunteers in the study, despite this being a core aspect of TSOs, whilst others felt it was a minor issue that distracted from the main concerns of the sector. The paradox between the expressed 'added value' of volunteers to the work of TSOs and the pressures towards professionalization of public service delivery by TSOs were highlighted. Volunteers in TSOs (for whom volunteers were a significant element of their organisation) were described as having high expectations of what they might gain from a TSO (e.g. experience, training, qualifications) but were not necessarily a reliable element of service delivery. Accountability processes at the local authority level were also highlighted as excluding volunteers from certain positions which required the guarantee of paid positions for health and safety/insurance purposes.

2.36 Prime Minister David Cameron's 'Big Society' agenda was not raised as a model that had especial resonance for Scotland. There was little dissent from the aspirations of the agenda, though some did object to what they saw as the co-option of these ideas by the Conservative Party led UK Coalition government for their own ends. Further, many TSOs also felt either that the mechanisms outlined for the achievement of the 'Big Society' were, at best counter-productive and contradictory (such as arguing for an increase in third sector involvement in public services delivery whilst at the same time cutting funding to that sector) or that they were primarily an English policy and had little resonance with public policy in Scotland and the needs of Scottish communities<sup>22</sup>. However, one organisation did think that the 'Big Society' agenda meant a recognition of the value of the ethos and philosophy of the third sector.

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<sup>22</sup> The Gathering Conference, the 7<sup>th</sup> Annual Third Sector Event, held 23rd and 24th February 2011 at the Edinburgh International Conference Centre.

## **Regulation**

2.37 TSOs are required to comply with a raft of regulations and monitoring requirements, some of which vary depending on the nature of the work with which they engage. These include, for instance:

- Regulation, e.g. Care Commission regulation for those dealing with children, Scottish Social Services Council regulation for those providing social care;
- Legislation, e.g. Health and Safety Compliance, Equalities and employment legislation;
- Monitoring and compliance, e.g. related to funding requirements (See section on Performance and Outcome Measures, Chapter 4).

2.38 However, in the context of ever-tightening resources these exercises could become increasingly onerous, particularly for small organisations. A couple of TSOs noted that increasing regulation required additional resources that were not provided for by funders.

2.39 In one case, the social care practitioners within one TSO were required to register with the Scottish Social Services Council (SSSC). As a smaller community-based organisation in particular, this was a challenge. The cost of the staff training for SSSC registration was not covered by funders who are not bound to assist in the up-skilling of the social care workforce. Another TSO attributed this situation to the separation of regulation and funding:

*While the aim of the government was to improve standards, the fact that regulation and funding were devised independently led TSOs funders not to take on board the financing of training staff.*

*Senior Manager, Health and Social Care Focus Group*

## **Local authorities**

2.40 The Year One report noted variations between local authorities in policy priorities. Earlier in the report, we reported that local authorities were perceived to be inconsistent in their approaches to personalisation. Variations in approaches between different local authorities continued to be a challenge for some TSOs, particularly those working across several different areas. Some of these challenges will be noted later in the report.

## **Changes to the funding environment**

2.41 This section looks at key changes to the funding environment that occurred between Years One and Two. One of the key policies of the UK Coalition Government has been reducing the UK deficit of which reductions in spending on public services has been a key component. This section examines the

extent to which TSOs in Scotland have experienced funding cuts within the last year.

2.42 This section also examines trends experienced in tendering as well as some of the new opportunities that may be opening up in the changing environments. Finally, this section examines perceptions and access to private finance for TSOs.

### **Tendering**

2.43 The Year One report identified tendering as an important issue for many TSOs because increasingly this was the main way in which funding was decided. For many TSOs the era of grant funding from government was a historical one, largely being replaced by tendering for public services either on a negotiated or competitive basis. This was true across a range of funding sources including the EU funding, the UK Work Programme and Scottish Government and local authority funding in Scotland.

2.44 While tendering created opportunities for TSOs it also created challenges. For example, many TSOs noted different approaches to tendering in different local authorities, creating problems for TSOs that worked across a number of authorities. One participant also noted that a couple of smaller local authorities were limiting tendering because of the cost of the process during a time of local authority cuts whilst another pointed out that there was no standard on what services would formally go out to tender and local authorities operated different policies. A final participant also noted a change to the way in which their local authority was tendering. The local authority had asked the TSO to present a costed service delivery plan<sup>23</sup>. This participant felt this created opportunities for creativity but that the process *'takes time and takes energy'* (Senior Manager, Local Employability Provider). She also felt that, at least in the employability field, this was a general trend in contracting.

2.45 In Year One there was a common perception that funding decisions were based disproportionately on cost rather than quality and this was a trend that some felt was becoming increasingly so. Several were particularly concerned about the impact of cuts on the quality of services, particularly since many felt quality was an integral part of the ethos of their organisations. Some perceived that cost savings would need to be achieved by making a choice between quantity and quality, e.g. reduce front line hours but keep service quality or keep the hours but compromise on quality by reducing level of staff training or tie-in services<sup>24</sup>.

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<sup>23</sup> A formal plan (sometimes in the form of a tender or bid document) providing a detailed breakdown of services to be provided, how these will be provided and how much this will cost.

<sup>24</sup> Additional services that can be accessed by clients in order to support the existing service being provided.

- 2.46 One TSO also felt that there was an increasing lack of clarity about funding processes (e.g. the application processes for grants beyond 2011 had not been decided at that time).
- 2.47 However, some larger TSOs reported they were experiencing more opportunities to negotiate with funders around contracts. They had the capacity to potentially leverage in more funds (with more capital) and had more power in their relationships with local authorities. Some small TSOs, however, continued to feel that they had less bargaining power than some of the larger TSOs. Also see 'Relationships with local authorities' 5.23-5.26.

### ***Funding cuts***

- 2.48 In Year One many participants were anticipating public sector spending cuts over coming years creating uncertainty. However, at the same time potential opportunities were emerging, through new areas of funding opening up. By Year Two, many were anticipating the main spending cuts to come in April 2011 and therefore after most of the year two fieldwork had taken place (Jan-March 2011). Prior to this date only some of the organisations had experienced actual cuts. However, participants reported other ways funders were attempting to save money before April 2011. For instance, as noted in the Year One report, funding continued to not cover the costs of inflation (standstill funding), cuts were made to existing contracts half-way through the contract period, underspends were re-appropriated by some local authorities and some funders had changed the terms of the funding agreements, so for instance, in one case this meant that only certain types of clients were now eligible to access the service.
- 2.49 Where actual cuts were known, they tended not to be as high as the 20% some had been anticipating in Year One. The maximum funding TSOs had received was standstill funding (e.g. no inflation costs covered), while others had received between 5% to 15% cuts. However, some were still expecting major cuts in the forthcoming year, in one case up to 40% and a number were in the process of renegotiating existing service provision with local authority funders in order to meet the funding cuts required by the funders.

### ***New opportunities***

- 2.50 Despite the challenges faced by standstill funding or funding cuts, many TSOs also felt that new opportunities for funding were emerging. A small number of TSOs had received significant new funding since Year One (funding sources included the Big Lottery Fund, via the NHS and another had picked up a contract where the existing provider was no longer able to deliver the service).
- 2.51 One respondent was anticipating that there would be more contracting out by local authorities (although as we found earlier this is likely to vary depending on individual local authority areas). Shifts in policy priorities at UK and Scottish Government level are likely to create opportunities in new policy areas. One

participant noted that some local authorities were creating new funding at the same time they were cutting others. Others were anticipating new programmes of funding depending on the outcome of the Scottish elections. Another felt that the outcomes-based payments approach (such as in the Work Programme) created opportunities for additional work for their organisation. A number of participants noted that some funding opportunities were likely to open up as existing small TSOs closed down, creating a number of small pots of money. For instance, one participant noted that this had happened in his field several years ago, leaving a smaller number of medium-sized TSOs.

### **Loan finance**

- 2.52 Many TSOs had not considered applying for private loan finance. Some thought they would not be eligible because they had limited assets, security and private income. There were a number of issues limiting the ability of TSOs to access private loan finance, particularly for smaller organisations; in particular, having suitable security and ability to pay the interest on a loan.
- 2.53 A small number had, however, received a loan through the Scottish Investment Fund. In one case this had gone towards the costs of the purchase of new premises.
- 2.54 A couple of TSOs had looked into (or were currently looking at) the possibility of private loan finance. In one case, the TSO had hoped to get a loan to buy the building they operated from since this would give them an asset as well as reducing long-term rental costs. However, they had not taken this any further due to uncertainties in their funding circumstances in the coming year. Another TSO owned their small head office premises and were considering options in relation to this asset, including whether to take out a loan to modernise the current space, or to rent part of it out. Also see 3.16-3.17.
- 2.55 One large TSO had successfully accessed private finance by going into partnership with another TSO. Because both organisations were in good financial order, together they were able to obtain a loan in order to purchase a new head office building which they shared together. This gave them an asset as well as reducing costs in rents.
- 2.56 One participant felt that high street banks (with a couple of exceptions) were generally not able to offer suitable services for the third sector:

*When it comes down to it, they [high street banks] actually have a very very conventional traditional banking model and you're really not getting no concession that you wouldn't do if you were any other SME approaching them. I think however, having said that, there are enlightened banks out there, like Triodos and the Co-operative Bank who take a different approach because their motivation is different.*

*Senior Manager, Local Employability Provider*

## **Impact of policy and funding changes**

- 2.57 There was some concern among TSOs about the impact the current policy and funding situation in Scotland was having (or may have) on services, clients and staff. This section explores some of these issues including: changes in demand for services; impact on service provision; impact on clients and impact on staff within TSOs.
- 2.58 In Year One, many TSOs had experienced some impact from on-going standstill funding, including staff salaries being frozen. At that time, they were concerned with the implications of future potential funding cuts. Concerns included the impact on service quality, that some client groups might become marginalised and the loss of skills, knowledge and capacity within the sector.

## ***Changes in demand for services***

- 2.59 In terms of demand for services, only a small number of TSOs noted any significant changes. In a couple of cases, respondents said that some referral agencies were failing to identify specific client groups in order to refer them onto their organisations for specialist support. This was perceived to be because of changes to the way benefit claimants are categorised in relation to Job Seekers Allowance, making fewer eligible. This had meant Jobcentre Plus staff were focused on providing more generic or generalised support rather than providing specialist help to specific groups and so lacked the knowledge in order to refer clients on to other specialist organisations. For instance, this was mentioned in relation to people with disabilities, people with dependency issues as well as lone parents:

*There are big providers in employability services who are apparently not even identifying if people are lone parents or not, so they are not getting specialist help.*

*Senior Manager, Equalities Focus Group*

- 2.60 Other TSOs, however, had experienced an increase in demand for certain types of services, leading to one TSO creating a waiting list. In one case this was due to other agencies closing down and clients who would have been referred to these now being referred to the TSO. In addition, she noted that the clients who were being referred tended to have higher support needs than the clients they had served in the past, which created pressures for their services to meet additional needs they were not set up to meet:

*[Projects] have identified that there have been a higher number of referrals going into [services] and the nature of the referrals is that they require more intensive support than has been the case before...that particular project is going to be reviewing it's criteria again...and having to say 'well actually, that's not appropriate for us'... not taking any clients and not being seen as I suppose a pseudo-social work service either, but being able to maintain the identity of the organisation and the project and it's integrity...That's been the experience in one particular local authority area.*

### ***Impact on service provision***

- 2.61 As noted above under 'Funding cuts' (2.48-2.49), the most positive outcome for all existing services was standstill funding, with others receiving up to 15% financial cuts. In some cases, this had led to reductions in the number of hours of a given service.
- 2.62 In one focus group, some TSOs indicated that they were able to negotiate the degree of cost savings to be achieved, either by reducing the quantity of care front-line hours while keeping the quality (which was not favoured by local authorities) or by keeping the quantity of front-line hours and reducing the quality (i.e. reducing tie-services or the level of training of staff). Reducing the quality of the service involved recruiting staff with lower levels of training and qualifications who could not provide the same standard of service as highly trained staff, for instance, or services being less tailored to individual clients relying instead on a generic support package.
- 2.63 In a number of cases TSOs had been able to maintain services by absorbing the effects of standstill funding or cuts by making other cost savings elsewhere in the organisation (e.g. cuts to support services provided through head office). Others had covered additional cuts using underspends from previous years. However, they acknowledged that this was only a short-term solution since accumulated underspends would not be available into future financial years.

### ***Impact on clients***

- 2.64 Many TSOs were keen to minimise the impact of cuts or standstill funding on clients. However, one felt that they could not provide the same level of choice and flexibility to clients where they had been required to reduce staffing levels to services, for instance provision of services was restricted to particular times and places. In addition, the provision of outreach services<sup>25</sup>, particularly in a client's own home, was becoming increasingly difficult since this was more expensive to provide. It was felt that preventative projects (for instance, health education) were under greater threat and this would impact on clients as a result. Some were concerned that generally it would be the most vulnerable clients who would be marginalised. However, since many actual cuts had yet to make an impact on service provision, it was still unclear what the actual impact on clients would be.

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<sup>25</sup> Non-office based-services provided within a community, such as in a client's own home, but also can include in other public or community buildings such as a community centre or GP surgery.

## **Impact on staff**

- 2.65 A number of organisations had carried out redundancy consultations<sup>26</sup> and a number had made some staff redundant. A number of other TSOs had instead gone down the route of cutting staff hours. In one case, following a consultation, all staff at head office reduced their hours from a five day to a four day week. While this protected service provision, there was some concern among operational staff that they would be less supported in their jobs. In another organisation, following consultation with staff, staff had chosen to reduce their hours from a five to four day week rather than make one of their number redundant.
- 2.66 Some had made changes to the terms of conditions of staff. In one case, this was in preparation for the personalisation of services, to enable greater flexibility of hours. In another, the changes had been carried out in the previous year in order to reduce service provision costs and increase flexibility, and more recently the organisation had adopted a policy of reviewing posts where staff had left and only replacing them if their role could not be subsumed by existing staff. They had therefore reduced staff numbers by voluntary turnover or 'natural wastage'.
- 2.67 Some reported that staff workloads had increased. In some cases this was due to increased demand on services, but this may also be because of reduced hours and picking up work from staff who had left or were working fewer hours.
- 2.68 Generally, there was a great deal of uncertainty and anxiety among staff in the TSOs. Even where staff had not experienced redundancies, redundancy consultations, reduced hours or changes to terms and conditions, staff were nevertheless concerned about the impact of cuts on their jobs, and many had seen their relative remuneration deteriorate over several years (due to a number of years of standstill funding). These in turn had an impact on staff morale. In one organisation this had resulted in challenging behaviour from staff:

*You're fighting battles on fairly minor issues that you wouldn't have expected to because of people digging their heels in, getting what they need to get out of it [the organisation], because it might not be there in 6 months.... I haven't had those kinds of [issues]...I think it's about uncertainty and insecurity...*

*Senior Manager, Equalities Focus Group*

*People are becoming more entrenched because they are feeling more insecure*  
*Senior Manager, Equalities Focus Group*

- 2.69 In another organisation, there had been voluntary redundancies within a small team of long-serving staff. A member of the team who was interviewed felt that this change had unsettled the remaining staff, affecting morale and resulting in

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<sup>26</sup> Consulting with staff within the organisation about the possibility of making staff redundant as an option to reduce staff costs.



an issue around increased absence through sick leave. She hoped that the team would eventually come to terms with the changes and return to normal.

- 2.70 However, challenging circumstances had in one case brought a small long-term staff team more together and working harder in one organisation:

*I have a long-term staff team and...actually it's kind of brought them all together mainly...our workers are working harder...putting in extra hours which they shouldn't be doing to make things work, but it's not really workable in the long-term...they have a real sense of belonging to this organisation.....we talked about reducing staff costs, it could be one person made redundant and what they came up with themselves was 'can we all take a day off and have a four-day-a-week?' for that team and that would stop one person being made redundant and that was very positive I thought...they wanted to keep the team spirit going.*

*Senior Manager, Equalities Focus Group*

## **Conclusion**

- 2.71 In Year Two the all-pervading message that came through was that of change and uncertainty stemming from new policies and funding programmes coming out of the new UK Coalition Government as well uncertainty about the outcome of the Scottish elections in May 2011. As one service manager noted: *'there is nothing surer than change'* (Senior Manager, National Health and Social Care Provider). This could create challenges for organisations, not least the rapid pace of change itself: *"Across the team we do have a fatigue, because it is always changing"* (Manager, Local Health and Social Care Provider). Nevertheless, many were positive that the changes could create opportunities for improvements in the third sector:

*I suppose the biggest change over the past year is that everything seems to be changing. I do not mind the direction it is going, change is very positive, but changing everything fundamentally all at the one time is a little bit risky...Everywhere I go now, more than ever before, there is a strong recognition about what the Third Sector offers: it is still all a bit in the air right now, but it will be interesting to see where it ends.*

*Manager, Local Health and Social Care Provider*

- 2.72 The challenges and opportunities for third sector organisations and how they responded to them are explored in depth in the next Chapter.

### 3. THIRD SECTOR CHALLENGES AND RESPONSES

#### Chapter Summary

This chapter examines the various ways in which TSOs have responded to the recent policy and funding changes and how they are preparing for spending cuts in the future.

#### *Responding to funding opportunities and the potential for 'strategic drift'*

There was a potential tension for some TSOs between adapting their services to ever-changing policy priorities on the one hand and maintaining their organisational "identity" on the other. This concern over the potential for 'strategic drift' had led many to recently take stock through strategy reviews which refocused and defined their purpose and strategic direction.

#### *Organisational reviews*

Strategic plans had been developed within a number of organisations. These aimed to identify what the organisation needed to do in order to survive and develop and provide a strategy to achieve these aims. These helped to guide organisations through particularly challenging times.

#### *Making cost savings and remaining competitive*

Many TSOs were looking at how they could make cost savings and remain competitive, thereby improving resilience. Strategies explored by organisations included:

- Organisational restructuring
- Redundancy planning and reducing staff costs
- Considering how to best utilise property assets, through for instance, property rationalisations (closing satellite offices and centralising into one space)
- Mergers with other organisations.

#### *Diversifying the funding base and social enterprise*

Many TSOs were thinking about how to diversify their funding base to become less reliant on public funding. Along with other activities such as organisational reviews and making cost savings to remain competitive, this indicates an increasingly 'social enterprising' approach to the management of TSOs. Many TSOs had also looked into the possibility of increasing income from business activity; although this was not appropriate for all TSOs, depending on a number of factors which are explored later. Some were pursuing strategies to increase fundraising in order to diversify their income.

#### *Competition*

There was on-going concern about the challenges for TSOs faced from potential public and private sector competitors, particularly from local authorities who were also potential deliverers as well as funders of services.

### *Governance and leadership*

Senior management and Boards within TSOs faced a number of challenges presented by the changing policy and financial environments.

The pace of change created a need for strong, consistent leadership and the provision of direction to staff as well as challenges in maintaining staff morale and supporting staff through the changes that were happening. This demanded skills in managing change as well as leadership. Managers in smaller organisations often had to embrace a wider range of roles since increasingly important specialist support roles were not available to them, e.g. marketing, information technology, human resource management, operations management.

Board of Directors and/or Trustees of TSOs could potentially offer valuable skills, knowledge and experience to support CEOs/Directors in their role. A number of organisations noted a welcomed increase in involvement of their Boards over the last year in order to support organisations in meeting the challenges. A good spread of knowledge and experience among Board members was valued, and having some members from the private sector could provide valuable business experience.

## **Introduction**

3.1 The Year One report examined how TSOs responded to the challenges that they faced for example by:

- adapting their services to fit with changing policy priorities;
- organisational restructuring to remain competitive; and
- looking at ways in which they could diversify their funding bases.

3.2 These issues had become more prescient in Year Two. This section begins by exploring how TSOs have been responding to changing funding opportunities and the potential challenge of 'strategic drift' which was of increasing concern within organisations. We then look at the emerging trend of TSOs carrying out organisational reviews and what these entailed. Many more TSOs had been making cost savings in order to remain competitive and we examine the varied strategies for doing this, including: restructuring, redundancy planning and reducing staff costs, property rationalisations, mergers and the impact on internal capacity. This section also examines the approach of TSOs to diversifying the funding base and developing social enterprise activities, and, finally, the challenges of competition for TSOs.

## Responding to funding opportunities and the potential for 'strategic drift'

3.3 In Year One a number of TSOs had adapted their services to take account of policy and funding focus (particularly on employability). In Year Two, the potential tension for some TSOs between meeting policy priorities on the one hand and maintaining organisational "identity" (e.g., ethos and mission objectives), seemed to become more prominent. One worker felt there had become too much of the *'tail wagging the dog'* reflecting a feeling that external policy had become too dominant over the original organisational purpose.

3.4 The number of new policies and funding mechanisms coming in over the previous year had caused overload in one organisation:

*We are like most Third Sector Organisations in that we will try and align our work and find the solutions which will allow us to do what we're constituted to do in a way that matches the political environment. Across the team we do have a fatigue, because [the policy and funding environment] is always changing.*

*Manager, Local Health and Social Care Provider*

3.5 This had led to many organisations recently taking stock through strategic reviews which refocused and defined their purpose and strategic direction. Some argued that they needed to go back to their original reason for being a TSO and refocus on their core client population and activities rather than chasing contracts and gradually moving into other areas which diluted their focus. For instance, one organisation felt that over the years it had shifted its focus toward the employability agenda at the expense of its core client group of disabled people. See Case Study One below.

3.6 The process of broadening out the range of services provided by TSOs was encouraged by the expansion of funding opportunities in the previous decade. Now TSOs face the same dilemma but without the same funding opportunities: do they broaden out what they do in order to 'chase' the limited funding that is available, but with the danger of 'strategic drift' or stick with their core activity and hope that there is enough funding in that narrower area?

3.7 However, one organisation adopted a slightly different approach. This organisation took its priorities from their own assessment of local community needs and responded to these, rather than responding to shifting policy priorities:

*Over the years we have stayed fairly true to [the organisation's] key message, maybe over the years we have developed new services that fit with that and the policy changes and every now and again it coincides with us. I would say one area where we are diverging is another one of principles is that we see education as a route out of poverty and I think that idea has lost popularity with policy makers...but we'll just stick to that because we really firmly believe it's true...and maybe in a few year's time the policy will come back round again.*

*Senior Manager, Local Learning Provider*

### **Case Study One: Focusing on delivering services to a core client group**

The case study below demonstrates how one of the third sector organisations participating in the study had dealt with the challenge of mission drift through conducting an organisational review and refocusing on their core mission

#### **CASE STUDY ONE**

Organisation A provides support, education and employment services to, and campaigns and advises, disabled children and adults with a range of physical and learning disabilities. They work solely in Scotland and provide education and learning services for children and respite/short breaks and family support. They manage two grant aided special schools as an alternative to mainstream placements for young people with additional needs.

Organisation A implemented an organisational wide review of their objectives. The purpose of the review was to ensure service contracts were being delivered within budget and that frontline staff were not undertaking additional non-contracted activities.

Senior managers expressed concern that in recent years there had been a drift away from the core principles upon which the organisation had been founded. Part of the reason for this drift was an increase in non-contracted activities delivered as part of care contracts. There was a perception that the organisation had lost sight of what their purpose was. Senior managers were critical that, within the care sector, too many service providers were focussed on providing employment for their own clients whilst drifting away from the provision of high quality services for disabled people. A senior manager described how:

*I think there's a number of service providers like ourselves where we lost sight of why we exist and I think someone once made a criticism that lots of service providers were there to provide employment and not to provide services for disabled people and in this business, that has become true and we took the opportunity last year to challenge that.*

During the period 2010 – 2011 managers ensured that there was a renewed focus on delivering only those services that the organisation had been contracted to deliver. Managers realised that frontline staff were delivering additional services above and beyond the number of hours stipulated in the original care contract.

The principal outcome of the review has been a greater focus on the terms of delivery and the avoidance of additional non-contracted activities that were not directly related to the provision of care for disabled people, for instance providing travel to and from activities. The terms and conditions of frontline staff were changed to ensure a better alignment with the aims of the contract.

As a result of these changes, a senior manager thought the organisation was in a good position to withstand anticipated cuts in public funding because they had

retained a focus on delivery to their core client group: those with physical disabilities. By continuing to provide services to the same client group, the respondent felt that the organisation remained close to its founding principles.

However, there were challenges in terms of managing the change, particularly in relation to staff terms and conditions. This meant challenging existing assumptions about the way staff worked:

*We probably did come over lots of work to rule attitudes within our staff and one of the things we looked at was to say: 'Can we provide the same quality for less?' and the answer was yes. Unfortunately for the workforce to do that we had to challenge a lot of the previous assumptions – unions to change terms and conditions of employees but we believe we've done it for the right reason and that was to go back to being a charity again.*

### **Organisational reviews**

3.8 As Case Study One demonstrates, many organisations were reviewing their activities with organisations at different stages in this process. A couple of organisations had carried out reviews earlier, resulting in them developing 'strategic plans'. Within these organisations, service reviews remained on-going so that they would be able to respond to the changing policy and funding environments. For an example, see Case Study Two below.

3.9 In one organisation, a Five Year Business plan had been developed out of consideration of what the organisation needed to do in order to survive:

*One of the key elements from that (the organisational review) was about growing ourselves as an organisation, becoming much bigger and much stronger and much more robust and about having social enterprises which would generate income and pay for themselves and not be reliant on subsidy through Service Level Agreements or ESF or whatever else to pay for some of the core staffing costs.*

*Senior Manager, Local Employability Provider*

3.10 Other organisations were beginning to take stock in response to the changes in the policy and funding environments:

*For us internally as an organisation, it's making us take stock, what we're about and what we're doing and reviewing what our purpose is and in a way then being able to assess what it is we're going to be prioritising and the sorts of areas we'll be wanting to protect*

*Senior Manager, Equalities Focus Group*

3.11 While this presented challenges, many were positive about the opportunities this created:

*There's a positive side of having to look at what you're doing...having to look at a leaner, meaner...sometimes there's something quite exciting about taking what you did and look at how, from a business perspective, you could make more money with less effort at times...*

*Senior Manager, Equalities Focus Group*

- 3.12 However, this process led one organisation to question whether they actually had a future. They had taken some time as an organisation to ask "are we needed?" and had not, at that point, been able to find a satisfactory answer:

*I'm not sure...we're either too small or too big in some senses to actually fit the bit of market we think we are in at the moment. In other words we're not local, we're not community projects so we don't really pull in that money. We have a national profile but we only have an office in Edinburgh, so we are working across Scotland from one base. I think that is beginning to cause us problems... I don't think we're quite right in some ways to be making the best of the opportunities that are there, both at the national level and at the local community level. It's a bit of a conundrum actually.*

*Senior Manager, Equalities Focus Group*

### **Case Study Two: Following Through on the 5 Year Corporate Strategy**

This case study describes the key elements of the 5-Year Corporate Strategy (starting 2009/10) within SAMH and how they have been progressing. The case study also looks at some of the reasons for developing the Strategy, one of which was addressing 'mission creep' (also see 'Responding to funding opportunities and the potential for 'strategic drift', 3.3-3.7).

#### **CASE STUDY TWO**

##### **Scottish Association of Mental Health**

SAMH (Scottish Association for Mental Health) supports those with mental health problems, those who have homelessness issues, those who have addiction issues and those who experience social exclusion, through the provision of accommodation and rehabilitation. They are committed to the principles of user involvement and in doing so challenging discrimination.

In 2008, a new Chief Executive (CE) was appointed to lead SAMH. With the support of the Board, the CE aimed to develop a strategic focus for SAMH. Prior to this time, there had been some 'mission creep' whereby the organisation had become dependent on public funding. They now wanted to re-establish their identity as an independent charity. To this end, SAMH created a Corporate Strategy which provided a new strategic direction for the organisation and set specific targets to be achieved over five years – starting in 2009/2010. The strategy includes 5 key themes with 16 outcomes related to these aiming to give the organisation consistency of direction over the longer term. To reflect shorter term external changes, key performance indicators are reviewed annually. The overall aim was to expand service provision beyond traditional local authority-funded models to

encompass charitably-funded services as well as to increase campaigning and awareness-raising activity. As part of that strategy the organisation needed to identify cost savings in order to be able to invest in the areas identified in the strategy.

*Ultimately our aim is to support more people [with mental health problems] in high quality services... the challenge to that is to compete at the moment and particularly over the last year we've had to ... radically look at our cost structure and financial model in order to be able to still compete in what is a very competitive market in terms of a cost perspective.*

*Senior Manager*

The organisation needed to make changes in two key areas: management restructuring, and changing staff terms and conditions.

The purpose of the restructuring was to create a leaner, flatter management structure which could respond quickly and flexibly as required. This was a difficult decision because it meant making a number of staff redundant in the short term, but in the longer term it would ensure a more focused and effective organisation.

The Strategy also involved increasing workforce flexibility, for instance, staff in different locations being able to cover for each other. To this end, the organisation in consultation with the union changed the terms and conditions of staff. This included increasing weekly hours from 35 hours to 37.5 hours and rolling most statutory holidays into an increased annual leave entitlement.

By Year Two, the new management structure and staff terms and conditions were bedding in. These had entailed cultural change within the organisation and effective communication and information had been important in that process. For instance, part of their enabling strategy was to communicate differently with staff during the initial period of change. This included speaking to over 300 staff (out of 750) face-to-face in regions all over Scotland over a period of three months. It also included periodic bulletins distributed to all staff outlining what was happening and how staff could engage with the process.

The organisation were also looking at other proposals in the strategy, such as property rationalisation (closing satellite offices and centralising staff into a fewer number of central offices). By Year Two, the organisation had just completed the rationalisation of several existing Glasgow offices into one head office, thereby saving on rental costs. As they had jointly purchased this new office (with another TSO), they also acquired an asset. Next on the agenda was to look at rationalising properties in other areas.

The review of staff roles remained on-going, and where a member of staff left a post voluntarily, the role was reviewed before recruiting a replacement.

By April 2011, the organisation had saved £2M. This enabled them to help fend off some of the immediate funding pressures as well as giving them investment funds that they could decide how to allocate in line with their strategic aims. The Corporate Strategy was helping to guide SAMH through a particularly challenging time. It



helped to keep the organisation focused on the longer term, although it meant significant changes in the shorter term. As a result the organisation hoped to come through the changing times in a stronger position.

### **Making cost savings/remaining competitive**

3.13 In Year One, some organisations had anticipated the need to become leaner and move towards a more business-driven model. By Year Two, many more TSOs had been looking at how they could make cost savings and remain competitive, thereby maintaining resilience. Strategies explored by TSOs included:

- Restructuring
- Redundancy planning and reducing staff costs
- Property rationalisations
- Mergers.

### ***Restructuring***

3.14 A number of organisations had taken part or were undergoing organisational restructuring. For those who had carried out organisational reviews earlier (see above and Year One report), the new structures were still bedding in. Others were currently undergoing restructuring which included: restructuring at head office; integration of services and restructuring leadership teams.

### ***Redundancy planning and reducing staff costs***

3.15 A number of organisations were considering the possibility of making redundancies, with a number already having carried this out, resulting in reductions in staff numbers. However, as noted earlier, a number had chosen to reduce staff costs by reducing staff time. As we have already seen, one organisation had adopted a policy of not automatically replacing a staff member. Another had frozen recruitment. Others had or were looking at altering terms and conditions for staff in order to reduce costs and increase flexibility, particularly in relation to responding to the personalisation agenda. Also see 2.66-2.68.

### ***Property rationalisations***

3.16 A number of organisations had or were considering how to best utilise their properties. In one organisation this involved closing satellite offices and centralising staff into a fewer number of central offices. See Case Study Two (above).

3.17 Another organisation was also in the process of rationalising their properties onto one main site while others were beginning to examine how they make the most from of their property assets in terms of maximising income (e.g. through renting out).

## **Mergers**

3.18 Three of the TSOs had merged or were in the process of merging with other organisations<sup>27</sup>. In two cases, the main reason for the organisations to merge at the current time was to ensure the sustainability of existing projects:

*You come to a window of if we [merge] now we are an attractive offer. If we do it in 2 years time, that may not be the case. So do you [stick] it out...and hope that you've got the platform in a couple of years time to grow again or do you say actually we're attractive now, let's just do it now, and we can follow that growth model through?*

*Senior Manager, Employability Focus Group*

3.19 The benefits the TSOs hoped to achieve by merging included:

- making savings on central costs, such as administration and management, through sharing some of these facilities;
- to gain benefits of development synergies in activities;
- efficiencies of scale; and
- to extend services beyond existing provision.

3.20 The advantages were perceived to be:

- greater stability;
- to be able to offer more to clients;
- a positive culture change in the organisation;
- focus on direct delivery;
- greater ability to attract private funders;
- reduced competition (by merging with competitor); and,
- opening up access to 'new' pots of money.

3.21 For instance:

*The big thing was about being part of a bigger organisation with a bigger footprint where you could reach more people and potentially do more of the work that we do, on a larger scale, and the back office stuff shifting to a corporate centre relieving me of at least 60 per cent of what I do...The other thought being: 'well if we didn't go in with them they would be building it up themselves and taking our markets and working with our clients and taking our budgets'.*

*Senior Manager, Employability Focus Group*

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<sup>27</sup> Comparative data for the same time period is limited. An earlier survey carried out in August 2010 by Price Waterhouse Coopers, CFDG and Institute of Funding 'Managing in a Downturn: Responding to Life after the Comprehensive Spending Review: Charity Sector' found 6.6% of respondents in receipt of statutory income had merged in the previous year.

- 3.22 However, one felt it was important that the organisation kept to their core mission (i.e. avoided “strategic drift”) and maintained 'business as usual' as far as clients were concerned. It was also recognised that there would be a need for a period of readjustment following a merger, in order for the new structures to bed in and staff to adjust to the changed environment.
- 3.23 In a third organisation, the merger was in progress and consisted of a large TSO taking over a much smaller local TSO with which they had an existing partnership. The small local TSO had lost a tender and as a result they had no income. The large TSO chose to merge with the organisation in order for the smaller one to continue to remain in existence:

*That was more about, I suppose, sector leadership really, to say ‘no we don’t think this organisation should disappear, we think we can do something about it’. Obviously it’s an on-going thing to make it happen. It’s the first time we have done anything like that, but it was a way of saying ‘look we’re quite a big organisation, we cannot absorb you, because they will still remain as an entity...’*

*Senior Manager, National Health and Social Care Provider*

- 3.24 It was not clear at that stage how this merger would turn out practically or financially, or whether the large TSO would be in a position to ‘save’ other smaller TSOs in a similar fashion in the future.

### **Internal capacity**

- 3.25 In Year One, some mentioned that maintaining core funding would be important in order to maintain internal capacity of the organisation in the future. This was still a concern in Year Two with fears that less funding would mean less money to cover overheads and core costs. This could lead to reduced organisational flexibility as well as the potential loss of expertise as skilled staff left the organisation. In some cases, cash reserves were being eroded because they were being used to cover funding gaps and a number of participants reported that some local authority funders were reluctant to award money if a TSO had good financial reserves. However, some felt this had consequences for TSOs getting through the difficult financial times and undermined the business principle:

*There is a general requirement to have three months reserves. Everybody in principle says it should happen and yet it is a real struggle to do it. The council says “Oh, they’ve got reserves, don’t give them any money”....That is another way that the environment doesn’t work with the business principle because people believe we should be operating social enterprise so any reserves we build up are our capital for the business and not money the local authority can plunder back. They can’t play it all ways. They can’t tell us that we have to be social enterprises and then keep dipping into our business capital.*

*Senior Manager, Equalities Focus Group*

## **Diversifying the funding base and social enterprise**

- 3.26 In Year One many organisations were considering how they might move forward to best meet the challenges presented by the current policy and funding environments. By Year Two more organisations were talking about diversifying their funding base to become less reliant on public funding which may indicate more of a 'social enterprise' approach being taken (see Year One report). As highlighted in the Year One report this was not so much about the establishment of 'social enterprises' as organisational forms but rather the adoption of a range of managerial activities (such as marketing, business planning, strategic positioning, etc.). Some of the activities discussed earlier in this report, such as organisational reviews and making costs savings to remain competitive, were also argued as being part of this 'enterprising' approach to the management of TSOs.
- 3.27 In particular, participants in the workshop carried out in June engaged in a debate around this increase in social enterprise. There was agreement both that there was an increasing 'blurring of the lines' between TSOs, businesses, social enterprise and the public sector and the growth of 'hybrid organisations' across these sectors and that 'social enterprises' represented only a small subset of the overall sector. What was most significant was not this smaller subset but the way that TSOs, as a whole, were responding to financial and service pressures by becoming more enterprising. Some respondents did voice concern that the Social Enterprise model was problematic as it was not necessarily geared towards social need, while others described the current practice of commissioning public services as meaning that all TSOs were now forms of 'social enterprise'. It was pointed out that across most Boards of Directors/Trustees, trustees are increasingly selected for the business skills and experience though there was disagreement over whether this was evidence of a more performance related focus on organisational mission or a replacement of the 'voluntary ethos' with a business one.
- 3.28 Specifically, in Year One there had been some discussion about the pros and cons of social enterprise activity whilst subsequently most of the participants admitted to exploring a range of approaches to a more business-like approach to their mission-critical activity. However, such an approach was not universal. One TSO said that it had considered such an approach but ultimately dismissed it because they could not identify a current viable market for their potential training products.
- 3.29 A number of challenges around social enterprise activity were raised in Year Two:
- 1) A social enterprise (or enterprising) model was not suitable to all TSOs, especially those working with particularly vulnerable or high needs client groups where a business orientation was not appropriate.
  - 2) There needed to be a viable business idea, which could be put into practice, and this was not always possible.

- 3) The business environment (particularly for training) was perceived to be very competitive currently, especially with free alternative training which was offered by government.
- 4) TSOs were becoming more focused upon recruiting staff with specific business skills, such as marketing or planning, as well as client-specific skills.
- 5) Government regulation was argued by many as a real barrier to enterprising activity by TSOs because of the additional resources required. Also see 2.37-2.39.
- 6) Having many different funders of TSO activity had the advantage of spreading the risk of loss of funding, but generated a lot more work in terms of monitoring and compliance.
- 7) There was concern that some funders did not fully understand the implications of a social enterprise business model for TSOs, compared to private sector business (for instance, by being reluctant to fund TSOs which had financial reserves or attempting to re-appropriate 'underspends', which were actually part of effective sustainable business practice).
- 8) There were difficulties around accessing and understanding social enterprise intermediaries, e.g. those organisations that aim to support social enterprise activity, in order to gain support to develop social enterprise activity.
- 9) Some TSOs perceived a need for 'serious investment' in order to develop as a business. To this end, they needed to be able to access private finance, which was perceived to be difficult. Also see 2.52-2.56.
- 10) A few respondents felt that sometimes it might be better to start 'pure' businesses rather than develop hybrid organisations that could be complex to manage.

### ***Case Study Three: Diversifying the Funding Base through Social Firms***

This case study demonstrates how Forth Sector have diversified their funding base through developing different forms of business activity. This TSO is making significant capital investments in order to ensure their future.

## CASE STUDY THREE

### Forth Sector

Forth Sector provides 'employability support to aid the recovery of people with mental health problems'<sup>28</sup>. Forth Sector seeks to achieve this aim by offering placements within businesses owned by the organisation and providing pre-employment and in-work support to enable individuals to sustain employment.

Forth Sector undertakes various forms of business activity. One of these includes operating several small firms. These include a laundry, a soap making business and a guest house which offer supported work placements for clients. The other activity they carry out is providing support for other social enterprises through the Forth Sector Development arm.

In recent years the businesses have been a state of flux, with a lack of investment and the economic downturn affecting the viability of some of these. Forth Sector Development, however, has been doing well picking up a number of major contracts to support other third sector organisations to develop social enterprise activity. In the last year, the organisation made the decision to set up Forth Sector Development as a separate company from Forth Sector, the charity. Forth Sector Development, however, still has an important role in the charity, particularly since the social businesses are struggling:

*[Forth Sector Development] covenants surpluses to Forth Sector, the charity. It is a social enterprise...it is there to generate income and really support the rest of the organisation given that...the businesses at the moment aren't creating a surplus and in fact have been operating at a loss...it has in the past quite heavily subsidised the other parts of the organisation. It's an important source of income...we are trading on our intellectual capital.*

*Senior Manager B*

Another important decision was to rationalise the social firms. In order to access some of the organisation's capital assets, they are planning to sell the Guesthouse. They are also investing in another laundry business in order to complement their existing business. At the same time, they have been awarded £1M from the Scottish Investment Fund in order to develop a purpose-built employability hub at a site at Duddingston Yard in Edinburgh's Craigmillar area. With additional funding which they hope to win from the National Lottery, they hope to have completed the build and move by summer 2012. This was all part of a business plan that was developed to help the organisation survive:

*One of the key elements from that [the business plan] was about growing ourselves as an organisation - becoming much bigger and much stronger and much more robust and about having social enterprises which would generate income and pay for themselves and not be reliant on subsidy through Service Level Agreements or ESF or whatever else to pay for some of the core staffing costs.*

<sup>28</sup> <http://www.forthsector.org.uk/FS/aims.html>

Senior Manager A

At the same time, they are also looking at what to do with the other social firms that are not proving profitable:

*It's about deciding where you are going to put your energy...and resource...if you're spread too thinly you could be starving those businesses that have the best chance of success of the resource that they need and actually propping something up that is frankly limping along. I think you've just got to make those decisions.*

Senior Manager B

One senior manager attributed a lack of capital investment in the social firms at an earlier stage as an issue that limited their potential for success. Learning lessons from past experience, the organisation hopes that through significant investment now, they will move forward towards a successful and sustainable future.

### **Fundraising**

3.30 A small number of organisations explicitly mentioned pursuing strategies to increase fundraising within their organisation. These included increasing the amount from private donations and legacies, and encouraging members of the organisations (including volunteers and clients) to engage in more fundraising activities on behalf of the organisation. For one organisation in particular, fundraising was an important part of their overall strategy. They had increased their income generated from fundraising in the last year, and hoped to improve significantly upon this in the future. Their biggest barrier to developing fundraising activity had been difficulties in recruiting a suitable candidate to fill the Head of Fundraising role. However, they had recently appointed a Head of Fundraising, who would develop and lead on this activity.

### **Competition**

3.31 The Year One report looked in some detail at the challenges TSOs faced from potential competitors, including the private sector and public sector providers. In Year Two some were still concerned about potential competition, particularly from local authorities. However, there appeared to be a great deal of variation between local authorities in their practices. One respondent felt that some local authorities were 'cherry picking' some services that they would deliver themselves, in particular taking on the less expensive-to-run services and leaving more expensive services (e.g. night services) for the third sector to pick up. Another perceived that some local authorities were tendering out fewer services in order to retain their own staff. Another respondent who had feared local authorities would protect their own staff and services at the expense of cutting services delivered by the third sector was happy to find that this had not actually happened. This respondent perceived that the TSOs funding had been continued while at the same time local authorities were making redundancies amongst their own staff:

*One of our local authority funders have indicated we are likely to get the same level of funding while they are making redundancies in their...staff, so seeing the value of continuing to fund us to deliver the work that we already deliver even though they have to make redundancies within their own staffing team. I think that might be a picture that emerges more and more going forward...*

*Senior Manager, Regional Learning Provider*

*Local authorities are tendering less - trying to retain staff and maintain their own services. Local authorities appear to have two approaches. Some genuinely think: 'I can get better value by potential work in-partnership, putting things out to tender' but a number are taking: 'let's batten down the hatches and let's look after our staffing numbers'.*

*Senior Manager, National Employability Provider*

- 3.32 It was not clear the actual impact private competitors had had on the TSOs by Year Two, although the outcome of the Work Programme awards in Scotland (known in April 2011) suggested large private sector contractors had done better than TSOs, at least at prime contractor level. Some respondents who took part in interviews had been concerned that TSOs, particularly smaller ones, would be marginalised in the programme. Also see 2.12-2.18.

### **Governance and leadership**

- 3.33 The Year Two fieldwork specifically set out to identify key emerging leadership issues faced by the changing policy and funding environments in a way that was not done in Year One.
- 3.34 The challenges facing the third sector are also challenges for leadership in managing organisational responses. We have already explored some of the key challenges for leadership through, for instance, responding to funding opportunities and the potential for 'strategic' drift, organisational reviews, making costs savings to remain competitive and diversifying the funding base. This section explores the more general challenges faced by senior managers and Boards of Directors/Trustees in TSOs.

### **Challenges for senior management**

- 3.35 When questioned about the challenges of leadership in the current policy and funding environment, respondents gave varied responses.
- 3.36 Dealing with the pace of change could be a challenge. In particular, it could be difficult to be pro-active when a lot of time was taken reacting to changing agendas and circumstances.

*We are making a best guess...which is made based on the information that we have this week which might not be the information next week, therefore best guess (this week) isn't best guess next week.*



*Senior Manager, Local Employability Provider*

3.37 This presented challenges in terms of giving strong, consistent leadership and direction to staff in the organisation. Yet at the same time, it also became more important to maintain staff morale as well as supporting staff to embrace the changes that were happening. For senior managers, managing insecurity and low morale among staff (generated by uncertainties over funding and/or organisational change) could present challenges that had not been there in previous times.

3.38 However, the staff who took part in the research generally understood the current circumstances within which organisations were operating and although *'nobody likes change'* they appreciated professional and supportive management in managing change. For instance, consulting with staff on potential changes, including service closures, restructures and voluntary severance appeared to be appreciated by staff where these were carried out.

3.39 The current environment also presented challenges to leadership skills for some, particularly in smaller TSOs. It was not possible in smaller organisations to have specialist support roles, for instance, in marketing, information technology, human resource management and operations management, yet these were becoming increasingly important. It often fell upon the CE to embrace this wide range of roles, yet it could be difficult for any one individual to be an expert in all. This was particularly noted in relation to the growing need for business skills and human resource issues.

***Board of directors/trustees***

3.40 A number of TSOs reported that the Board of Directors/Trustees of their organisations had been more involved in the last year or so, mainly because of the increased challenges presented by the changing external environment. Leaders in organisations had been looking for increased support from Boards and they had generally found Boards stepping up to the mark. Boards had been involved in various organisational reviews that had been undertaken or were on-going in organisations as well as in major funding bids:

*I keep reminding them it's their responsibility; ultimately it's their responsibility. I've found that they are more involved in terms of scenario planning and looking at financial strategies, the worst case scenarios, the best case and so on. It's kind of engaged them more.*

*Senior Manager, Equalities Focus Group*

*The board has become much ... stronger. They are much more clear about their role and responsibilities as Board members. We have several new people on the Board who are very experienced, who are very capable and very competent.*

*Senior Manager, Local Employability Provider*

3.41 Boards had also looked at their own skills and experiences and the needs of the organisation so that any gaps could be filled. The ideal make-up of a Board of Directors appeared to be one which had a wide range of skills and experience, including understanding of the client group, knowledge of policy and law and business skills so that they *'have a good spread of knowledge and experience and then they can advise us and help us to make sure that we are doing sensible things'* (Senior Manager, National Health and Social Care Provider). Increasingly, business experience was perceived to be valuable, and some organisations had set out to increase the numbers of members from the private sector. This respondent explains how the private sector experience of some Board members had been useful when examining options for the organisation moving forward:

*They got very involved and animated...some of them wanted something to do and a crisis is what they needed...that's when the person from the bank and the person with the housing background said...'I'll go away and look at the options for the property'...I said 'we need to move towards having an organisational plan that's outcome based and currently it isn't' and they said 'we'll work with you on that'...and another group is looking at scenario planning should the funding reduce and what it would mean for staffing levels etc...so certainty during the time I've been there I think they've been very involved.*

*Senior Manager, Equalities Focus Group*

3.42 One chief executive (CE) felt that the Board of Directors in her organisation were not as involved as those in other organisations seemed to be: *"We are certainly looking at...getting people with more skills we need on the Board"* (Senior Manager, Equalities Focus Group). The CE also felt that the set-up of the Board of Directors was not as efficient as it might be with meetings occurring too regularly (every six weeks) generating additional preparation work. Another CE explained that his organisation's Board had had a similar structure but this had been reviewed and changed a few years ago. The constitution, set up and structure of the Board had been simplified. The Board meet quarterly, with members working closely with the CE (who also sat on the Board) in between times on pieces of work such as funding bids. This was perceived to work well in supporting the organisation.

## **Conclusion**

3.43 Many TSOs were making significant efforts to respond positively and proactively to the challenges presented by the changing funding and policy environment. Many had taken the opportunity to look at their priorities and how they wanted to move forward (some had even done this earlier). The majority had looked at a variety of strategies to cut costs and remain competitive, as well as diversifying the funding base (and social enterprise in particular). This presented challenges to leadership and governance, but senior management and Boards of TSOs were, on the whole, rising to meet these challenges.

3.44 It is important to recognise that there is no reductive response to the current economic climate, no 'one size fits all'. For some TSOs, mergers are an

appropriate response, for others they are not. It is also important to recognise that innovation is only one response to the current situation. For others a more cautious 'sticking to the knitting' may be more appropriate. Proactive responses, like mergers and innovation, offer creative ways to respond to these straitened times. However they can also consume resources unnecessarily, at a time of resource scarcity. What is required therefore is a contingent response by TSOs that matches the response to the needs of their organisation, members and/or users.

## 4. PERFORMANCE AND OUTCOME MEASURES

### Chapter Summary

This section examines perceived trends in performance and outcomes measurement of TSOs by funders, including a move towards measuring 'soft' outcomes. In Year One, there had been limited use of the Social Return on Investment (SROI) measurement tool promoted by the Scottish Government, except by one organisation involved in its development. There had been no further take up of the SROI tool by Year Two.

A number of TSOs felt that funders had become more focused on measuring outcomes within the last year, and in particular 'soft' outcomes. As TSOs felt this was an area where they could particularly add value, this was generally welcomed.

In order to demonstrate the value they added to the client experience, some organisations provided additional evidence to funders on the impact their service had on clients over and above what was formally required.

A number of organisations continued to explore innovative ways to demonstrate client progress to clients and funders. This was a particular challenge for clients with complex issues or where literacy and numeracy was low. Also there was no standardised way of measuring outcomes. Some had looked at using existing tools while others were involved in the development of new tools.

### Measuring 'soft' outcomes

4.1 In Year One many TSOs felt funders had focused on measuring 'hard' outcomes at the expense of 'soft' outcomes<sup>29</sup>. Since many TSOs worked with vulnerable or hard-to-reach clients who were some distance from being 'job-ready', the way in which many of the organisations added value was through 'soft' outcomes, such as increases in confidence and moving them along the route towards possible employment.

4.2 By Year Two, a number of TSOs felt that funders had become more focused on measuring outcomes within the last year. By this they meant what had happened to a client (e.g. getting into a job) during their time with the programme rather than outputs (such as a client undertaking a development training programme).

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<sup>29</sup> 'Hard' outcomes are generally quantitative measures of activity such as numbers of clients into work or training or number of hours attending education or education activity. 'Soft' outcomes included factors that were generally more difficult to measure quantitatively, and included aspects such as the changes in the level of confidence of clients.

- 4.3 In particular, it was in measuring the ‘soft’ outcomes that some TSOs often noted the change, with funders wanting to identify the impact that TSOs had on clients:

*I think a lot of funders now are much more sophisticated and much more interested in knowing the difference that you make.*

*Senior Manager, Local Learning Provider*

- 4.4 This perceived trend was often welcomed because it enabled TSOs to demonstrate the value of the services they provided. One respondent thought that this trend was linked to the move towards personalisation, where there was more emphasis on what the service users would like to achieve. This translated into more emphasis on measuring the extent to which service users achieved their goals.

### **Providing additional evidence to funders**

- 4.5 Some organisations provided additional evidence to funders on the impact of the service on the client over and above what was formally required. They believed that this helped to show funders what they do, the impact they were having and the value they added. This was perceived to be very important in gaining renewed funding, although it required additional investment:

*We’ve got evidence of the impact of what we do, but you can’t underestimate the time just going out and doing all of that.*

*Senior Manager, Local Learning Provider*

- 4.6 TSOs who provided this evidence believed that funders welcomed this additional information because it showed the added value they were getting from the TSO.

### **Using additional measures to demonstrate impacts**

- 4.7 As the Year One report noted, much of the work carried out by TSOs was often with clients who were hard-to-reach and/or who had complex issues, focused on prevention and had wider social impacts which were harder to measure. Some TSOs were continuing to look at innovative ways to demonstrate their impact both to clients and to funders. Some had, or were considering, using existing tools (e.g. Rickter scale), while others were involved in the development of new tools. A small number of TSOs had carried out research or evaluations in the past and also found these useful in obtaining further funding. However, these required resources and one TSO had looked into this route but found this kind of research evidence to be prohibitively expensive.
- 4.8 As the Year One report noted, funders required TSOs to report performance and outcomes in different formats and using different measures, leading to multiple measurement devices being employed. However, a couple of organisations were attempting to introduce some standardisation across their

TSOs. In one case, a TSO working in the social care and health field had developed an internal measurement tool which was used across services for care planning and to measure how far clients were achieving the outcomes they wanted. This evidence-based and outcome-based tool also aimed to demonstrate some of the softer outcomes that can be hard to quantify.

- 4.9 Another organisation had sought to develop a common performance management framework across multiple contracts in the organisation and key performance indicators to the projects. They employed a performance and finance team to monitor all projects on a regular basis and created a red, amber, and green way of flagging up issues on any particular contracts in key performance areas so they could then intervene early and deal with them.
- 4.10 One TSO faced challenges in measuring and demonstrating the progress of clients with low levels of literacy and numeracy. Questionnaires in these cases were inappropriate, so they adapted existing software (Comic Life) in order to create an accessible tool. The software programme was used to create a picture book comic with captions, so project workers could work with clients to take photographs and add appropriate captions so that the client could tell a story of their experience and progress. This was perceived to create something that was more involving and more meaningful to the client.

#### ***Case Study Four: Measuring the Client Journey: Logic Modelling***

This case study looks at how LEAD Scotland was involved in the development of an innovative measurement tool which aimed to measure the progress made by clients who often had complex and difficult to track journeys. The 'Logic Modelling' tool was used within the organisation in order to demonstrate the importance of the work they do with clients and map a coherent story of the client journey.

#### **CASE STUDY FOUR**

##### **Lead Scotland**

'Linking Education and Disability Scotland' (LEAD Scotland) is a specialist Scottish-based third sector organisation that seeks to widen access to learning for disabled people and carers of disabled people. LEAD Scotland provides services in eight local authority areas across Scotland working with disabled people, carers of disabled people and other socially and/or educationally excluded or isolated people.

LEAD Scotland supports disabled young people and adults and carers to access learning. Some of their clients do not progress straightforwardly on a linear path from A to B, sometimes their journey involves many stages, sometimes going backwards before going forwards, for instance, they may have to take a break for family reasons and return at a point before they were when they left. This journey and the impact of interventions at different stages is often hard to capture simply and briefly, without using a long narrative record. This is why LEAD Scotland were

keen to be involved in a pilot project carried out by Learning Link Scotland and Evaluation Support Scotland (funded by the Scottish Government in 2009). The project, called “Explaining the Difference”, aimed to articulate the outcomes of the Scottish voluntary adult education and learning sector. LEAD Scotland was a participant in this development process in order to develop “an accredited programme to enable practitioners in the voluntary adult learning sector to gain professional development in evaluating impacts and outcomes of their work”. This programme is now available to Learning Link Scotland members and subscribers via their website<sup>30</sup>.

Out of this process emerged a Logic Modelling process. This helps to visualise and capture client journeys through identifying what happens at different stages of their journey and the interventions which they receive from LEAD Scotland. This is summed up in a one-page visual map of the client journey which is accessible to funders.

The Logic Modelling process is not a wholesale tool to be used in the same way for all projects across different TSOs. In practice, the tool needs to be tailored to each individual project because of different requirements.

*We’ve tailored it for each individual project...I think we’ve used it three times with funders and it’s been different each time because the need in each areas is different...so as soon as that’s different the interventions have to be different, and the outcomes have to be different, and it’s very much an outcomes focused tool rather than on output, so that’s quite helpful because all the time we’re measuring outcomes.*

*Officer*

One of the strengths of the tool is to be able to identify engagement and preparation work done with a client before they are ready to start. Sometimes this part of the process of working with a client is not recognised or funded by funders. Therefore the Logic Modelling process is a way to demonstrate the importance of this work and map a coherent story of the client journey.

## Conclusion

4.11 A number of TSOs were rising to the challenge of measuring ‘soft’ outcomes, particularly in relation to clients whose literacy and numeracy were limited. Some had made significant steps towards adapting and/or developing tools which would both demonstrate progress to the client themselves as well as the added value of the service to funders. While there was still no standardised way of measuring outcomes, some TSOs were making important steps towards developing tools flexible enough to be applicable across a number of different projects and funders.

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<sup>30</sup> <http://www.learninglinkscotland.org.uk/what-we-do/projects/explaining-the-difference.aspx>

## 5. PARTNERSHIP WORKING

### Chapter Summary

This section examines trends in partnership working as well as Third Sector Infrastructure bodies such as third sector interfaces, SCVO and local CVSs, and involvement in other partnership forums. Some of the trends in partnerships between TSOs and local authorities are explored followed by a look at the involvement of TSOs in service design.

#### *Trends in partnership*

TSOs were aware of the importance of partnership working as a means of meeting the challenges created by the policy and funding changes. Accessing funding was a key driver for partnerships and many were keen to be involved in more 'joined up' working. Opportunities for partnership working appeared to be on the increase, but the impact of funding cuts on their existing partners presented a potential future threat.

#### *Third sector infrastructure*

Intermediary bodies are those TSOs that exist to support the work of other TSOs. The research examined knowledge and involvement of TSOs in third sector interfaces. Since April 2011, each local area in Scotland has its own third sector interface to provide a single point of access to support and advice for the third sector within the local area. However, many TSOs were not aware of the new interfaces, and of those that were, there was a mixed response. While some were supportive of the principle, others were concerned with the potential effectiveness of the interfaces, especially for TSOs who worked across a number of different local areas.

Many felt that the SCVO (and indeed the local infrastructure bodies) provided a useful forum for representing the interests of the third sector and for supporting its work. However, others were concerned about a potential conflict of interest for SCVO as a service provider and about the ability of SCVO to represent the sector as a whole.

Membership forums, often representing particular interests, were valued most in terms of offering a platform to influence policy. Direct links with the Scottish Government, where accessible, were also highly valued.

#### *Partnerships with local authorities*

Many TSOs had good relationships with local authorities, and a number reported improved communication and dialogue with more opportunities to discuss how services could be organised in the light of cuts. However, others found difficulties accessing local authority staff, particularly where the local authority had undergone major departmental restructuring.



### *Involvement in service design*

The system of competitive tendering usually involved a funder specifying the service required with limited scope for contractors to input into service design. Although just out of the pilot stage, Public Social Partnerships offer the potential for greater involvement of the third sector in the design of public services. Increased dialogue between local authorities and TSOs around services and the possibility of more open tendering may offer opportunities for TSOs to become more involved in the future.

## **Introduction**

5.1 Partnership working is a key tenet of Scottish Government policy in the delivery of public services<sup>31</sup>. The aim is to deliver efficiencies and “innovative synergies in the way the services are designed and delivered”<sup>32</sup>. The Year One report outlined the importance of partnership working for many TSOs before examining some of the factors that helped make partnerships successful as well as some of the challenges faced. There was also a belief at that time that partnership working was likely to become increasingly important in the future in order to meet the challenges of the changing policy and funding environment, particularly in order to manage reduced funding. This section follows up this issue and looks at the trends in partnership working noted by TSOs since Year One of the research. These include the perception that partnership working was becoming increasingly important as well as some of the potential impacts on TSOs when their partners fall victim to funding cuts. The tension between partnership and competition, however, remained an issue.

## **Trends in partnership working**

5.2 A number of participants in Year One felt that partnerships would become increasingly important in the future in order to continue to deliver services in a tight financial climate. By Year Two, this view had gained even greater currency. This was partially related to changes in funding structures, for instance, the Work Programme restricted funding to large organisations with significant cash reserves and this required smaller organisations to work in partnership in order to compete for the money. However, others expressed the view that it was also about aligning more closely with ‘natural allies’ (i.e. those working in a similar field, or with the same/similar client groups or utilising similar approaches). In some cases this led to mergers – (see 3.18-3.24).

5.3 One of the key drivers for partnerships was to access funding, although a number of participants felt that the potential of partnership working generally had not been fully exploited. For instance, some felt there could be significantly more ‘joined up’ working, more sharing of good practice and greater working with the private sector. Some felt that the current environmental pressures may

<sup>31</sup> See Scottish Government (2008) Enterprising Third Sector Action Plan 2008-11, page 31

<sup>32</sup> <http://microsites.scvo.org.uk/taskgroup/Home/ViewInformationItem.aspx?i=912>; Point 3.3

encourage more 'joined up' working which would ultimately be beneficial for clients.

5.4 Some also felt that the opportunities for new partnerships had increased since Year One. For instance, one felt there were more organisations wanting to form partnerships with his/her TSO because they were keen to expand into their TSO's part of the sector. However, others felt there was a lack of interest in partnership working among some of the larger TSOs.

5.5 The partners of some TSOs had been hard hit by the current environment and had to substantially reduce services or close down altogether. Although this was not reported as being particularly common in Year Two, it did have the potential to have a significant impact on surviving partners. For instance, some TSOs had already noted higher numbers of referrals (see 2.59) because of partners closing down. Another had noted that there were fewer services to refer clients onto for the same reason. Another organisation had reduced service provision because partners could no longer provide resources:

*There are lots of organisations that want to work with us because we can provide the people, we've got a very good set up.....all those organisations are now struggling financially, so what's beginning to happen is that people are saying "We'd love to carry on working with you but we can't afford it any longer"....we network very well and lots of people want to work with us but the impact of the cuts on them in turn has an impact on us.*

*Senior Manager, Local Learning Provider*

5.6 Other TSOs were also concerned about the potential future impact of partners closing down on their ability to deliver services, although they had not experienced any issues to date:

*Thinking about it...contacts might be lost because we wouldn't have the partners to work with that could offer the breadth and depth, we would have a much narrower focus...It has the potential to very much damage the organisation because there would be work that we could get as part of a consortium or partnership that we couldn't get just as [an organisation] on its own.*

*Senior Manager, Local Learning Provider*

5.7 As the full impact of spending cuts becomes apparent over the next year or so, this may become an issue across many organisations in the sector.

5.8 While the need for partnership was becoming more important, some participants also expressed the view that the 'sense of being in competition' with other similarly focused TSOs had at the same time increased:

*We know we need to increase our collaborative working, our partnership working...Organisations tend to close in...we had just got to the point before all this happened of being open with each other...we'd shared what we were doing and we were confident people wouldn't take that idea and take it away and*

*make it their own...they had enough income that they didn't have to be reinventing themselves and taking new ideas that weren't theirs, and all of a sudden that's changed again. People aren't sharing things now because of this very real worry that an organisation will see an idea and think 'we're now very fast of the mark, we'll just take that'...That's a huge issue at the time when we should be opening ourselves up more and working more in partnership, the tendency is to shut that down.*

*Senior Manager, Regional Learning Provider*

- 5.9 The ultimate impact on partnership working was as yet unclear as one respondent summed up:

*I'm not sure if we are going to end up with more collaboration or more competition, I just don't know.*

*Senior Manager, Equalities Focus Group*

- 5.10 Some participants were of the opinion that organisations that would not normally have gone for some pots of money were now entering the competition if there was any connection to their work. This created a temptation to move from the organisation's core remit (also see 3.3-3.6). There was also a perception that many offers for partnerships were based purely on organisational self-interest in order to get a funding contract rather than any desire for a long-term relationship and real complementarity. Because of this one organisation was considering using a systematic framework for helping to them to decide on how to respond to requests for partnership.

### **Case Study Five: Creating an assured partners network across Scotland**

This case study examines the development of a network of TSOs which brings together 153 potential partners with a diverse range of skills and competencies to the development and delivery of services.

#### **CASE STUDY FIVE**

Organisation B is a large, Scottish based social enterprise. The organisations' core activities focus on employability, regeneration and sustainability. Programmes delivered by the organisation help provide people with new skills in the labour market, help for ex-offenders and sustainability advice for corporate and private customers. In 2010, the organisation helped 5,500 into employment and helped reduce the carbon emissions of 150,000 houses.

Organisation B is an important provider of services across Scotland and the north of England. Senior managers within the organisation were seeking to diversify their activities whilst ensuring that they remained faithful to the values and mission of the organisation. Partnerships with other third sector and social enterprises were seen as key to the diversification of activities. Partnership allowed greater mutuality among organisations and a recognition of the complementary skills and expertise that different organisations could bring to the delivery of services. There was a

strong ethos of working together with other third sector and private sector organisations to develop strong tenders for new services and improve the delivery of existing services. A senior manager described how:

*You're always looking for a kind of win-win approach in terms of building that partnership...because partnership comes from forming good strong relationships. If there's an honesty in the partnership you can absolutely have a situation whereby you can compete and you can collaborate.*

Recently the organisation had developed a large partnership network of 153 third sector organisations across Scotland. The network was implemented to provide an assured network of potential partners who could bring a diverse range of skills and competencies to the development and delivery of services. The diversification of the organisations' activities was seen as key to being able to survive anticipated funding cuts. By creating an 'assured partnership network' the organisation could draw upon a wide range of skills and experience and ensure that other Scottish TSOs could share in the benefits of successful bids.

Each of the 153 TSOs have been brought into the network so that they may offer their skills to participate in the delivery of a public contract. Organisation B is one of the largest TSOs in Scotland and has considerable financial, human and technological assets that can be applied to the delivery of bids. TSOs that are a part of the assured network may be invited to participate in a bid if they have particular strengths or experiences relevant to the bid. Organisation B undertook an assessment of the capabilities of organisations within the network and had rated them using silver or bronze categories to create a Third Sector supply chain.

*We've got fantastic partnerships which created that improved partnership network of 153 organisations, so we're linked to 153 organisations in ways that we hadn't needed to in the past – now we always said that that wasn't just going to be about the Work Programme but a whole range of opportunities, so we've got a really good base going forward and because we've not committed our finance to that programme, we have the finance to invest in other things and what we would want to ensure is that our managing agency, capacity that we developed in managing supply chains is built upon as well – it might not be on that programme but potentially in other areas where we could bring that to bear – so it's really looking at those key strengths that we have invested in last year in that whole process of professionalisation and understanding and being business-like but being business-like but absolutely driven by our values.*

At the time of the interview it was too early to tell what the impact of the network would be. A senior manager described his desire for smaller third sector organisations to share in the benefits that arose from winning large scale contracts.

## **Third sector infrastructure: intermediary bodies**

5.11 Intermediary bodies (sometimes called umbrella bodies or local development agencies) are those TSOs that exist to support the work of other TSOs. They can be generic ones that cover all functions (such as CVSSs), ones that serve a particular group of TSOs (such as Play Associations) or ones that support a particular function (such as Volunteer Bureaux). They can also exist at the local community, regional or national level (such as SCVO). Previous research has indicated that they are an essential element of a thriving third sector, but are not without their own challenges, either as organisations or for the sector<sup>33</sup>.

### **Local infrastructure: 'Third Sector Interfaces'**

5.12 From April 2011, new local intermediaries for the third sector were established in Scotland – the 'Third Sector Interfaces'. Each local area has a newly established interface with clear links to Community Planning Partnerships (CPPs) and Single Outcome Agreements. The purpose of the interfaces was to provide a single point of access to support and advice for the third sector within the local area and also to provide strong coherent and cohesive representation for the third sector on the community planning partnership.

5.13 In Year One CPPs were perceived by TSOs as the key way in which the third sector were involved in community decision-making, experiences and issues related to which are outlined in the Year One report. In Year Two, TSOs were asked specifically about their knowledge of third sector interfaces.

5.14 Given that the interfaces only came on stream properly in April 2011 it is therefore perhaps not surprising that many respondents had not heard about these forums. Among the respondents who had heard about the interfaces, there had been limited actual involvement, probably because interfaces were still developing or bedding in. Of those who were familiar with the concept of the Third Sector Interfaces, some were supportive in principle, particularly in respect of involving smaller local TSOs. However, a number were concerned about the potential effectiveness of interfaces, particularly for TSOs working across a number of different local authority areas:

*If you are a small, local charity with 10 staff and you need support and you are bound to one local authority then the third sector interface gives you a voice. If you are a large charity I'm not sure it does give you a voice...we can bring a lot of influence to a small interface but if you have to work with a lot of local authorities then you have to interface with every interface so I'm not sure of the value to the voluntary sector. In theory it is a great idea.*

*Senior Manager, Health and Social Care Focus Group*

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<sup>33</sup> Osborne, S. (2000) 'Reformulating Wolfenden? The roles and impact of local development agencies in supporting voluntary and community action in the UK', in Local Government Studies, Vol 26, Issue 4.

5.15 Respondents thought that some of the same issues with Community Planning Partnerships identified in the Year One report, would be the same for the single interfaces, for instance, the practical issues of working across many different local authorities and obtaining balanced representation of the sector. TSOs did not appear to have had a great deal of communication from their local interfaces, and this may be a particular issue for TSOs working across a number of areas.

*That's something we are continuing to try to find a way into...[e.g. third sector interfaces] it's not particularly easy at the moment because the single interfaces are actually focusing a lot of their energy on the local context and they're not looking to see what national agencies of the small variety..[are doing]. The onus at the moment seems to be on the organisation to try to find a route in rather than on the single interface to make sure they are providing a route in not just for local organisations but for national ones as well.*

*Senior Manager, Regional Learning Provider*

5.16 Since the bulk of the fieldwork for Year Two was carried out prior to April 2011, when the single interfaces officially came into being, it is too early to draw any conclusions about their impact on TSOs. However, this will be a key question to follow-up in Year Three when the interfaces should have had an opportunity to make an impact.

### **Case Study Six: Development of an independent third sector interface in Aberdeen**

This case study explains how ACVO set up the Aberdeen Third Sector Interface with the key aim of developing and strengthening networks in the local area.

#### **CASE STUDY SIX**

##### **Aberdeen Council of Voluntary Organisations**

Aberdeen Council of Voluntary Organisations (ACVO) was formerly part of the city's major social care charity, VSA.

In 2009, The Aberdeen City Alliance (TACA, the former body of Aberdeen's Community Planning Partnership) agreed that ACVO would take on the role of being the Third Sector Interface for Aberdeen.

The initial motive to set up the Aberdeen Third Sector Interface (opened at Greyfriars House on 1st April 2010) was a recognition of the need for a structured and stable system of representation for voluntary organisations working with local authorities. Despite its early form (the CVS) stemming from a VSA initiative, this aim required an independent organisation in order for representation to be legitimate and impartial, thus driving towards the establishment of a completely independent

body.

Two further aims were, firstly, the creation of a shared resource for development support of small TSOs unable to afford certain in-house skills/services (e.g. training, funding advice etc.) and secondly, increasing communication across local TSOs (e.g. newsletters, advert boards etc.)

Issues that emerged during the set up process included:

- Ensuring financial stability, incorporating the European Framework for Quality Management (EFQM)
- Encouraging membership of ACVO
- Integrating the Single Interface concept within ACVO (i.e. CVS, Volunteer Centre and engaging with Local Social Economy Partnership (LSEP))
- Developing a strategic response to the Single Outcome Agreement.

These issues mostly remain on-going although the integration of CVS/Volunteer Centre (also formerly part of VSA) is seen as both a challenge and an opportunity. EFQM led the ACVO team to review its planning process and develop a Business Plan which was more responsive to wider SWOT analysis.

The main aim now for ACVO is to firmly establish itself as 'the' Third Sector Interface in Aberdeen, with the development and strengthening of networks as a key strategy. Further strategic objectives going forward are outlined in the Annual Report 2009-2010 / Strategic Objectives, and include:

- Providing an accessible, sustainable and flexible one-stop shop on volunteering, voluntary action and active citizenship
- Building on their impact in supporting the third sector and connecting with the wider community and private and public sectors
- Sustaining and developing their recognition by Community Planning partners and others as the primary conduit with the third sector
- Proactively seeking investment opportunities available to the third sector as a result of public sector financial constraints
- Increasing diversification of ACVO income
- More actively developing social enterprise and entrepreneurship in the third sector
- Restructuring service delivery into 3 operational business units:
  - Enterprise & Sustainability
  - Voluntary Action and Active Citizenship
  - Stronger and More Connected Voices.

### ***National infrastructure: relationships with Scottish Council for Voluntary Organisations***

- 5.17 The Scottish Council for Voluntary Organisations (SCVO) is a membership organisation promoting the interests of the third sector in Scotland. It offers a range of services to members including: lobbying and campaigning on behalf of the sector; networking and development opportunities; information and advice; and payroll services (among others). SCVO's membership is estimated to encompass more than two thirds of the sector.
- 5.18 Most of the TSOs in this study were involved with SCVO, but the level of involvement varied between different TSOs. Many felt that the SCVO (and indeed the local infrastructure bodies) provided a useful forum for representing the interests of the third sector and for supporting its work. However, others were concerned about the ability of SCVO to represent the sector as a whole, particularly the views of smaller organisations (and indeed this is a tension that SCVO itself recognised), and some TSOs also expressed a concern that there could be a conflict of interest for SCVO as a service provider. This is a tension that the previous research, above, also recognised – recommending that such service provision, where appropriate, was kept at 'arm's length' from the representative and advocacy functions of both local and national intermediary bodies.

### ***Involvement in other partnership forums***

- 5.20 Most TSOs were involved with a range of other partnership forums. Commonly, these took the form of membership forums representing particular interests, for instance, types of forums included: social care and mental health; youth; employability and supported employment; and learning forums. These forums varied in the geographical coverage and covered different levels including the local, Scottish or UK-level. TSOs paid a membership fee to these forums and in return got access to a range of services (which varied depending on the specific forum) that might include: information and awareness raising; organisational support and development; policy development and lobbying; research; training, education and quality standards. TSOs valued the services provided by these forums and for some, these were perceived to be the most effective way for them to have an input into policy. Some TSOs were members of more general forums which represent, for instance, social enterprises, or the voluntary sector in Scotland.
- 5.21 Some TSOs had close contact with specific individuals or departments within the Scottish Government and felt that they were able to have direct input at that level. Some were regularly invited to take part in specialist committees run by the Scottish Government. In particular, one organisation worked in a particular niche area where there were only two other organisations across Scotland covering similar issues. These three organisations were reported to often be invited onto committees covering their specific issue (which also happened to be a current policy priority).



- 5.22 An officer in a large TSO working across Scotland described how they sought to influence policy on the issues concerning them:

*[It] depends what the issue is. If it's a health issue we tend to work directly with government, (and) we tend to do that alone. Where it's a Westminster issue we are much more inclined to do a Consortium-type approach. We are involved in the Disability Benefits Consortium which is something like 25 different organisations working together, particularly on the Welfare Rights Bill. And that makes sense because... there are hundreds of different organisations trying to get their voice heard on benefits reform and...in the context of the UK we're a small Scottish organisation, we wouldn't really get a hearing, whereas in the context of Scotland we're a big charity and we're quite well respected, we have a decent relationship with government, so it makes sense for us to be able to do that directly.*

*Senior Manager, National Health and Social Care Provider*

### **Partnerships with local authorities**

- 5.23 Many TSOs reported having continued good relationships with local authorities over the last year. However, there had been some challenges to these partnerships. Respondents noted that several local authorities had or were undergoing major structural changes and this presented challenges to maintaining relationships. For instance, a couple of TSOs noted significant re-organisation taking place in the two local authorities with whom they worked (both these organisations worked only in one area). The loss of known contacts affected the quality of relationships, communication and information about priorities. For instance,

*I used to have a very good knowledge of who was there...I knew people there and I felt supported but actually now they've changed so much...I went up to a meeting...all the old faces I knew are gone...it feels like I don't have any links now that I had before.*

*Senior Manager, Equalities Focus Group*

- 5.24 Many TSOs claimed that there had been increased communication and dialogue with local authorities in the last year. This was usually around renegotiation of the continuation of existing services, for instance how an existing service could be provided within the requirement to meet cuts. Although these discussions were more dominated by finance concerns than earlier, managers in at least one TSO felt confident enough to be able to have an honest discussion about the implications of cuts to services with funders. However, a couple of TSOs felt that dialogue with local authorities had become more difficult and they had become more distant and difficult to engage with. One respondent thought this might be because of the uncertainty within local authorities about their own budgets. As we have already seen (see 2.40) there was a great deal of variation between local authorities in their approaches to policy and funding and this was also the case in relation to partnership working too:

*It's a mixed picture. In some authorities they're becoming much more distanced in their relationship with us as they increasingly worry about how to relate to us in a competitive market. In other areas you find that because of the value that we add, that that relationship is becoming much more a partnership, so it depends on the authorities' approach to commissioning.*

*Senior Manager, Employability Focus Group*

- 5.25 Some TSOs thought that larger TSOs with financial resources which they could bring to partnerships with local authorities benefited from increased 'parity of esteem', e.g. more equal partnership with local authorities:

*For instance, we are looking at supporting the council to re-provision a children's home where they would do the building and we would provide...funding from a 3rd party trust to keep the contract running. If they work with us, they get the benefit of added value and we get the value of tying into the community strategy. It is early stages, but it is beginning to pay off. It changes the perception [of us] from a charity who wants money from the council to run their services to a charity who could bring added [finance] to their services and more expertise etc.*

*Senior Manager, Health and Social Care Focus Group*

- 5.26 In the longer term, some thought this might lead to a new model of partnership working with local authorities:

*We have to get them to see us as more than users of their funds as we provide a lot of money too. They need to see the added value of the third sector in its fundraising as well as its innovation. As a sector we should publicise good examples which would enhance the model of being a partner which would benefit everybody, especially the service user.*

*Senior Manager, Health and Social Care Focus Group*

## **Involvement in service design**

- 5.27 There is increasing recognition of the benefits of involving third sector organisations in the design of public services in order to incorporate their knowledge and expertise to help to ensure that services are designed to meet user needs. The system of competitive tendering usually involves a funder specifying the service which it would like to contract and asking for tenders from organisations to deliver this. In this system, there is a limit to the extent to which TSOs can input into the design of services. In order to facilitate the greater involvement of TSOs in service design, the Public Social Partnerships (PSP) model has been developed in recent years. Some TSOs also noted some potential trends which may result in increased involvement in service design.

## **Public Social Partnerships**

- 5.28 The public-social partnership model involves the public sector and the third sector working together to design and deliver public services with the aim of improving outcomes for local communities. The government is also keen that the model will “see the private and public sectors make greater use of third sector expertise and services”<sup>34</sup>. The model was piloted with 10 PSPs for a period of 2 years from 2009<sup>35</sup>, the outcomes of which informed the recent Scottish Government guidance<sup>36</sup>.
- 5.29 One of the focus groups’ participants in the research had been involved with a pilot PSP. This organisation had had to work hard to produce a good partnership because of an initial imbalance of power. However, they were positive about PSPs as a model for designing and implementing services and their experiences had helped to inform the Scottish Government guidance (see above). None of the other TSOs had direct experience of working with PSPs.
- 5.30 PSPs could potentially be a model that has more influence in the future on the design and delivery of public services. Therefore, it would be timely in Year Three of this research to investigate the knowledge and involvement of TSOs in PSPs to see if these partnerships are beginning to have a wider take-up and impact on the third sector in Scotland.

## **Trends**

- 5.31 One participant noted a change to the way in which their local authority was tendering. The local authority had asked the TSO to present a costed service delivery plan<sup>37</sup> rather than the local authority specifying the service they wanted to contract. If this becomes a wider trend in future, as this particular interviewee felt that it might do in the employability field, then this may offer increased opportunities for greater involvement of TSOs in the design of services.
- 5.32 Potential cuts to services had, for some, actually created greater opportunity for negotiating the shape of services. Some local authorities had contacted TSOs and were talking to them directly about how services could be re-designed within budget requirements, allowing a significant input from the TSOs (see 5.24).

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<sup>34</sup> Scottish Government News Release (12/06/09) Public Social Partnerships Welcomed at: <http://www.scotland.gov.uk/News/Releases/2009/11/23121830>

<sup>35</sup> The Public-Social Partnership Project website at <http://www.pspscotland.co.uk/node/17>

<sup>36</sup> A practical guide to forming and operating Public Social Partnerships, Edinburgh: Scottish Government, available at <http://www.scotland.gov.uk/Resource/Doc/48453/0119024.pdf>

<sup>37</sup> A formal plan (sometimes in the form of a tender or bid document) providing a detailed breakdown of services to be provided, how these will be provided and how much this will cost.

## **Conclusion**

5.33 TSOs were aware of the importance of partnership working as a means of meeting the challenges created by the policy and funding changes. Many were keen to be involved in more 'joined up' working and were taking advantage of increased partnership opportunities, but the impact of funding cuts on their existing partners presented a potential future threat. The intermediary bodies that appeared to be most successful in offering TSOs a platform to influence policy were specialist partnership forums (e.g. membership forums) and direct links with government. The experience of partnership working with local authorities varied, with some reporting better communication and dialogue while others reporting lower levels of contact. There were indications that opportunities for involvement in service design by the third sector may be increasing, although it was too early to be certain if these would effectively materialise.

## 6. CONCLUSIONS

- 6.1 In Year Two the all-pervading message was that of change and uncertainty stemming from new policies and funding programmes coming out of the new UK Coalition government as well uncertainty about the outcome of the Scottish elections in May 2011. As one service manager noted, *'there is nothing surer than change'*. This could create challenges for organisations, not least the rapid pace of change itself. Nevertheless, many were positive that the changes could create opportunities for improvements in the third sector.
- 6.2 Many TSOs were making significant efforts to respond positively and proactively to the challenges presented by the changing funding and policy environment. Many had taken the opportunity to look at their priorities and how they wanted to move forward. The majority had looked at a variety of strategies to cut costs and remain competitive, as well as diversifying the funding base (and social enterprise in particular). This presented challenges to leadership and governance, but senior management and Boards of TSOs were, on the whole, rising to meet these challenges. This suggests that many TSOs are taking a dynamic approach to change.
- 6.3 It is important to recognise that there is no reductive response to the current economic climate, no 'one size fits all'. For some TSOs, mergers are an appropriate response, for others they may not be. It is also important to recognise that innovation is only one response to the current situation. For others a more cautious 'sticking to the knitting' may be more appropriate. Proactive responses, like mergers and innovation, appear to offer creative ways to respond to these straitened times. However they can also consume resources at a time of resource scarcity. What the findings of this report suggest is required is a contingent response by TSOs that matches the response to the needs of their organisation, members and/or users.
- 6.4 A number of TSOs were also rising to the challenge of measuring 'soft' outcomes, particularly in relation to clients with complex needs and/or whose literacy and numeracy were limited. Some had made significant steps towards adapting and/or developing tools which would both demonstrate client progress to the client themselves as well as show the added value of the service to funders. While there was still no standardised way of measuring outcomes, some TSOs were making important steps towards developing tools flexible enough to be applicable across a number of different projects and funders.
- 6.5 TSOs were aware of the importance of partnership working as a means of meeting the challenges created by the policy and funding changes. Many were keen to be involved in more 'joined up' working and were taking advantage of increased partnership opportunities, but the impact of funding cuts on their existing partners presented a potential future threat. The intermediary bodies that appeared to be most successful in offering TSOs a platform to influence policy were specialist partnership forums (e.g. membership forums) and those with direct links with government. The experience of partnership working with

local authorities varied, with some reporting better communication and dialogue while others reported lower levels of contact. There were indications that opportunities for involvement in service design by the third sector may be increasing, although it was too early to be certain if these would effectively materialise.

## **APPENDIX A: AIMS AND OBJECTIVES OF THE RESEARCH**

The aim of the work is to track the opportunities and challenges that third sector organisations are facing with a changing public services landscape in Scotland between 2009 and 2014.

The objectives are to:

- Measure the extent to which third sector organisations perceive the Concordat (and other policies such as Scrutiny Improvement, changes to budgets and, in time, BV2) have impacted upon their organisation and contributed to business decisions around business planning, workload and emphasis, organisational structure, staffing, behavioural changes within the organisation etc.
- Determine the extent to which third sector organisations feel they have an outcome focus and whether this is aligned to the National Performance Framework and how this changes over time.
- Identify the ways in which third sector organisations are building collaborations across the sector and with local and central government and other service providers and funders.
- Assess the level of involvement of third sector organisations in CPPs and the extent to which they feel they are engaged in decision making and how this changes over time.
- Understand the ways in which local finance and funding decisions by public sector partners and funding/resources generated by third sector organisations themselves are impacting upon third sector organisations over time and whether they are contributing to offering good value for money.
- Assess the extent to which third sector organisation feel they are delivering high quality, efficient and responsive public services and how this has changed over time.
- Determine whether changes to the scrutiny landscape have been realised by third sector organisations and track this over time.
- Identify any other perceived challenges of the changing public services landscape on third sector organisations over time.
- Identify good practices from across the third sector where organisations are making the most of opportunities provided by the changing public services landscape.
- Make any recommendations for improvement to ensure third sector organisations deliver high quality public services that are continually improving, efficient and responsive to local people's needs.

## APPENDIX B: PARTICIPANTS IN THE CASE STUDIES

Case Studies	Participants in Case Studies*
National Health and Social Care Provider	Senior Manager x 1 Manager x 4
National Health and Social Care Provider	Senior Manager x 2
National Employability Provider	Senior Manager x 2
Local Employability Provider	Senior Manager x 2
National Health and Social Care Provider	Senior Manager x 2
Regional Learning Provider	Senior Manager x 1 Senior Officer x 1 Manager x1 Project Officers x 3
Local Learning Provider	Senior Manager x 2 Manager x 2
Local Health and Social Care Provider (SHIRLIE)	Senior Manager x 3 Project Officer x 2

\*Generic role references are used in order to protect the identify of individuals



## APPENDIX C: ORGANISATIONAL PROFILES

Case Studies	Field of Voluntary Activity	Geographical Coverage	Number of Staff/Annual Income (2008/09 unless otherwise stated)	Proportion of Income from Public Funding/social enterprise
National Health and Social Care Provider	Mental health, homelessness and addictions	Across Scotland	£22,424,000 Over 800 staff	85% from LAs and SG
National Health and Social Care Provider	Disability Support	Across Scotland	£29,276,426	N/A
National Employability Provider	Employability, regeneration and social economy	Scotland and North East England	more than 400 staff £16,923,623 (2007/08)	N/A
Local Employability Provider	Mental health	Edinburgh	£1,431,703.00	N/A
National Health and Social Care Provider	Disability Support Care, Education, Health & Employment support to disabled people	Delivers services to people from 29 LA's	£29,719,000	86%, is generated by funding from local authorities
Regional Learning Provider	Disability Support	8 LA's in Scotland	£562,793 16 staff	93% public funding
Local Learning Provider	Learning and childcare provider	North Glasgow	£1,307,888.00	N/A
Local Health and Social Care Provider	Social care and sustained employment services	Scottish Highlands	£725,566	N/A
<b>Focus Groups</b>				
<b>GROUP 1 – HEALTH/SOCIAL CARE</b>				
Health and Social Care FG	Community services	Aberdeen	N/A	N/A
Health and Social Care FG	Disability/young people	Central Belt, Glasgow & Highlands	£43,300,000	81% from LAs
Health and Social Care FG	Learning disabilities &	5 LAs in the West of	240 staff £4M	Mostly from LAs

	mental health	Scotland		
Health and Social Care FG	Childcare and learning support	Highlands, Moray, Argyll and Bute	N/A	N/A
<b>GROUP 2 – EMPLOYABILITY</b>				
Employability FG	Employability	Dundee, Glasgow and Edinburgh	£1,846,820	statutory sector (46%)
Employability FG	Criminal justice services	25 LAs in Scotland	£9,794,000	SG and LAs 91%
Employability FG	adult learning	Most LAs in Scotland	£2,698,338	N/A
Employability FG	Employability	Dundee	N/A approximately 24 staff	N/A
<b>GROUP 3 - EQUALITIES</b>				
Equalities FG	Young people and Health	Edinburgh	£316,460 10 staff	Public sector 92%
Equalities FG	Learning disability	Edinburgh	N/A	NA
Equalities FG	Lone parents	National Advice service & projects in 6 LAs	£2,057,605	National 45% from public funding Local 72% from public funding
Equalities FG	Gender and employability	Edinburgh	N/A	N/A

## **APPENDIX D: FLEXIBLE INTERVIEW SCHEDULE FOR YEAR TWO CASE STUDIES & FOCUS GROUPS (2011) Year Two**

### **Year Two Case Studies/Focus Groups Outline interview schedule**

**Note to interviewer: review anticipated issues and compare with reality; identify key turning points in last year; explore examples of best practice/adaptation/ innovation.**

#### **General**

Has your title/role position changed since our last meeting? If so, how and why?

#### **Topic 1: Responses to the Changing Policy Environment**

- What changes have there been in the last year in the **policy environment** that have/are going to change how your organisation delivers public services?
- What are the drivers of these changes? (probe impact of localism, Concordat, Single Outcome Agreements, other key turning points)
- What has been the **actual** impact on the TSO (e.g. on service delivery, clients and staff) as opposed to the anticipated impact?
- What opportunities and challenges have these presented?
- How has your organisation adapted/responded?
- How does your organisation plan to respond in future?
- What do you think are the key lessons you have learned in the last year?
- Do you have any examples you consider to constitute 'good practice' in adapting to the changing environment? What are the constraints on 'good practice'?

#### **Topic 2 Responses to the Changing Funding Environment**

- What changes have there been in the last year in the **funding environment** that have/are going to change how your organisation delivers public services?
- What is/will drive these changes?
- What opportunities and challenges have these presented?
- What has been the **actual** impact on the TSO (e.g. on service delivery, clients and staff, as well as 'ethos' and quality) as opposed to the anticipated impact?

- How has your organisation adapted/responded?
- Have you considered accessing other types of funding such as private finance/loan finance/higher risk capital? If so, what are the pros and cons?
- How does your organisation plan to respond in future?
- What do you think are the key lessons you have learned in the last year?
- Do you have any examples you consider to constitute 'good practice' in adapting to the changing environment? What are the constraints on 'good practice'?

### **Topic: Leadership**

- Have there been any changes in leadership in the organisation in the past year? If so, why have there been changes, what have they been and what has been the impact?
- What role has the organisation's Board had in any changes within the organisation? (Explore views of role of board, effectiveness of it, is it strategic, visionary?)
- What have the challenges been for leadership within the organisation? (eg skills deficits, training needs). How well are leaders adapting to the challenges? Is leadership important for managing resilience within the organisation?

### **Topic 3 Measurement and Evaluation**

- Have there been any changes in the last year to **the way performance has been measured and evaluated** by funders?
- What have these been?
- Why have these changes occurred and what has been the impact on the TSO?
- Have you changed your approach to impact measurement in the last year? If so, how and why?
- Have you adopted SROI or other means of impact measurement in order to ensure that the benefit delivered by the TSO is evidenced and rewarded?
- What have these been; why did you adopt them; how useful have they been?
- Do your measurement and evaluation procedures fit with the Scottish Government National Performance Framework? How and why?

## Topic: Partnerships/Relationships/Interfaces<sup>38</sup>

- Have you experienced any changes in your organisation's **relationship with local authorities and CPPs** in the last year? (note: identify actual from anticipated changes)
- How and why have these changes taken place?
- How does this affect how your organisation operates?
- **Are you involved with SCVO/CVSSs?** (Explore views of relationship and benefits / or challenges associated)
  - Are you aware of **third sector "interfaces"** that are being created in each LA area? If so, have you been involved? How? Are they working?/ What opportunities are presented by the new third sector interface structures?
  - Are you involved with any other intermediary organisations or processes? Who? How? Why?
- Are there any other organisations/forums with which you are involved in order to input into decision-making at various levels?
- Have you experienced any changes to **partnership working** in the last year? Eg. new partnerships formed, existing partnership dissolved, more Consortium partnerships, probe awareness / experience of "public social partnerships"/ involvement in design of services? (note: identify actual from anticipated changes)
- What are the reasons for these changes?
- Have changes in the policy and funding environment in the last year changed your approach to partnerships? How and why?

## Topic 6 Place and Rural Issues

Have the challenges of delivering public services across a range of geographical contexts (e.g. disadvantaged urban neighbourhoods; remote rural areas) changed in the last year? If so, how and why?

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<sup>38</sup> Interfaces are the new local infrastructure for the third sector. The main goal of the new infrastructure is to align the third sector with the Community Planning Partnerships (CPPs) and the Single Outcome Agreements. By March 2011 each local authority area will have a third sector interface. They will vary in legal form but will all fulfil four functions:

- Support to voluntary organisations operating in the area, both local and those national organisations that deliver services at the local level;
- Support and promotion of volunteering;
- Support and development of social enterprise
- Connection between the Community Planning Partnership and the third sector.

## **Topic 7 Future Opportunities and Challenges**

Do you think the opportunities and challenges for your organisation over the next 12-16 months have changed since the last meeting? What has changed and why do you think this has been?

## APPENDIX E: AGENDA FOR FOCUS GROUPS

### AGENDA FOR GROUP MEETINGS Second Meeting October/November 2010

#### 1) General discussion topics

The agenda for group discussions will be flexible and driven by the participants. However, the following are among the issues that we would like participants to consider.

##### Topic 1: Responses to the Changing Policy Environment

- What changes have there been in the last six months in the ***policy environment*** that have/are going to change how your organisation delivers public services?
- What are the drivers of these changes?
- What has been the impact on the TSO (e.g. on service delivery, clients and staff)?
- How has your organisation adapted/responded?
- How does your organisation plan to respond in future?
- What do you think are the key lessons you have learned in the last 6 months?
- Do you have any examples you consider to constitute 'good practice' in adapting to the changing environment?

##### Topic 2 Responses to the Changing Funding Environment

- What changes have there been in the last six months in the ***funding environment*** that have/are going to change how your organisation delivers public services?
- What is/will drive these changes?
- What has been the impact on the TSO (e.g. on service delivery, clients and staff)?
- How has your organisation adapted/responded?
- How does your organisation plan to respond in future?

- What do you think are the key lessons you have learned in the last 6 months?
- Do you have any examples you consider to constitute 'good practice' in adapting to the changing environment?

### **Topic 3 Measurement and Evaluation**

- Have there been any changes in the last six months to ***the way performance has been measured and evaluated*** by funders?
- What have these been?
- Why have these changes occurred and what has been the impact on the TSO?
- Have you adopted any arrangements independently in order to ensure that the benefit delivered by the TSO is evidenced and rewarded?
- What have these been and why did you adopt them?

### **Topic 4: Relationship with Local Authorities and CPPs**

- Have you experienced any changes in your organisation's ***relationship with local authorities and CPPs***?
- How and why have these changes taken place?
- How does this affect how your organisation operates?

### **Topic 5 Partnership Working**

- Have you experienced any changes to ***partnership working***? Eg. new partnerships formed, existing partnership dissolved?
- What are the reasons for these changes?

### **Topic 6 Place and Rural Issues**

Have the challenges of delivering public services across a range of geographical contexts (e.g. disadvantaged urban neighbourhoods; remote rural areas) changed in the last six months? If so, how and why?

### **Topic 7 Future Opportunities and Challenges**

Do you think the opportunities and challenges for your organisation over the next 12-16 months have changed since the last meeting? What has changed and why do you think this has been?



## **GLOSSARY**

BME – Black and Minority Ethnic groups

CPPs – Community Planning Partnerships

COSLA – Convention of Local Government Authorities is the representative voice of Scottish local government and also acts as the employers' association on behalf of all Scottish councils.

Costed Service Delivery Plan - A formal plan (sometimes in the form of a tender or bid document) providing a detailed breakdown of services to be provided, how these will be provided and how much this will cost.

Direct payments - are local council payments available for anyone who has been assessed as needing help from social services. You can normally get them if you are a carer aged 16 or over

ESF – European Social Fund

LA – Local Authorities

HMIE – Her Majesty's Inspectorate of Education

HGIOCL2 – How Good is our community learning and Development – is self-evaluation tool to using quality measures.

<http://www.hmie.gov.uk/documents/publication/cldfull.pdf>

HR - human resources

Job Seekers Allowance (JSA) Jobseeker's Allowance is the main benefit for people of working age who are out of work or work less than 16 hours a week on average. It is paid to those looking for work.

NHS – National Health Service

NPF – National Performance Framework – Set of national performance targets for Scotland set up by the Scottish Government.

<http://www.scotland.gov.uk/About/scotPerforms>

NFF – New Futures Fund was a fund which aimed to assist the most disadvantaged target client groups, furthest removed from the labour market, to develop the skills, knowledge, attitudes and attributes they need to acquire to be more employable. From April 2006, future responsibility for developing and delivering New Futures Fund (NFF) type services were transferred from Scottish Enterprise to local Community Planning Partnerships.

Outcome-based payment or Payment by results – payments based on agreed and specified outcomes recorded, e.g. number of clients into employment etc.

Rickter Scale - a complete assessment and action planning process based around a hand-held interactive board, which is designed specifically to measure soft indicators and distance travelled. <http://www.rickterscale.com/what-we-do/the-rickter-scale>

SCVO – Scottish Council for Voluntary Organisations

SOAs - Single Outcome Agreements

SOLACE (Scotland) – Scottish Branch of Society of Local Authority Chief Executives & Senior Managers <http://www.solacescotland.org.uk/>

SME – Small to medium sized enterprise

SROI – Social Return on Investment

TSO – Third Sector Organisation

Tie-in Services - Additional services that can be access by clients in order to support the existing service being provided

Weavers Triangle - The 'Weaver's Triangle' is a personal development tool aimed at helping clients set out what they want to achieve and the activities that they need to do to bring these about.

<http://www.scotland.gov.uk/Publications/2003/12/18681/30965>

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