The Opportunities and Challenges of the Changing Public Services Landscape for the Third Sector in Scotland: A Longitudinal Study Year Three Report(2009-2012)

Voluntary issues

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

**YEAR THREE REPORT
(2009-2012)**

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The views expressed in this report are those of the researcher and do not necessarily represent those of the Scottish Government or Scottish Ministers.

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ACKNOWLEDGMENTS

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 Authority

HMIE – Her Majesty's Inspectorate of Education

HGIOCL2 – How Good is Our Community Learning and Development – is a self-evaluation tool 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

EXECUTIVE SUMMARY

Introduction

This report outlines findings from the first three years of a longitudinal research project examining 'The Changing Public Services Landscape in Scotland: Opportunities and Challenges'. This work was commissioned by the Scottish Government and, using qualitative case studies and focus groups, has been tracking the way in which a selection of third sector organisations (TSOs) have responded 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 people's needs. This work will inform future partnership-working with the third sector.

Specific objectives for the 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

Methodology

The methodology involved qualitative research within 20 third sector organisations based in Scotland over a period of three years. The methodology involved two key components: (1) in-depth case studies with eight TSOs and (2) three focus groups involving twelve additional TSOs. Appendix C outlines the methodology in further detail.

Context and Impact

Changes to the policy and funding environment

Over the three years of the research there had been significant political and policy changes that had important consequences for TSOs in Scotland. Alongside the general financial climate of low or negative economic growth and public sector spending cuts, these represented huge challenges, as well as potential opportunities, for many organisations.

From 2007, the SNP has led the government in Scotland – firstly, as a minority government and then, following the May 2011 elections, as a majority government. Localism and personalisation are key policy priorities for the SNP government. The 2007 Concordat between Scottish Government and local government included the principle of more local control over planning and services (called 'localism'). While this principle was often supported by TSOs, the impact on TSOs in practice had been more problematic in terms of negotiating with numerous local authorities, a lack of clarity and cohesion, and decreased ability to see the 'bigger picture' across Scotland.

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 and a number of TSOs were developing personalisation for their own services. The move towards personalisation was perceived to be both an opportunity and a challenge. It potentially means a very different way of contracting services and being more client-focused. However, there were some concerns about moving to a way of working flexibly enough to meet potential demand.

With the formation of the UK Coalition government from May 2010, significant policy changes were put in train that could have impacts on TSOs, particularly those involved in the provision of employability. The Work Programme was introduced in 2011 across the UK and replaced existing employability streams. No TSOs had been selected as a 'prime contractor' for the programme. Of those sub-contracted to the programme the numbers of referrals received by year three had been limited. However, over the longer term the Work Programme may have a major impact on TSOs who provided employability services in Scotland. 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.

In year three, one point commonly made by interviewees concerned what they perceived as 'disconnected' policy. For instance, that there was a lack of clarity in how policy would work in practice, a lack of 'joined up' policy, contradictions between policies at different levels, such as at UK and Scotland, and differences between local authority policies.

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.

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.

The picture was mixed in terms of the level and extent of funding cuts and new funding opportunities. Many organisations had received continued funding but with no inflation up-lift or with a reduction in the budget (cuts were up to 30% in some cases, although around a 5% cut was more common). At the same time, some organisations had secured new additional funding for specific work.

Impacts

The pattern of changes in demand for services was mixed with continued high demand reported in some areas but a decrease in demand in others. This may have reflected differences in services and areas as well as referral patterns.

While some TSOs had made reductions in some services because of cuts, most had avoided this by absorbing the effects through costs savings elsewhere or using accumulated underspends from previous years. However, the latter in particular, was not a viable long-term solution. Some organisations were able to provide new services through winning new funding.

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 was 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. However, good communication during a time of organisational change could help maintain positive staff relations and morale.

Key cross cutting themes

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. Additionally, there were challenges in maintaining staff morale and supporting staff through the changes which 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. Senior managers carried considerable responsibility for organisations which could sometimes have an impact on their own wellbeing.

Boards 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 in order to support organisations in meeting the recent 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 over the three years, 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 also provided additional evidence to funders on the impact their service had on clients over and above what was formally required.

A number of organisations had explored innovative ways to demonstrate client progress to clients and funders. This included 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, as well as the value added by 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.

Partnership working

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. However, the 'sense of being in competition' with other similarly focused TSOs increased over the three years because funding cuts and increased tendering created a more competitive environment.

Since April 2011, each local area in Scotland had its own third sector interface to provide a single point of access to support and advice for the third sector within the local area. By year three, some interviewees had been involved with these interfaces, although experiences of them were mixed. Many interfaces were still relatively recent and were 'still finding their feet'.

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 and/or staff redundancies. In the longer term, the personalisation agenda is likely to change the relationship between local authorities

and TSOs with local authorities seeing a decline in their role as a purchaser of services.

The system of competitive tendering usually involved a funder specifying the service required with limited scope for contractors to input into service design. Public Social Partnerships offer the potential for greater involvement of the third sector in the design of public services, although TSOs experience of these has been limited. Potential cuts had, in some cases, actually created more opportunities for some TSOs to negotiate the shape of services at local level. Local partnership forums such as community planning and provider forums also offered opportunities to help shape local services. However, tendering remained an obstacle to greater involvement.

Place and rural issues

There were additional costs associated with providing services in rural areas. This was because of the dispersed geography and additional travel required as well as limited access to public transport. In addition, it was difficult to achieve economies of scale for (usually) relative small local services.

Third Sector Responses

Mission, focus and identity

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 take stock through strategy reviews that refocused and defined their purpose and strategic direction. 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 provided a strategy to achieve these aims. These helped to guide organisations through particularly challenging times. Some organisations were looking at new ways of working to help reduce costs, and this trend looked set to continue as the personalisation agenda developed further.

Diversifying the funding base

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.

Another means of diversifying funding included pursuing strategies to increase fundraising, for instance from private donations and legacies. Some organisations had accessed investment funding through, for instance, the Scottish Investment Fund, for capital equipment or in order to develop various activities in their organisations. With a few exceptions, accessing commercial loan finance was rare.

Restructuring, making costs savings and remaining competitive

Many TSOs had looked at or were looking at restructuring in order to 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

Campaigning and organisational profile-raising

With the emergence of new policy trends such as the welfare benefit reform, a number of organisations were putting more emphasis on campaigning in order to influence policy that affected their client group. Some organisations were also active in increasing their visibility in order to raise or maintain the public profile of the organisation.

Conclusions

Over the three years of the research there had been significant political and policy changes that had important consequences for TSOs in Scotland. Alongside the general financial climate of low or negative economic growth and public sector spending cuts, these represented huge challenges, as well as potential opportunities, for many organisations.

TSOs that focused on employability-related activities tended to be more subject to changes of policy at UK level, although some funding did come through LAs. Policy determined at Scottish Government level was generally more relevant to TSOs who specialised in health and social care. However, since activities of TSOs often overlapped, most were affected by policy at all levels.

There was a significant time lag between the making of policy and putting it into practice at the level of the third sector. The full impacts of the Work Programme and Personalisation, for instance, were still unknown and unlikely to be clear until some time into the future.

While some TSOs had made reductions in some services because of cuts, most had avoided this through making costs savings elsewhere or using accumulated under-spends from previous years. They were also keen to minimise the impact on clients where possible. It was staff within TSOs who had felt the impacts most acutely with redundancies, reduced hours, changes to terms and conditions, no salary uplifts and increased workloads, creating an atmosphere of anxiety and uncertainty. However, good communication during a time of organisational change could help maintain positive staff relations and morale.

TSOs were undergoing a major re-shaping. Many had or were making significant efforts to respond positively and pro-actively 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 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).

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 were an appropriate response, for others they were 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 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.

Senior management and Boards within TSOs faced a number of challenges presented by the changing policy and financial environments. On the whole, however, they had risen to meet these challenges suggesting that many TSOs were taking a dynamic approach to change.

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 that would both demonstrate client progress to the client 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. Accessing funding was a key driver for partnerships and many were keen to be involved in more 'joined up' working. However, the 'sense of being in competition' with other similarly focused TSOs increased over the three years because funding cuts and increased tendering created a more competitive environment. 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, with potential cuts actually creating more opportunities for some TSOs to negotiate the shape of services at local level. Local partnership forums such as community planning and provider forums also offered opportunities to help shape local services. However, tendering remained an obstacle to greater involvement.

CHAPTER 1: INTRODUCTION

1.1   This report outlines findings from a three-year research project examining 'The Changing Public Services Landscape in Scotland: Opportunities and Challenges'. This work was commissioned by the Scottish Government and using qualitative case studies and focus groups aimed to track the way in which a selection of third sector organisations (TSOs) responded 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   Specific objectives for the 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 is provided in Appendix B.

Methodology

1.5   The methodology involved qualitative research within 20 third sector organisations based in Scotland over a period of three years. The methodology involved two key components: (1) in-depth case studies with eight TSOs and; (2) three focus groups involving twelve additional TSOs. Appendix C outlines the methodology in further detail. The organisations that participated in the research were providers of public services covering a range of fields including health and social care; employability; regeneration; learning and equalities. A mix of national, regional and local providers was included. See Appendix E for further details.

Structure of the Report

1.6 Chapter 2 outlines the background in terms of the policy context within which TSOs have been operating over recent years.

1.7 The findings from the research begin in Chapter 3 with an examination of the experiences TSOs had of the changing policy and funding environment and the impacts on TSOs resulting from the changes. These include:
- Experiences and opinions of policies emerging from UK Government and Scottish Government, including tendering, funding cuts and new opportunities
- Changes in demand for services, impact on service provision, impact on clients and impact on staff

1.8 Chapter 4 examines some key cross cutting themes including:
- Issues around governance and leadership with TSOs. In particular, the challenges for senior managers and the role of Boards of Directors or Trustees
- Trends around performance and outcome measures. These include: measuring 'soft' outcomes; providing additional evidence to funders; using additional measures to demonstrate impacts; and use of Social Return on Investment (SROI)
- Partnership working includes trends in partnership working reported by TSOs; the third sector infrastructure such as third sector interfaces; relationships with SCVO and local CVSs and involvement in other partnership forums; and partnerships with local and central government and involvement in service design

1.9 Chapter 5 explores Third Sector Responses to the changing environments, and looks at how organisations responded to the challenges through:
- mission, focus and identity
- diversifying funding
- restructuring
- raising awareness

1.11 Case studies based on some of the TSOs taking part in the research are outlined in Appendix A. These chart some of the key changes within each organisation during the course of the three year research.

1.12 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. Appendices D and E provide more details about each organisation. 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').

1.13 Interview guide questions used in the fieldwork are appended (Appendix F).

CHAPTER 2: POLICY BACKGROUND – THE THIRD SECTOR IN SCOTLAND

2.1 This chapter outlines the key changes to the policy and funding environment over the three years of the research (2009-12) that were relevant to TSOs in Scotland. There were significant changes in the political and policy environment that occurred at both UK and Scotland levels, as a result of shifts in the balance of power in Scottish and UK governments following general elections in the UK in 2010 and in Scotland in 2011. The various impacts of these changes on TSOs are discussed in chapter 3.

Table 1A outlines the political context and Table 1B the policy context at UK and Scottish levels across the three years of the research.

Table 1A: The Political Context at UK and Scottish Levels 2010-1012

	Scottish Policy	UK Policy
Year 1 2010	SNP minority government	Labour government (until May 2010)
Year 2 2011	SNP majority government (May 2011)	Conservative and Liberal Democrat Coalition government
Year 3 2012	SNP majority government	Conservative and Liberal Democrat Coalition government

Table 1B: The Policy Content at UK and Scottish Levels 2010-1012

	Scottish Policy	UK Policy
Year 1 2010	1. 2007 Concordat & Localism 2. Best Value 2	1. Employability Focus 2. Personalisation
Year 2 2011	1. Personalisation / self-directed care agenda 2. Third Sector Interfaces 3. Christie Commission	1. Big Society agenda 2. Work Programme 3. Deficit reduction 4. The Localism Act
Year 3 2012	1. Deficit reduction 2. Welfare Reform (Scotland) Bill 3. Social Care (Self-directed support) (Scotland) Bill	1. Deficit reduction 2. Work Programme 3. Employability agenda

The UK context

2.2 The election of the UK Conservative and Liberal Democrat Coalition Government in May 2010 (after 13 years of a Labour Government) was a significant change which led to a range of new policies; in particular the Work Programme introduced in 2010 which replaced existing employability funding streams and the Welfare Reform Bill (February 2011). The impact of these policy changes on the third sector is discussed in Chapter 2.

2.3 As the economy entered a period of recession or, at best, very low growth, the UK Government introduced a policy of deficit reduction which resulted in spending cuts within the public sector and a reduction of the Scottish Budget in 2011-12 of £1.3 billion compared with the previous year. This translated into spending reductions of over 11 per cent in real terms between 2010-11 and 2014-15[1]. These cuts are expected to impact on the third sector in Scotland in the forthcoming period.

2.4 Broadly, UK government policy was more relevant to TSOs focusing on employability (as a non-devolved issue), although some employability funding was made available through local authorities. For TSOs specialising in health and social care, policy at the Scottish Government level was generally more pertinent. However, there was often overlap in the activities of TSOs, and policy at different levels affected most TSOs to some extent.

Key policy developments in Scotland

2.5 In Scotland the SNP shifted from being a minority led government (between 2007 and 2011) to a majority government following the elections in 2011. Over the period of the research, Scottish policy developments of particular relevance to the third sector 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

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[1] Scottish Government (2010) *Scotland's Spending Plans and Draft Budget 2011-2012* http://www.scotland.gov.uk/Resource/Doc/331661/0107923.pdf

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 involved 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.

2.6   A consultation on self-directed support (commonly referred to as personalisation) in Scotland in February 2010 was followed by the Social Care (Self-directed Support) (Scotland) Bill in February 2012[2], which is currently going through the Scottish Parliament. The Bill provides service users with a high level of involvement in the way in which their care is arranged. The Bill states that 'A person must have as much involvement as the person wishes in relation to — (a) the assessment of the person's needs for support or services, and (b) the provision of support or services for the person'.

2.7   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[3] 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
- 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[4]

2.8   As part of the Public Services Reform agenda, John Swinney announced in the September 2011 Spending Review that £500M would be made available over three years to invest in preventative approached across three areas: supporting adult social care; early years and tackling re-offending[5]. These are known as the Change Funds.

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[2] Scottish Parliament (2012) *Social Care (Self-directed Support) (Scotland) Bill*
http://www.scottish.parliament.uk/parliamentarybusiness/Bills/48001.aspx
[3] http://www.scotland.gov.uk/News/Releases/2010/11/19124547
[4] Scottish Government (2011) *Commission on the Future Delivery of Public Services*
http://scotland.gov.uk/Publications/2011/06/27154527/2
[5] http://www.scotland.gov.uk/News/Speeches/spendingreview2012-13

2.9 Appendix G presents a timeline of key policy events which may 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 that there is always a direct causal relationship between a policy event and change in the third sector (the attribution problem). The timeline is therefore intended to set out a broader political context within which the study took place.

CHAPTER 3: IMPACT OF POLICY CHANGE ON THIRD SECTOR ORGANISATIONS

3.1   This section summarises how the key policies and changes to the funding environment impacted on TSOs over the course of the three years of the research. This includes an examination of key Scottish Government policies such as localism, personalisation, the Christie Commission and Change Funds and other policy priorities. At UK government level, the policies explored include the Work Programme and the Welfare Reform Bill. There is then a brief overview of other employability policies, issues raised around disconnected policy, volunteering and regulation. 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 over the course of the study as well as trends experienced in tendering and some of the new opportunities that may be opening up in the changing environments.

Localism

3.2   In year one, one of the key policy changes that had occurred at that time was the Concordat, which included the principle of more local control over planning and services, 'localism'. While this was in principle often supported, the impact on TSOs in practice had been more problematic:

(a) Practically, negotiating with numerous individual local authorities and CPPs could be difficult in terms of time and resources for those TSOs delivering local services across multiple geographical areas

(b) Some felt that devolving greater decision-making to local authorities had resulted in policy that was unclear and lacked cohesion and resulted in an 'accountability' gap where it was not clear whether Scottish Government, local authorities or CPPs had responsibility for policy

(c) Increased 'localism' and the focus on local needs may have resulted in a decreased ability to see the 'bigger picture' of policy and provision across Scotland, including limited sharing of good practice across areas

3.3   These issues remained on-going throughout the three years, although other emerging policies became more prominent for TSOs as the research progressed

Personalisation

3.4   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 over 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'[6] have been around for over a decade[7], 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[8]. 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[9].

3.5 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'[10].

3.6 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.

3.7 For TSOs working in health and social care, personalisation became increasingly important to the way in which their services would be delivered in the future. This was mentioned by some in year one, although became more prominent in year two. With the re-election of the SNP government in Scotland in May 2011 (for which it is a key policy), the agenda gathered more momentum in year three.

3.8 Many of those who discussed personalisation were supportive of devolving power to service users and many had been preparing for personalised and self-directed support for some time, particularly running up to year three.

3.9 Personalisation had the potential to redefine the balance of power between local authorities, care providers and service users. As service users increasingly become purchasers of care services, the role of local authorities may be reduced to one of oversight although they will likely continue to have a role in maintaining a list of approved care providers and on other aspects of the process related to quality and price.

3.10 Personalisation also represented a challenge for many health and social care TSOs in terms 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, and 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.

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[6] 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
[7] Dickinson, H. And J. Glasby (2010) *The personalisation agenda: implications for the third sector,* Third Sector Research Centre.
[8] Scottish Government (2010) *Self-directed support: A National Strategy for Scotland* http://www.scotland.gov.uk/Publications/2010/02/05133942/0
[9] Scottish Government (2006) *Changing Lives: Report of the 21st Century Social Work Review Group* http://scotland.gov.uk/Publications/2006/02/02094408/0
[10] Scottish Government (2010) *Self-directed support: A National Strategy for Scotland* page 7

3.11 Some TSOs felt that personalisation had the capacity to change the way in which care was conceived, allowing more people to be supported in the community rather than in institutions (e.g. independent living) and to have 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[11]. As a result they were concerned that less finance would be available to clients.

> "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, year two)

3.12 Personalisation was changing assumptions formed at a time when large tenders had been issued by local authorities. Large tenders gave organisations the opportunity to make long-term plans by ensuring that infrastructure and fixed costs associated with care delivery could be met. Under the new personalisation agenda, TSOs were less likely to be able to rely on large tenders to meet fixed costs. Instead, individuals became purchasers of care in a marketplace made of multiple smaller income sources. This change was perceived to make long-term planning more difficult as individual purchasers of services were less likely to make long-term commitment regarding their care package.

> "My view is that there will be constant change driven by the funding situation but also the expectation of the disabled person. Local authorities may have a five-year plan but individuals may prefer to do things monthly. If for example Glasgow were going to give 30 individuals £10,000 each and half those individuals decided not to spend the money with us then the whole infrastructure will have to change. Services have been forced to close because they just don't have that security that their infrastructure and fixed costs are covered".
> (Senior Manager, Health and Social Care Organisation, year three)

3.13 Local authorities are responsible for rolling out the move towards personalisation. In year two, TSOs pointed out that there were disparities across local authorities in the conceptualization and implementation of personalised social care. By year three, TSOs also noted varied approaches within LAs, with some planning to run with the policy later on in the year and others planning to wait several years before rolling it out, while a small number had already been preparing for the move toward personalisation of services.

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[11] Though little evidence could be found to substantiate this fear at the time.

3.14 For those organisations affected by the policy move towards personalisation, there was a lot of uncertainty about how it would work. One organisation who operated within Glasgow was preparing for the move towards personalisation of services. This included changing staff terms and conditions and hiring more part-time staff so that staff could work more flexibly in order to meet demand.

> "I think most people who buy personalised services, they're not going to say 'I want to buy 10 hours from you a week'. They're going to say 'this is what I want to achieve, some weeks I'll want two hours, some weeks I'll want 10 hours, how are you going to respond to that?' That's going to be a challenge for us and everybody else".
> (Senior Manager, National Health and Social Care Provider, year three)

3.15 This process was underway in year three and represented a challenge for managers and staff alike, especially when the policy itself was perceived to be unclear. One manager described trying to put the policy into practice as "wrestling with the clouds".

3.16 The move towards personalisation was perceived to be both an opportunity and a challenge. It potentially means a very different way of contracting services and being more client-focused. However, there were concerns about the ability of clients to navigate and choose the most appropriate services for their care, as well as concerns about moving to a way of working flexibly enough to meet potential demand.

Christie Commission and other policy priorities

3.17 No organisations had accessed the Change Funds which was unsurprising since the Funds were very recent. While many were aware of the Christie Commission and the move toward the preventative agenda, organisations were not clear what the impact would be. One, in particular, was supportive of the principle, but concerned that the practicalities of implementation had not been considered:

> "The idea's fantastic…there's a lot of Scottish Commissions [e.g. Christie Commission] that are great, the principles and the ideas, but the practical stuff is just none existent, so what could be a good initiative I fear could just be lost because the practicalities are not being thought out".
> (Senior Manager, Local Learning Provider, year three)

3.18 There was also a wide range of other Scottish Government policies that impacted on the TSOs that participated in this study, although these were often specific to the area within which a TSO worked. The year one report noted that there had been general policy shifts towards employability on the principle that work offered individuals positive outcomes, and this priority appeared to continue. 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 and this is discussed further under 'Mission, focus and identity'.

UK Government policy

3.19 Until 2010, there had been relative stability in the UK government, with one of the key policies being 'back-to-work' programmes[12] and employability. This was noted by TSOs in year one. With the formation of the UK Coalition Government from May 2010, significant policy changes were put in train that would have potential impacts on TSOs, particularly those involved in the provision of employability.

The Work Programme

3.20 The introduction of the Work Programme replaced existing employability funding streams[13]. The programme aims to get long-term unemployed people back to work with the use of third-party suppliers. A small number of large 'prime contractors' have been contracted to deliver services in specific regions across the UK. The prime contractors need to have substantial resources in order to operate the programme 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 then sub-contract specific areas of work to other organisations, generally smaller specialists.

3.21 At the time of much of the year two fieldwork, the outcomes of the Work Programme bidding process were unknown. However, many had been involved in developing partnerships with a range of potential 'primes' since 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, year two)

3.22 When the results were announced in April 2011, the two prime contractors in Scotland were both private sector organisations and there was some concern

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[12] Also called 'active labour market policies', these are government programmes that intervene in the labour market to help the unemployed find work. Previous examples include the New Deal.
[13] For further information on the Work Programme see http://www.dwp.gov.uk/policy/welfare-reform/get-britain-working/#work

expressed by interviewees that the third sector had been side-lined; a sentiment echoed by the Labour party and others in Scotland[14]. As a result, one interviewee felt that the Work Programme was leading to a contraction in the third sector:

> "The impact of this programme is the increasing presence of the private sector and has resulted in contraction of the third sector. It's not that they have both filled into a gap, one has come in and the other has contracted".
> (Senior Manager, Employability Focus Group, year three)

3.23 One TSO who had put in a bid to be a 'prime contractor' was disappointed to have been unsuccessful.

3.24 By year three, a number of organisations had engaged with the Work Programme as sub-contractors. However, referrals received by these organisations through the Work Programme had been very small[15]. For instance, the following comment was commonplace:

> "We have the agreement but we're not actually getting the referrals, they are not actually taking up that offer".
> (Senior Manager (1), Employability Focus Group, year three)

3.25 It was commented that:

> "I think we've been through quite a long period of them trying to get their head round how it's going to work at their end and never mind sorting out the issues it is creating for the sub-contractors".
> (Senior Manager (1), Employability Focus Group, year three)

3.26 A number of sub-contractors felt that they had received very little information from the primes about the clients they would receive, although it should be noted that there are two separate private sector prime contractor organisations in Scotland and some interviewees who were sub-contracted to both reported different levels of engagement and support between the two. Communication can also be complicated by the fact that some of the TSOs were sub-contracted through another sub-contractor.

3.27 Some also perceived a reluctance to engage with subcontractors as the primes in the private sector wanted to create an end-to-end service:

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[14] For instance, http://news.stv.tv/election-2011/242237-award-of-work-programme-contract-criticised/
[15] This may be related to an issue identified by the Employment Related Services Association in relation to lower than expected referrals of jobseekers on Employment Support Allowance (and therefore further away from being job-ready), see: ERSA (21 May 2012) ERSA performance figures on Work Programme show relative improvement against challenging economic backdrop, at http://www.ersa.org.uk/hub/details/682

"They're trying to create their own end-to-end provision; they're trying to put a private sector layer on what would traditionally be a third sector organisation's responsibility. They presumably believe they can do it more efficiently, and they presumably believe they can create more profit by doing the work".

(Senior Manager (2), Employability Focus Group, year three)

3.28 Very few organisations had received any payment through the Work Programme because of the limited referrals to date. Despite this, a number of TSO sub-contractors had invested in order to meet potential demand (e.g. recruited or re-deployed staff). This had left some organisations in the position of not being able to cover their costs (depending on the payment method[16]). Contracted payment methods for the TSO sub-contractors took a variety of forms including: a flat fee payment per engagement; payment by the hour; a fixed amount irrespective of number of referrals received; and sustainability payments based on outcomes. In addition, it had taken a lot of work to meet the subcontractor requirements and organisations hoped that in the longer term this would prove to be a worthwhile investment.

3.29 Some interviewees expressed concern that the Work Programme would 'cherry pick' clients who would be easier to get into employment, fearing that very vulnerable clients would be left without the support and help they needed. Some felt that the Work Programme did not allow for complex support needs and was not geared for the long journey required to get these clients into employment. There also appeared to be some confusion about where clients with complex needs could be referred:

"[The] DWP's [has been] making a lot of assumptions about what the Work Programme is already dealing with. We say there is a need…around disability or we need more job brokerage funding; and DWP will say 'No [the] Work Programme does that'… Well in theory the Work Programme maybe does that but in practice on the ground it's not happening and the service is still required".

(Senior Manager (3), Employability Focus Group, year three)

Welfare Reform Bill

3.30 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[17]:

- the introduction of the Personal Independence Payment to replace the existing Disability Living Allowance which requires existing claimants to be reassessed for the benefit

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[16] This was particularly the case for sub-contractors where a portion of the payment was based on payment-by-results, e.g. sustaining clients into work, where payment was not paid until sometime after the intervention had been carried out.
[17] http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/index.shtml

- 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

3.31 The impacts of these policies had started to filter through to TSOs by year two. However, the impacts were mostly focused on certain client groups, in particular, TSOs mentioned 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. Some people with disabilities had been reassessed as fit-for-work, but still might have other significant issues.

> "We're seeing…people coming through the Work Programme…who in my…opinion are not work-ready".
> (Senior Manager, Local Employability Provider, year three)

3.32 In an example given of one client with mental health problems, their condition was observed to deteriorate under the pressure of being reassessed as fit for work.

3.33 Welfare benefits reforms, including work reassessments, housing benefit caps and the movement towards a single benefit payment were still on-going and it was not clear what the ultimate impact on clients or organisations would be until these reforms had progressed further.

Other Employability Programmes

3.34 There were a number of other employability programmes in addition to the Work Programme. For instance, in year three, the Work Choice Programmes[18] as well as individual local authority employability programmes. Interviewees reported that one city council was integrating existing separate employability project funding into one bigger tender. However, the overall funding pot of money had reduced – a point noted in relation to other funding pots that had been merged. There was some concern about how employability programmes at different levels complimented each other's work. Some felt that some clients would slip through the gaps, in particular the most vulnerable and far from the labour market. In theory these groups were covered through the Work Programme, although in practice, as we have seen above, this was questioned. Other services, such as those provided through local councils, may seek to avoid duplication of Work Programme services and therefore these vulnerable clients may not get access to services via this route either.

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[18] The Work Choice programme, operated through DWP, provides help to find employment and support in a job for disabled people. For further information see:
http://www.direct.gov.uk/en/DisabledPeople/Employmentsupport/workschemesandprogrammes/DG_187696

Finance, regulation and competition

Tendering

3.35 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. By year three, many TSOs identified a trend of funding increasingly being contracted through competitive tendering, although this varied depending on local authority area.

3.36 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 had limited competitive tendering opportunities 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. By year three, some had concerns that some large contracts were made up by pulling together several existing funding streams into one and reducing the overall budget. However, the expectation among funders was that the same level of service would be maintained. One organisation who had submitted a bid for one of these contracts had included the actual cost of providing the service in their application, even though this was not required by the tender specification. They stipulated that they would raise the additional money from elsewhere, such as through fundraising. The senior manager said they "made a bit a point because it's extra strain on organisations", in order that the true cost would be recognised.

3.37 As well as the reduced funding available, merging funding pots created difficulties for some smaller organisations that had difficulties leading on large funding projects because of their more limited capacity and financial situation.

> "One of the big difficulties that we have is that the bigger the pot of money, the less organisations like ourselves are able to actually lead on the tender".
>
> (Senior Manager, Local Employability Provider, year three)

3.38 At the same time, another larger organisation had been disappointed that one major local authority had not gone down the route of pulling together numerous funding pots into one.

3.39 Some interviewees were also concerned that tendering did not encourage creativity in the design and development of services. Tendering was seen to hamper creativity, as TSOs could not feed into service design:

"Sometimes the design of these tenders leaves me pulling my hair out because you have someone trying to tell you how best to do your job and that can be really frustrating if you know there is a better way of doing it that probably costs less and can be done quicker and more efficiently. But because the tender lays out in a particular way without any room for creativity, any movement or change, they can be very frustrating".

(Senior Manager (2), Employability Focus Group, year three)

3.40 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 over years two and three. 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[19].

3.41 In contrast to some organisations who perceived an increase in tendering, senior managers within one large national TSO care provider noted a decline in the number of large tenders for care work being issued by local authorities. Three senior managers interviewed separately each noted "a huge reduction in the number of tenders over the last year" (2011-12) and that "we are not seeing tenders coming out just now for services so that is maybe an indication, but I can't see big services being tendered anymore. But I think that it will be a fairly gradual change'" The decline in the number of tenders being issued by local authorities was perceived as the beginning of a shift to self-directed care.

3.42 Personalisation (self-directed care) has the potential to significantly reduce the use of tendering in the longer term. As the transition from volume-based tenders to self-directed budgets takes place, care packages are likely to become more diverse and less generic. Individuals are being given the opportunity to shape their own care packages and choose the activities that they would like to do. A senior manager within a large national TSO care provider described how in the context of self-directed care "there is not a place for a generic tender". His view was that generic tenders do not have the flexibility to enable large numbers of service users to receive flexible and varied care packages.

Funding cuts

3.43 In year one many participants experienced 'anticipatory anxiety'[20] about possible future funding cuts. However, at the same time potential opportunities

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[19] Additional services that can be accessed by clients in order to support the existing service being provided.
[20] This concept was identified in recent research carried out with TSOs in England. See Macmillan R *et al* (November 2011) *Paper 67: First impressions: introducing the 'Real Times' third sector case studies* http://www.tsrc.ac.uk/LinkClick.aspx?fileticket=bHctOCHEIQ0%3d&tabid=862

were emerging, through new areas of funding opening up. Prior to April 2011 only some of the organisations had experienced actual cuts. However, participants reported other ways funders had attempted to save money before this date. 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.

3.44 In years two and three, actual cuts tended not to be as high as some had feared in year one. The maximum funding TSOs generally received was standstill funding (e.g. no inflation costs covered), while others had received up to 30% cuts, with around a 5% cut being common. However, there was some concern over cuts to core funding and the impact on long-term sustainability and capacity. One organisation had lost a major source of funding in year two which resulted in a significant drop in total income.

New funding opportunities

3.45 Despite the challenges faced by standstill funding or funding cuts, many TSOs also felt that new opportunities for funding were emerging. A number of TSOs had secured significant new funding in years two and three, including picking up contracts where previous providers were no longer able to deliver the service.

3.46 Shifts in policy priorities at UK and Scottish Government level also created opportunities in new policy areas, although the potential of some had yet to be realised, e.g. the Work Programme, the Change Funds and personalisation.

Core funding and internal capacity

3.47 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.

3.48 By year three a number of organisations had experienced budget cuts to core funding. In addition, a number of organisations involved in the study were in receipt of core funding from the Unified Voluntary Sector Fund (UVSF)[21]. However, this fund was under review and there was concern that the number of

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[21] For further information about the Fund, see http://www.scotland.gov.uk/Topics/People/Young-People/Early-Years-and-Family/news/UVSF

organisations receiving core funding through this means would be significantly reduced. There was a good deal of concern over the potential implications of either a reduction or withdrawal of support from this fund, which would not be known until later in 2012. The uncertainty over future core funding support created problems for organisations:

> "If funders think your core's not secure, they get very nervous about continuing the project funding. You lose staff before you need to lose them…it's really quite a destructive circle".
>
> (Senior Manager (1), Equalities Focus Group, year three)

3.49 In addition, cuts to core funding affected the capacity of organisations to bid for and deliver future projects. Organisations were cutting costs and becoming more streamlined, but this too had implications for the capacity of the organisation. For instance, one organisation had downsized, but now faced the issue that they were perhaps too lean:

> "[When] we downsized, there was a big change in staff…and we went through all that pain and we're probably now saying we're a really lean organisation and there are issues of capacity and we're probably now saying too lean".
>
> (Senior Manager (4), Employability Focus Group, year three)

3.50 Another organisation that had downsized significantly in the last year was also concerned about the implications for its ability to tender for larger contacts in the future due to reduced capacity. At that stage they did not wish to go down the route of tendering for a large number of smaller projects because they considered this as losing economies of scale, as well as being complex to administer (as has been the experience of other smaller organisations with multiple funding streams).

3.51 One small organisation had recently been reduced to seven members of staff and they were concerned that this number might not be enough to remain viable in the future:

> "We may have hit a crucial point at which it's no longer feasible to be an organisation and I think we might actually need to look very carefully at what we mean when we say "[name of organisation] is a national organisation" because in reality we're not performing at that level. We only have a presence in Edinburgh and all our other work is by taking our services there – physically taking our service there – so we're working in 11 LAs at the moment and all of that is by taking services to them".
>
> (Senior Manager (1), Equalities Focus Group, year three)

Regulation

3.52 TSOs are required to comply with 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 (also see 'Performance and Outcome Measures')

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

Competition

3.54 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, including some reporting that local authorities were 'cherry picking' less expensive-to-run services or keeping work in-house.

3.55 By year three, there was some concern that private competitors had been favoured in the Work Programme, with the two prime contractors being private companies and minimal sub-contracting to the third sector.

Volunteering

3.56 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 felt to be a distraction from professionalised service delivery. Volunteering was also perceived to be low on the Scottish Government agenda, although by year three there was a perception that although policy on volunteering was still not clear, progress was being made through the Volunteering Round Table[22].

3.57 This dichotomy was reflected in the workshop carried out with 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

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[22] The Volunteering Round Table was organised by Volunteering Development Scotland and includes members across the sector. It has highlighted volunteering issues with the Scottish Government (see http://www.vds.org.uk/Portals/0/documents/Shaping%20The%20Future%20_2_.pdf). This group hoped to work with Scottish Government to advance the volunteering agenda at national level, in particular, for instance, to include a high level indicator on volunteering within the national outcomes framework.

the work of TSOs and the pressures towards professionalisation of public service delivery by TSOs were highlighted. In TSOs where volunteers were a significant element of their organisational workforce, they were described as having high expectations of what they might gain from a TSO (e.g. experience, training, qualifications) but were not necessarily regarded as a reliable element of service delivery.

3.58 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[23]. 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.

3.59 In year three, experiences of volunteering were followed-up with a small number of case study organisations for whom it was an issue. Experiences of volunteering varied depending on the local area. One senior manager felt that more people may be coming forward to volunteer because they had more time and there was more incentive to improve skills in a competitive labour market. However, experience on the ground sometimes differed. In one area, an interviewee reported that fewer volunteers were forthcoming because of a cut in resources at the local volunteer centre resulting in fewer volunteer referrals. Another felt that volunteers had less time to make available for voluntary activities because many had paid jobs where they were experiencing more pressure. In this organisation, volunteers were required to have high level skills in order to work with the client group and went through a rigorous selection process to be accepted.

3.60 This organisation was awarded the Investing in Volunteers standard by VDS. However, they paid for this from reserves because the cost of the award was not covered by funders. It was perceived as valuable in demonstrating its commitment to volunteers as well as maintaining standards for volunteers, particularly in the context of reduced funds for other volunteer support.

Impacts of policy change

3.61 There was some concern among TSOs about the impact the policy and funding situation and, to a lesser extent, the economic climate, was having (or may have) on services, clients and staff.

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[23] The Gathering Conference, the 7th Annual Third Sector Event, held 23rd and 24th February 2011 at the Edinburgh International Conference Centre.

3.62 Table 2 (below) illustrates some of the areas on which key impacts were felt which include: changes in demand for services; the impact on service provision; the impact on clients and the impact on staff.

Table 2: Key Impacts Experienced by Third Sector Organisation

3.63 Major policies such as the Work Programme and personalisation are likely to significantly impact on the demand for services as well as on the way services are provided, and on clients and staff. However, at this stage, it was not clear what those impacts would be. This section focuses on known impacts, therefore these policies are only referenced where an actual impact has been noted.

3.64 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, and many potential impacts were anticipated rather than a reality. Concerns included the impact on service quality; that some client groups might become marginalised; and that there may be a loss of skills, knowledge and capacity within the sector. Into years two and three, actual impacts became more apparent, although longer-term impacts were still unclear.

Impact on demand for services

3.65 The pattern of changes in demand for services was mixed. In year two, only a small number of TSOs noted any significant changes. These included a couple of cases where demand had decreased due to problems with referral agencies

identifying specific client groups. In other organisations, however, an increased demand for services was reported resulting in waiting lists.

3.66 In year three, the high demand for services continued in some areas and had, in some cases, become normalised. Other organisations working across areas noted a decrease in demand for services in some areas. It was not possible to ascertain exactly why there had been changes in demand because of the multitude of services and areas covered by participating organisations. However, decreased demand in some areas may reflect differences in patterns of referrals from agencies. One organisation had found partners more reluctant to 'share' clients because of an increasing focus on outcomes and targets. Another felt that agencies were saving money by only referring clients with particularly acute needs. Increased demand may be down to a number of factors. For instance, it was suggested that more people were looking for work (due to benefits reform and increased unemployment) and so were wanting to access employability and support services. In addition, there was some increase in the numbers of vulnerable clients being referred to some organisations and interviewees suggested that this might be because other agencies were less willing to work with these groups. In some cases it may be because of partners closing down. There may also be some issues, as yet unclear, in relation to the Work Programme.

Impact on service provision

3.67 As noted above under 'Funding cuts', standstill funding was common, with other services receiving up to 30% cuts. As in year two, this had led to reductions in the number of hours of a given service in some cases.

3.68 In year two, 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.

3.69 In years two and three, some organisations were covering shortfalls in funding through other means, such as funding from charitable trusts, using money from reserves, making cost savings elsewhere, and fundraising. However, using reserves was only a short-term solution and there were limits to the extent costs savings could be made elsewhere.

3.70 However, some TSOs had been successful in winning major funding which created new services, excluding those linked to the Work Programme. These included the provision of a helpline and policy service; a regional service for workless families; as well as several other new services in specific local

authority or NHS areas. See case studies for The Wise Group, Rosemount and Lead Scotland (Appendix A).

Impact on clients

3.71 In years two and three, many TSOs were keen to minimise the impact of cuts or standstill funding on clients or the quality of the services they provided. For instance*:* "it shouldn't impact on service users". However, this could be challenging, especially where there was less available time to spend with clients.

3.72 Some felt that they could not provide the same level of choice and flexibility to clients, for instance, provision of services was restricted to particular times and places, or in one case, it was necessary to 'manage client expectations' because they did not have the resources to provide more intensive support. In addition, the provision of outreach services[24], particularly in a client's own home, was becoming increasingly difficult since this was more expensive to provide. One organisation had also experienced difficulties accessing additional services for clients because partners were less able to provide the same level of services.

3.73 Across years two and three, there was concern that generally it would be the most vulnerable clients who would have most difficulty accessing services. In year three in particular, some were concerned about the impact the Work Programme might have on clients, particularly those who were reassessed as fit for work but who still had significant issues, or vulnerable clients with complex needs who may have more difficulties accessing support.

Impact on staff

3.74 In year two a number of organisations had carried out redundancy consultations[25], and a number had made some staff redundant. A number of other TSOs had instead gone down the route of cutting staff hours. By year three, these same organisations had experienced minimal further staff changes. However, two other organisations had made redundancies, in one case reducing staff numbers by over half.

3.75 In year two, some TSOs had made changes to the terms of conditions for staff. By year three, some continued to make some more minor reconfigurations to jobs, such as slight changes or additions to roles. One organisation was managing the process towards personalisation and was moving towards more flexible working. However, it was not clear how this might work or how it would ultimately impact on staff.

3.76 Most organisations had not given inflation-related pay increases for several years. Of the small number who had given a pay increase in year two, these

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[24] 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.
[25] Consulting with staff within the organisation about the possibility of making staff redundant as an option to reduce staff costs.

were currently under review for the 2012/2013 and there was limited expectations that these would actually be awarded. An interviewee in one organisation that had not given pay rises in year three, but had received one in year two, said that the lack of a pay rise had been *"disappointing"*. Some staff felt that a lack of financial reward was *"quite demotivating"* particularly where third sector salaries were perceived to be *"slipping further and further behind"* in terms of parity with the pay scale they are supposed to be aligned to, or with other sectors.

3.77 A number of interviewees in years two and three noted that staff were working longer than contracted hours. In some cases, working hours had been reduced, but the workload had not:

> "I'm in every day but I finish at 3 o'clock so sometimes if there's something happening I'm not getting the opportunity to speak to parents like I used to when I was here…and you do get phone calls at home…when you're not working but I'd rather they phoned me and asked than not".
>
> (Manager, Local Learning Provider, year three*)*

3.78 Another interview said staff were "giving more and more for less and less'"and said this was because funders were increasingly expecting more. However, there was a sense that staff "just have to get on with it".

3.79 In years two and three, there was a great deal of uncertainty and anxiety among staff in the TSOs, which had an impact on staff morale. One project worker noted that they were just "trying to stay sane" and there were a number of examples given of conscientious staff trying their best to provide a good service to clients at the expense of their own well-being.

3.80 As a result of these issues, a number of managers raised concerns over retention of staff, particularly in year three. It was felt that it might be hard to maintain competitive terms and conditions with the downward pressure on pay and increased workloads, as well as staff seeking other employment due to continuing uncertainty for their future. However, one organisation who had recently recruited, noted an increase in the pool of qualified applicants because of (a) recent redundancies in the local council, and (b) a lack of alternative suitable employment opportunities.

3.81 Many organisations wanted to maintain levels of training for staff, because "Your most important resource is your people", although this could be challenging since project funding did not usually cover this cost and core budgets were being reduced. One organisation who last year experienced the loss of a major contract resulting in significant numbers of job losses, felt that the organisational impact had been lessened because in previous years they had invested in the culture and staff through an 'investing in excellence' programme which senior managers believed improved loyalty, positivity and effort from staff at a very difficult time for the organisation.

3.82 Likewise, at a time of significant organisational change, a number of organisations noted the importance of communication in maintaining good staff

morale and relations. One organisation had learnt this through experience. In year two, due to costs, this small organisation did not hold its annual two-day staff conference which brought together the small staff workforce that operated in different areas across Scotland. At the same time, support from head office was being reduced due to cuts in core budgets, and project staff in different parts of Scotland were feeling increasingly isolated with reports of discontent amongst staff. It was felt that communication from head office had not been adequate in managing this process. However, in year three, this had been recognised at head office, and in doing so they were very keen to improve contacts and communications. Even without funding, the organisation had decided to go ahead with the annual staff conference (albeit for a reduced single day), and had made significant efforts to meet staff in the field on a regular basis. These efforts were recognised and appreciated by staff, and communications and relations were reported to have improved and even to have resulted in a renewed energy. A senior manager in the organisation reflects on the process:

> "Of everything that happened I think that [not having the annual staff conference] was the single most destructive thing in the organisation in the past year and I can't emphasis enough how that's impacted on staff...it's been a hard year but we're just understanding a little bit right now of how hard it's been and I think that's a lesson for me going forward that sometimes you have to take care of your own before you do anything else".
>
> (Senior Manager, National Learning Provider, year three)

Disconnected policy

3.83 In year three, one point commonly made by interviewees concerned what they perceived as 'disconnected' policy. This occurred in a number of ways, including a disconnect: (1) between policy and practice; (2) between separate policies, and (3) between Scotland and UK, and (4) amongst local authorities.

1. There was a disconnect between policy and practice when it was not clear how a policy would work in practice. This was illustrated in relation to the policy on personalisation (above), but was also noted in relation to several other policies, such as the Work Programme and the Change Funds.

2. Different policies did not always relate to each other (disconnect between policies, or lack of 'joined up' policy). For instance, in Scotland, one interviewee felt that the recent mental health strategy consultation[26] had not adequately incorporated issues relating to self-directed support (personalisation) and the integration of health and social care.

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[26] See Scottish Government (2011) *Mental Health Strategy for Scotland: 2011-2015 A Consultation* http://www.scotland.gov.uk/Publications/2011/09/01163037/0

3. Interviewees also noted some contradictions between policies at different levels, in particular, between Scotland and the UK. For instance, it was felt that welfare reform (from UK) did not sit well with the change agenda in Scotland. Some also felt there was a lack of understanding among UK policy makers about the policy context in Scotland.

4. Policy within different local authorities also differed. For instance, in relation to personalisation.

3.84 The disconnect between policies seems to be more pronounced by year three. This is probably due to (1) conflicting political ideologies at multiple levels, and (2) the number of new policies coming through at the same time. At this stage, it was unclear how many policies would work alongside each other, and what that impact would be.

Conclusions

3.85 Over the three years of the research there had been significant political and policy changes that had important consequences for TSOs in Scotland. Alongside the general financial climate of low or negative economic growth and public sector spending cuts, these represented huge challenges, as well as potential opportunities, for many organisations.

3.86 From 2007, the SNP has led the government in Scotland – firstly, as a minority government and then, following the May 2011 elections, as a majority government. Localism and personalisation are key policy priorities for the SNP government. The 2007 Concordat between Scottish Government and local government included the principle of more local control over planning and services (called 'localism'). While this principle was often supported by TSOs, the impact on TSOs in practice had been more problematic in terms of negotiating with numerous local authorities, a lack of clarity and cohesion and decreased ability to see the 'bigger picture' across Scotland.

3.87 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 and a number of TSOs were developing personalisation for their own services. The move towards personalisation was perceived to be both an opportunity and a challenge. It potentially means a very different way of contracting services and being more client-focused. However, there were some concerns about moving to a way of working flexibly enough to meet potential demand.

3.88 With the formation of the UK Coalition government from May 2010, significant policy changes were put in train that could have impacts on TSOs, particularly those involved in the provision of employability. The Work Programme was introduced in 2011 across the UK and replaced existing employability streams. No TSOs had been selected as a 'prime contractor' for the programme. Of those sub-contracted to the programme the numbers of referrals received by

year three had been limited. However, over the longer term the Work Programme may have a major impact on TSOs who provide employability services in Scotland. 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.

3.89 In year three, one point commonly made by interviewees concerned what they perceived as 'disconnected policy'. For instance, that there was a lack of clarity in how policy would work in practice, a lack of 'joined up' policy, contradictions between policies at different levels, such as at UK and Scotland, and differences between local authority policies.

3.90 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.

3.91 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.

3.92 The picture was mixed in terms of the level and extent of funding cuts and new funding opportunities. Many organisations had received continued funding but with no inflation up-lift or with a reduction in the budget (cuts were up to 30% in some cases, although around a 5% cut was more common). At the same time, some organisations had secured new additional funding for specific work.

3.93 The pattern of changes in demand for services was mixed with continued high demand reported in some areas but a decrease in demand in others. This may reflect differences in services and areas as well as referral patterns.

3.94 While some TSOs had made 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 viable long-term solution. Some organisations were able to provide new services through winning new funding.

3.95 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.

3.96 The impact of the policy and funding changes was 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. However, good communication during a time of organisational change could help maintain positive staff relations and morale.

CHAPTER 4: KEY CROSS CUTTING THEMES

4.1 This section examines some of the key cross cutting themes that emerged over the three years. These include issues around governance and leadership, such as the challenges for senior managers and the role of Board of Directors or Trustees. This section also looks at performance and outcomes measures including: measuring 'soft' and 'hard' outcomes; the performance and outcomes evidence that TSOs provide to funders, and; their involvement in the development and adaptation of measures to demonstrate impacts. The emerging trends in partnership working are examined, including the role of third sector intermediaries, partnerships with local and Scottish government and involvement in service design. Finally, place and rural issues are explored.

Governance and leadership

4.2 Fieldwork in years two and three 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.

4.3 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 in responding to the challenging environments in the previous chapter. This section explores the more general challenges faced by senior managers and Boards of Directors/Trustees in TSOs.

Challenges for senior management

4.4 In year two, respondents identified a number of challenges for leadership. These included the pace of change which made it difficult to be pro-active when a lot of time was taken reacting to changing agendas and circumstances. 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.

4.5 In year three, senior managers had faced and continued to face a range of challenges. As well as adapting to new policies such as personalisation, one of the key challenges for many senior managers continued to be keeping staff motivated and positive at a time of considerable uncertainty and anxiety. As previously seen, in relation to the impact on staff, communication could be crucially important. In addition, managers also needed to be positive at a time when they themselves faced considerable challenges:

> "Oh I come in smiling, saying 'How you doing?' The minute you're not doing that, that will be spotted… I wouldn't come into the front desk in a

morning and say to the receptionist 'Oh god the funding's bad', you just wouldn't do that…that would get through the [office] within seconds and you…you don't want a crisis of confidence in your leadership but it is good to sit with the treasurer and go 'I haven't a clue if we're going to get this'".
(Senior Manager, Local Learning Provider, year three)

4.6 In years two and three, the 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, particularly because of increasingly limited staff resources, yet it could be difficult for any one individual to be an expert in all areas. This was particularly noted in relation to the growing need for business skills and human resource issues.

4.7 Senior managers within an organisation that had recruited a new chief executive noted that the skills required of a TSO chief executive in 2012 differed from that which was required a decade ago. Knowledge of organisational change, fundraising and campaigning skills were now required of a TSO chief executive:

"Someone who knew about change within an organisation, change suggesting closure of services and the opening of new ones, dealing with the media, PR, influencing and campaigning work, fundraising. If you had rolled the clock back 5 or 6 years they would have looked for something completely different. It would have been purely about growth, back in the heady days of 2000's it was all about how do we become the biggest charitable provider in Scotland by turnover".
(Senior Manager, Health and Social Care Provider, year three)

4.8 Between years two and three, one organisation had been forced to substantially reduce staffing levels because of loss of funding. This was an emotional challenge for some of the senior managers who were tasked with informing staff members about redundancies:

"So we've done as much as we could in that sense, but it's still pretty emotional to lose a significant number of staff. So for the leadership, it's been a case of how do you keep staff focused and positive during a period like that because supporting the staff to think that anybody in the leadership team has lost faith that we can get out of the situation we're in".
(Senior Manager (1), National Employability Provider, year three)

4.9 Senior managers, and in particular, CEOs carried a considerable responsibility for organisations, and this could also have an impact on their own well-being and work-life balance:
"…there's always a temptation to always discount the impact it has on you as a manager and think about the impact it has on your staff. I was just conscious that 3 weeks ago I was at my lowest level of energy ever, just

because I realised I that I'd been carrying everything and it didn't take much to knock you over the top".

<div style="text-align: right">(Senior Manager (1), Equalities Focus Group, year three)</div>

Boards of directors/trustees

4.10 In year two, several changes to the role of directors and trustees were noted. Respondents felt that individuals on the Board of Directors/Trustees were increasingly required to apply their professional skills and experiences to strengthening the activities of the organisation. These changes were driven by a challenging external environment, where competition for funding was increasing and there was pressure on the costs of service delivery.

4.11 Several large organisations had conducted skills audits of their Boards to ensure that the skills of Board members were aligned with the strategic direction of the organisation. In cases where Boards were found to lack specific skills or experience then new Board members were recruited with relevant skills. Board members were required to possess a 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, year two)". Increasingly, in year three, organisations wanted Board members to have broader experience and networks beyond those related to the client group and their work. They were keen to include members with private sector and policy and government backgrounds. For instance, some of the new members on Boards included people with backgrounds in IT, financial, law, construction, human resources and government among others.

4.12 In most cases, Boards were perceived to be very important in providing strategic direction for organisations. However, in some cases, it was the senior manager who ultimately had responsibility and the Board provided more of a 'sounding board' rather than a strategic role. There was concern, in one case, that the Board might become too dependent on the Chief Executive:

"I think the culture of the company has been that the Chief Executive thinks and does rather than just implements – [the Board] rely heavily on the senior staff group to have the understanding about the context and politics and everything like that and the Board are happy to go along with whatever I present…the worry for me is that if things are not written down and documented and I go, then they have to start again with somebody else who might take the organisation in a completely different direction…so it's about getting consistency and planning for the future that they don't seem to take too seriously".

<div style="text-align: right">(Senior Manager (3), Employability Focus Group, year three)</div>

4.13 The relationship between senior managers and the Board was also crucial in many cases and a close partnership between them was important. Boards

could be valuable for motivating and providing support to senior managers through challenging times.

Performance and outcome measures

4.14 This sub-section examines issues for TSOs around performance and outcome measurement. This includes: experiences of funders measuring 'soft' outcomes; organisational strategies of providing additional evidence to funders; and some of the additional measures that TSOs have either used or developed in order to better demonstrate impacts.

Measuring 'soft' outcomes

4.15 In year one many TSOs felt funders had focused on measuring 'hard' outcomes at the expense of 'soft' outcomes[27]. 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.

4.16 By year two, a number of TSOs felt that funders had become more focused on measuring outcomes within the previous 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). This generally continued into year three.

4.17 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, year two)

4.18 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.

4.19 In year three, however, some felt a more 'bureaucratic' approach was being taken by some agencies, in particularly by the Care Inspectorate and European Social Fund. One interviewee characterised this as an 'audit' approach, essentially a rigid tick box approach as opposed to a 'support approach' that

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[27] '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.

"understands what outcomes are being achieved and what impacts are being achieved' (Senior Manager (2), National Employability Provider, year three).

Providing additional evidence to funders

4.20 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, ultimately, 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, year two)

4.21 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

4.22 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.

4.23 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, by year three a couple of organisations had introduced 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 and outcome-based tool also aimed to demonstrate some of the softer outcomes that can be hard to quantify. Another organisation had developed its own 'Outcomes Framework' encompassing qualitative and qualitative measures to be used across different services. This aimed to benchmark nine 'spheres of life' of a client, who would be followed up at 6 monthly intervals. It aimed to standardise measurement throughout the organisation and provide evidence that can also be used in bids in the future, as well as going some way to meeting the varied requirements of funders. The

Framework was just beginning to be rolled out at the time of the fieldwork in year three.

4.24 In year two, another organisation had sought to develop a common performance management framework across multiple contracts in the organisation and key performance indicators of 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.

4.25 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 as creating something that was more involving and meaningful to the client.

4.26 Some organisations felt that external evaluations had more credibility than internally produced evaluations. To this end, in year three, one organisation was working closely in partnership with a university in order to produce an evaluation of the impact of their work. In return for training given to staff, the organisation would collect additional data that could be used by the university.

4.27 A further organisation had developed a Social Accounts approach, starting in 2008. Social Accounting provided comprehensive independent qualitative and quantitative evidence:

> "The accounts should show and demonstrate what you're getting in addition to just a financial input, you're getting a social and economic input resulting in a big impact and that can be quantified".
> (Senior Manager (2), National Employability Provider, year three)

4.28 However, this process was reported to be very time-consuming and had to be done in sections of the business rather than across the whole business at one time. It represented a significant resource at a time when resources were strained, although, in theory, it offered great potential.

4.29 Several health and social care TSOs reported changes to the way in which they measured organisational performance. These had been brought about by the move to personalisation and the need to adjust performance measures to better understand how individual needs were being met. Mechanisms for collecting and analysing customer feedback were being introduced. The Balanced Scorecard, a strategic performance management tool, had been introduced by one TSO in addition to a range of additional quality assurance tools. A key change with regard to measures of organisational performance in year three had been a shift to measuring customer attitudes with a reduced focus on internal performance indicators.

Partnership working

4.30 Partnership working is a key tenet of Scottish Government Policy in the delivery of public services[28]. The aim is to deliver efficiencies and innovative synergies in the way the services are designed and delivered. 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 they 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.

4.31 This sub-section follows up this issue and looks at the trends in partnership working noted by TSOs since year one of the research. We also explore the relationships and views of third sector intermediary bodies such as 'Third Sector Interfaces', Scottish Council for Voluntary Organisations and other partnership bodies. TSOs relationships with local and central government in Scotland are examined, before finally looking at the ways in which TSOs are involved in service design, including Public Social Partnerships.

Trends in partnership working

4.32 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 years two and three, this view had gained even greater currency. This was partially related to changes in funding structures, for instance the Work Programme, as well as a desire to align more closely with 'natural allies' (i.e. those working in a similar field, or with the same/similar client groups or utilising similar approaches). Accessing funding as well as more 'joined up' working were key drivers towards partnerships.

4.33 In year two, 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 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.

4.34 In year two, some expressed concern about the potential future impact of partners closing down on their ability to deliver services. However, these concerns were generally not borne out in year three. In the main, existing TSOs had, if anything, benefited from picking up additional work left by organisations closing down.

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[28] See Scottish Government (2008) *Enterprising Third Sector Action Plan 2008-11*, page 31

4.35 Across the three years, participants expressed the view that the "sense of being in competition" with other similarly focused TSOs had been increasing. For instance, funding cuts and increased tendering were perceived as increasing competition between potential partners at a time when there was an expectation of more working together. Organisations tended to defend their own interests under pressure and could be less inclined to share.

> "We're open to a partnership and we have opened discussions with more than one other organisation, [but] we still find the response tends to be protective".
> (Senior Manager (4), Employability Focus Group, year three)

4.36 Other challenges to partnerships also remained. In year three, for instance, some interviewees perceived that funders were often keen on partnership working, but felt they there was less understanding generally about the complexities and legal issues involved:

> "Funders…have been more keen on partnerships. We've done a couple of attempts in funding bids to bring other partners and we've been approached by other organisations to go into partnership but they're very surface level and there isn't a lot of understanding about the real working of partnership and even an understanding of what you need to have in place legally about liabilities for partnership working...all of those kind of serious structural things around partnership working we haven't addressed but there is beginning to be more I think".
> (Senior Manager (3), Employability Focus Group, year three)

4.37 There was also some concern expressed about the risks of going into partnership with larger organisations. Smaller organisations felt they may be more vulnerable to the 'whim' of a larger partner or even to being absorbed or taken over.

Third sector infrastructure: intermediary bodies

4.38 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 CVSs), 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.[29]

(a) Local infrastructure: 'Third Sector Interfaces'

4.39 From April 2011, new local intermediaries for the third sector were established in Scotland – the 'Third Sector Interfaces'. Each local area had a newly

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[29] '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.

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 in the Community Planning Partnership.

4.40 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 years two and three, TSOs were asked specifically about their knowledge of third sector interfaces.

4.41 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 in year two.

4.42 By year three, a number of interviewees had been involved with their local third sector interfaces. The interfaces themselves took variable forms across Scotland, with some only getting off the ground as recently as December 2011, with many "still finding their feet". Not surprisingly, experiences by TSOs of the interfaces at local level were mixed. Some reported good positive relationships and were optimistic about opportunities to have a say and access funding, while others felt they had made or would make little difference, for instance, that they were "the emperor's new clothes" and didn't address the issue of interfacing with national organisations. Some felt that the guidelines about how interfaces should work in partnership had been too vague and that there had been a lack of clarity.

(b) National infrastructure: relationships with Scottish Council for Voluntary Organisations

4.43 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.

4.44 In year two, most of the TSOs in this study were involved with SCVO, to varying levels. 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.

Partnerships with local and Scottish Government

4.45 Generally, there were considerable variations in the relationships between TSOs and local authorities in different areas. A number reported good communication over the years. In year three, one organisation reported that local authorities they were working with had been made aware that they were working at full capacity and the LAs had become more realistic about what could be provided as a result.

4.46 However, there had been and remained a number of challenges. In year two, respondents noted that several local authorities had or were undergoing major structural changes and this presented challenges to maintaining relationships in terms of loss of known contacts. On-going into year three, a number of local authorities had made staff redundancies, with some long-term, experienced staff taking early retirement. This meant that new relationships had to be formed and some commented that staff in LAs were now less experienced and understanding. This was also noted in relation to the Scottish Government:

> "...certainly my experience of the Scottish Government has been lack of continuity at the kind of middle to senior level. Lots of new people coming in who don't know their portfolio, don't know the background, don't understand and you're getting a lot of junior people".
> (Senior Manager (1), Equalities Focus Group, year three)

> "When the voluntary redundancies were being offered across LAs, it was the people with the 20/30 years' experience who took the packages and they said that there would be such a loss of knowledge and experience and that's exactly what's happened".
> (Senior Manager (2), Equalities Focus Group, year three)

4.47 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.

4.48 In the longer term, the personalisation agenda is likely to change the relationship between local authorities and TSOs. In the past, by awarding large block grants for which TSOs would compete to win, local authorities became powerful players in the care marketplace. Local authorities stipulated how care should be delivered, as a senior manager described:

> "Historically we deliver a service in particular ways because the local authority is the purchaser and a local authority decides what it is they are willing to purchase on behalf of someone".
> (Senior Manager, National Health and Social Care Provider, year three)

4.49 With the introduction of personalisation, local authorities are likely to increasingly see their role as purchaser of services decline as service users gain control over their care budgets. Although local authorities may continue to have an oversight role ensuring that the needs of individuals are being met,

they are likely to take a lesser role with regard to decisions on who should provide those services.

Involvement in service design

4.50 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 ensure that services are designed to meet user needs. The system of competitive tendering usually involves a funder specifying the service that 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, although increased tendering for contracts limited opportunities.

(a) Public Social Partnerships

4.51 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'[30]. The model was piloted with 10 PSPs for a period of two years from 2009[31], the outcomes of which informed Scottish Government guidance.

4.52 One of the focus groups' participants in the research had been involved with a pilot PSP. However, with this exception, organisations experience of PSPs remained limited until year three.

(b) Trends

4.53 In years two and three, potential cuts to services had, for some, actually created greater opportunity for negotiating the shape of services at local level. 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.

4.54 In year three, one organisation had seen a move towards co-production models:

> "They are definitely about co-production and using the resources of communities and engaging with communities effectively in the design and delivery of new services. And I can clearly see in policy that that's a

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[30]Scottish Government News Release (12/06/09) Public Social Partnerships Welcomed at: http://www.scotland.gov.uk/News/Releases/2009/11/23121830
[31] The Public-Social Partnership Project website at http://www.pspscotland.co.uk/node/17

movement that is now being supported by funding and that's another one we have tapped into in the last year".

<div style="text-align:center">(Senior Manager (3), Employability Focus Group, year three)</div>

4.55 Some local partnership forums offered opportunities to help shape services in local areas, such as provider forums and community planning, through sharing good practice and responding to local need.

4.56 However, the tendering process remained an obstacle to greater involvement in service design. Some felt that this process itself was not flexible enough in order to facilitate creativity in service design, and some felt commissioners had a limited understanding of services:

"An absolute lack of understanding of the service because we've had a situation where we had been in discussion with them about a service that is something special that we deliver and they want it, and then they drop this tender thing…and you look at it and you think it would not be in any way possible to deliver and they've described the service quite well in the tender document but it would be absolutely no way possible to deliver it on the costs they have attached to it".

<div style="text-align:center">(Senior Manager (1), Employability Focus Group, year three)</div>

"They have designed the service and those of us that are at the chalk face might design a different service that might work better, but that opportunity doesn't seem to exist anymore".

<div style="text-align:center">(Senior Manager (1), Employability Focus Group, year three)</div>

4.57 The move towards personalisation has potential for a significant shift in the balance of power between TSOs, local authorities and service users. This is likely to have implications for a TSO's ability to be involved in the design of services, although how is as yet unknown.

Place and rural issues

4.58 In year one, the research sought to identify how place and rural issues impacted on third sector provision of services. A number of organisations were selected for participation in the research because they operated in rural or semi-urban areas. These consisted of local projects usually operating from an urban or semi-urban base but covering a large rural area as well as national organisations that operated some projects within rural communities.

4.59 Some TSOs stated that there were additional costs associated with providing services in rural areas. This was because of the dispersed geography and additional travel required, as well as limited access to public transport. In addition, it was difficult to achieve economies of scale for (usually) relatively small local services. For instance, one national social care and health organisation provided some services within rural areas and outlined the difficulties around transport for workers and service users:

"I mean the obvious ones are around transport and that's in terms of workers having to cover a considerable area but also in terms of supporting service users to become more independent in terms of how they manage things. Transport's a difficulty for anybody in a rural area if you're managing on public transport".

(Manager, National Health and Social Care Provider)

4.60 It was also reported that economies of scale were not available to small rural services in the same way as larger services in urban areas:

"In terms of the area that I manage, operationally there are a lot of challenges. Typically although we're a big organisation individual services are quite small so there's no economies of scale within those because obviously you don't subsidise across areas – services have to stand within their own budgets. In a lot of areas over time that means...if there haven't been costs of living increases and things like that service budgets have got tighter and tighter".

(Manager, National Health and Social Care Provider)

4.61 These factors presented challenges for organisations maintaining and operating services in rural areas. Funding cuts had resulted in a reduced service being provided in one remote rural area because of the high additional costs associated with providing the service in full.

"When the council wanted us to make some cuts...we said we can't do low level support in out-lying areas because it costs us far too much to get there...I do worry for service users in some areas".

(Senior Manager, National Health and Social Care Provider)

4.62 Respondents felt it was important for funders to recognise the "practicalities and costs" associated with providing services in rural areas compared to operating services in urban areas. For one respondent having staff based in the local community providing services helped to manage some of the rural difficulties associated with transport:

"But in terms of a recovery focused model we've been encouraging people to find their own ways to manage those things but then you run into the whole transport issues that people have got in rural areas...if you want to look at the winter we've just had for example staff getting stuck, people being able to make it out to service users. I feel that as a service that's still locally based with local staff we were still able to manage that quite well. For some agencies that won some contracts and maybe their staff are coming from further out that can be really problematic when you get that kind of weather".

(Manager, National Health and Social Care Provider)

4.63 In one of the focus groups, place was felt to be very important for service delivery as providers cannot operate the blanket roll out of strategies as they need to be tailored to the individual needs of communities. Across Scotland the cultural, social and physical landscape varies. There may be nostalgic

assumptions that rural communities will support individuals but the service providers find that very often this is lacking. Moreover, in rural areas, unlike cities, because of lack of funding there might not be a strong network of TSOs to support all people's needs and as a result individuals might become even more isolated.

4.64 One TSO adapted to the geographic spread of the Highlands by having 'Job Coaches' who operate as remote staff. Most are full members of their local community, job-sharing their position as Job Coach for the TSOs with another occupation, most often self-employment. This allows the TSO to have a direct relationship with the local communities, and also saving on infrastructure and office usage.

Conclusions

4.65 Senior management and Boards within TSOs faced a number of challenges presented by the changing policy and financial environments. A recent survey concluded that: "The sector is in the middle of a major re-shaping and…this is really testing the morale, ambition, energy and competence of trustees and senior managers".[32]

4.66 The pace of change created a need for strong, consistent leadership and the provision of direction to staff. Additionally, there were challenges in maintaining staff morale and supporting staff through the changes which 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. Senior managers carried considerable responsibility for organisations that could sometimes have an impact on their own wellbeing.

4.67 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 in order to support organisations in meeting the recent 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.

4.68 A number of TSOs felt that funders had become more focused on measuring outcomes over the three years, 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 also provided additional evidence to funders

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[32] Charity Finance Group/Institute of Fundraising/Price Waterhouse Coopers (2012) *Managing Charities in the new normal – A perfect storm?* The latest instalment in the series of 'Managing in a Downturn' surveys, at http://www.cfg.org.uk/Policy/have-your-say/surveys/closed-surveys/2012/april/cfdg-iof-and-pwc-managing-in-a-downturn-survey-2011.aspx
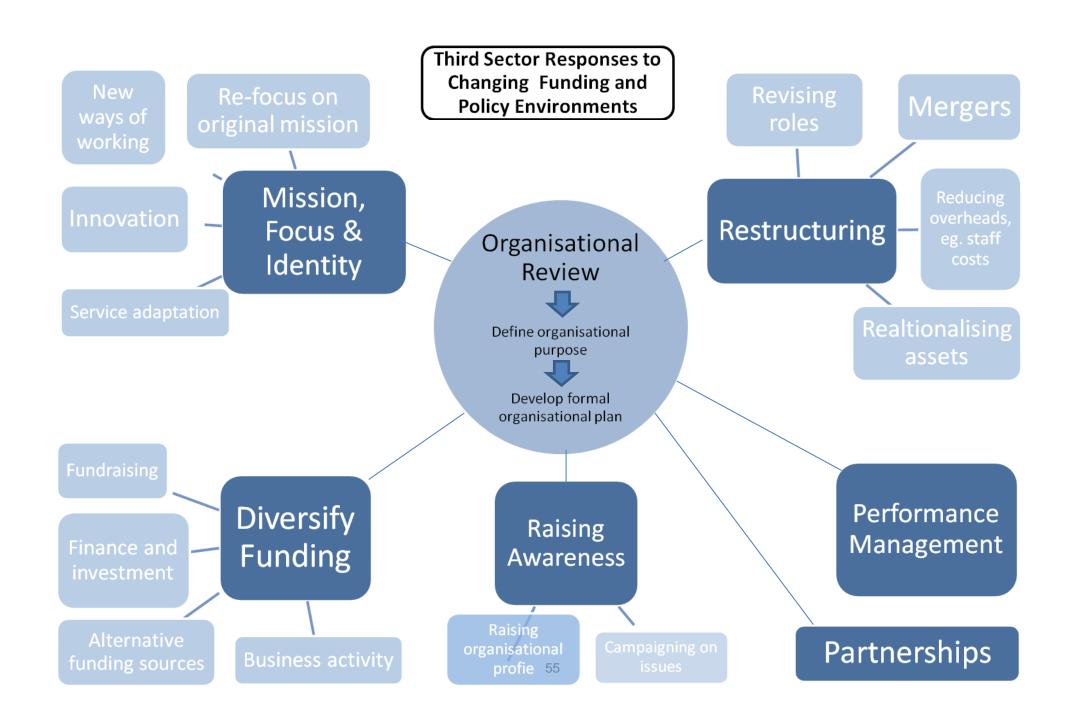
on the impact their service had on clients over and above what was formally required.

4.69 A number of organisations had explored innovative ways to demonstrate client progress to clients and funders. This included 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 that would both demonstrate progress to the client 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.

4.70 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. However, the 'sense of being in competition' with other similarly focused TSOs increased over the three years because funding cuts and increased tendering created a more competitive environment.

4.71 Since April 2011, each local area in Scotland had its own third sector interface to provide a single point of access to support and advice for the third sector within the local area. By year three, some interviewees had been involved with these interfaces, although experiences of them were mixed. Many interfaces were still relatively recent and were 'still finding their feet'.

4.72 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 light of the cuts. However, others found difficulties accessing local authority staff, particularly where the local authority had undergone major departmental restructuring and/or staff redundancies. In the longer term, the personalisation agenda is likely to change the relationship between local authorities and TSOs with local authorities seeing a decline in their role as a purchaser of services.

4.73 The system of competitive tendering usually involved a funder specifying the service required with limited scope for contractors to input into service design. Public Social Partnerships offered the potential for greater involvement of the third sector in the design of public services, although TSOs experience of these was limited. Potential cuts had, in some cases, actually created more opportunities for some TSOs to negotiate the shape of services at local level. Local partnership forums such as community planning and provider forums also offered opportunities to help shape local services. However, tendering remained an obstacle to greater involvement.

4.74 There were additional costs associated with providing services in rural areas. This was because of the dispersed geography and additional travel required as well as limited access to public transport. In addition, it was difficult to achieve economies of scale for (usually) relative small local services. In year one,

funding cuts had resulted in one organisation providing a reduced service in a rural area.

CHAPTER 5: THIRD SECTOR RESPONSES

Introduction

5.1   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
- looking at ways in which they could diversify their funding bases

5.2   These issues had become more prescient in years two and three, with TSOs responding in a variety of ways to the challenges.

5.3   Table 3 (below) outlines some of the key responses made by organisations. Most organisations had carried out some kind of organisational review, ranging from fairly informal, internal reflection by senior managers and Boards, to formalised strategic reviews resulting in formal organisational strategic plans.

Third Sector Responses to Changing Funding and Policy Environments

Organisational Review

Define organisational purpose

Develop formal organisational plan

Mission, Focus & Identity
- New ways of working
- Re-focus on original mission
- Innovation
- Service adaptation

Restructuring
- Revising roles
- Mergers
- Reducing overheads, eg. staff costs
- Realtionalising assets

Diversify Funding
- Fundraising
- Finance and investment
- Alternative funding sources
- Business activity

Raising Awareness
- Raising organisational profie   55
- Campaigning on issues

Performance Management

Partnerships

5.4   Actual responses by individual TSOs varied, but Table 3 tries to capture the variety of options that might be pursued by organisations. These include:

- Mission, focus and identity, where organisations may re-focus on their original mission, for instance, in relation to a particular client group, and/or may look at service adaptation in terms of responding to funding opportunities available. Some organisations were developing new ways of working in order to make cost savings (as well as adapting to new agendas such as the Work Programme and personalisation).

- Diversifying funding through a range of strategies which included seeking alternative sources of funding which might include: developing enterprising activity through business activity; increased fundraising activities, and; seeking finance and investment.

- Restructuring could be a way of making cost savings and remaining competitive. This happened in a variety of different ways including: revising job roles; reducing overheads through, for instance, reducing staff costs; rationalising assets such as properties, and mergers with other TSOs.

- Raising awareness included campaigning to influence policy on issues that affected the client group and/or raising the organisation profile among funders and policy makers.

- Performance management was a means of demonstrating the added value of the organisation thereby improving funding or re-funding chances.

- Forming partnerships, through for instance consortiums, could be a means of improving access to funding, particularly on a larger scale.

5.5   This chapter explores how organisations responded to the challenges through: mission, focus and identity; diversifying funding, restructuring and raising awareness. Performance management is discussed in 'Performance and outcome measures', and partnerships are discussed in 'Partnership Working'.

Mission, focus and identity

Organisational reflection and reviews

5.6   In year one a number of TSOs had adapted their services over previous years in order to take account of changes in policy and funding priorities (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.

5.7 In year two, the changing policy and funding environment, coupled with the economy, had led many organisations to take stock of their purpose and strategic direction. This is in line with a recent (2011) on-line survey of 488 charities in the UK where 80% of respondents reported that they had performed a formal strategic review in the last year[33]. 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. 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 faced 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?

5.8 In year two, many organisations had reviewed 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'.

5.9 The process of internal reflection and organisational reviews continued for many in year three. Even those who had earlier established formal plans, such as 5-year plans, continually reviewed their situation. A number of organisations also noted that they had also become much more strategic about the funding that they applied for, for instance:

> "In the past we have been very reactive, if the funding comes up or an opportunity comes up we will bid...on it. What we are aiming to do is to take a more planned approach to how we deal with development or issues".
>
> (Senior Manager (3), Employability Focus Group, year three)

5.10 Sometimes internal reflection raised questions about the future of an organisation, as occurred in year two. By year three there were concerns about what to do if an organisation was to close and how to manage the 'wind down' of operations:

> "My Board are actively saying 'Look, if we have to face the fact that times have changed so much that we no longer fit the landscape, then let's make sure we do this properly'".
>
> (Senior Manager (1), Equalities Focus Group, year three)

5.11 While these processes 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

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[33] Charity Finance Group/Institute of Fundraising/Price Waterhouse Coopers (2012) *Managing Charities in the new normal – A perfect storm?* The latest instalment in the series of 'Managing in a Downturn' surveys, at http://www.cfg.org.uk/Policy/have-your-say/surveys/closed-surveys/2012/april/cfdg-iof-and-pwc-managing-in-a-downturn-survey-2011.aspx

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, year two)

New ways of work organisation

5.12 By year three, a number of organisations were also looking at new ways of working that could help reduce costs. For instance, one organisation had previously supported high-needs clients with one-to-one support. While this remained important, the organisation had recently started to do more group work, which represented a progression route for clients and freed up some staff time to meet increasing demand. This innovation followed a period of internal reflection and an examination of how the organisation could work more cost-effectively. For an example see Lead Scotland case study (Appendix A).

5.13 This same organisation was also using technology in order to reduce staff costs. As a small national organisation with staff geographically dispersed they received some funding to invest in capital equipment such as video conferencing and Adobe Connect, which allowed staff to communicate without incurring the travel costs.

5.14 Personalisation also represented a significant driver to change ways of working in some health and social care organisations, and some of these are discussed in 3.10-3.24.

Diversifying the funding base

5.15 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). In year three, organisations continued to look at ways to diversify their funding base and a number were also looking at developing new activities, including increasing fundraising and additional commercial activity.

Developing enterprising activity

5.16 Many organisations operated some form of commercial activity, from the provision of childcare (see Rosemount case study, Appendix A), to operating several social firms (see Forth Sector case study, Appendix A). However, as highlighted in the year one report this was not just 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.

5.17 In particular, participants in the workshop carried out in June 2011 agreed 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.

5.18 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 their 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' by a business one.

5.19 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. In year two, participants highlighted a number of challenges around social enterprise activity including: having a viable business idea; potential issues working with vulnerable or high needs clients; a competitive business environment; recruiting for business skills; government regulation; lack of knowledge among funders of implications of the social enterprise business model; accessing and understanding social enterprise intermediaries; the need for 'serious investment' to develop a business, and difficulties developing an existing organisation.

Increasing fundraising activities

5.20 In years two and three, 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. By year three, fundraising activities were reported to have increased although incomes generated were relatively small. For one organisation in particular, fundraising was an important part of their overall strategy, and by year three they had established a small fundraising team. However, it was too early at that stage to gauge the team's effectiveness.

Seeking finance and investment

5.21 In year two, 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. However, one large TSO had successfully accessed private finance by going into partnership with another TSO in order to purchase a new head office building which they shared together. In addition, a small number had also received a loan through the Scottish Investment Fund. In one case this had gone towards the costs of the purchase of new premises.

5.22 In year three, few organisations had accessed commercial loan finance. However, a number of organisations were seeking capital investment to develop various activities within their organisations. Funding was sought from a variety of sources, including the Scottish Investment Fund, the Enterprise Growth Fund and the Big Lottery. In year two, one organisation had sought a mixture of funding sources to develop a purpose-built employability hub. Due to delays in one source of funding, this had still to be confirmed. For examples, see case studies for Forth Sector and Rosemount (Appendix A).

5.23 Since year two a number of organisations had applied for investment funding. One had been successful in obtaining capital equipment. As a small national organisation with staff geographically dispersed they received some funding to invest in capital equipment such as video conferencing and Adobe Connect, which allowed staff to communicate without incurring the travel costs. Another had been successful in gaining funding to expand an existing social business. Another was still awaiting a decision on their plans to refurbish premises and develop a community café and learning space.

5.24 However, some interviewees felt that the finance made available from existing sources such as the Scottish Investment Fund and Enterprise Growth Fund were small compared to the level of investment required in the sector to make it effective.

Restructuring, making cost savings/remaining competitive

5.25 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. In year three, organisations continued to try to find ways of making cost savings, including on-going re-structuring, reducing staff costs, reconfiguring and property rationalisations.

5.26 Over the three years, many organisations had taken part in or were undergoing organisational restructuring. This included: restructuring at head office; integration of services; and restructuring leadership teams.

5.27 By year two, a number of organisations had made staff redundancies resulting in reductions in overall staff numbers. By year three, a small number of additional organisations had made staff redundancies. For an example see The Wise Group case study (Appendix A). A number had chosen to reduce staff costs by reducing staff time. For example see Lead Scotland case study (Appendix A). 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.

5.28 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. Another organisation had rationalised their properties onto one main site.

Mergers

5.29 In year two, three of the TSOs had merged or were in the process of merging with other organisations[34]. 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 opportunity, 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, year two)

5.30 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
- to extend services beyond existing provision

5.31 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

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[34] 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. By 2011, this on-going survey found that those considering merger had increased from 12% to 20%, although this survey does not report on actual mergers. See Charity Finance Group/Institute of Fundraising/Price Waterhouse Coopers (2012) *Managing Charities in the new normal – A perfect storm?* The latest instalment in the series of 'Managing in a Downturn' surveys, at http://www.cfg.org.uk/Policy/have-your-say/surveys/closed-surveys/2012/april/cfdg-iof-and-pwc-managing-in-a-downturn-survey-2011.aspx

- reduced competition (by merging with competitor)
- opening up access to 'new' pots of money

5.32 By year three, one of the organisations involved in a merger had been subsumed within another larger organisation, and no longer existed in its original form, although it kept its name in relation to one programme running within the larger organisation. The other organisation involved in the merger agreed to take part in the research. They believed that there had been good complementarity between the two organisations, with the original organisation working with broadly the same client group. There are now more opportunities for clients to progress through programmes within the organisation: "I think the pace of the journey is much quicker, the cohesion is much stronger". This organisation felt it had been able to "find the best bits of both and make it work", particularly in terms of capacity and services. However, there had been some challenges in terms of integrating different organisational cultures and bringing both sets of staff together, as well as establishing a new culture representing both organisations. The original organisation became a "very distinct, discreet programme" with the larger organisation, but there were "some challenges in that they lose part of their identity, their independence".

5.33 Another organisation had also merged with a larger organisation, but maintained their own identity. They felt they had learned lessons about the shift in authority, although still lacked some clarity about the new roles of senior managers and the Board, since the power now lay with the larger organisation:

> "I think that the issue of where does the power lie, it would have been useful to have more clarity about that before we went in because I have had to deal with it as a learning process rather than having clarity at the beginning about how things would work and what issues would need approval from higher up and what layers of decision making there are in the parent company".
>
> (Senior Manager (3), Employability Focus Group, year three)

5.34 Some other organisations were open to possible mergers in the future. For instance, one organisation thought this might be the case in the next two or three years because that would be a way of accessing capital. The focus for this organisation was on supporting its client group rather than on organisational survival, so if that was perceived to be best achieved through merger, then that would be considered. In the meantime, the senior manager had been charged by the Board to build long-term partnerships with prospective partners in case they needed to merge in the future.

Campaigning and organisational profile raising

5.35 In years two and three a number of organisations had put more emphasis on campaigning to influence policy on issues that affected their client group and/or raising their organisational profile among funders and policy makers.

Campaigning

5.36 The year two report outlined how most TSOs were involved in a range of particular interest partnership forums (such as social care and mental health; youth; employability and supported employment; and learning forums) in order to, among other things, influence policy development and lobbying. For some, these were perceived to be the most effective way for them to have an input into policy. With new emerging policy trends, such as welfare benefit reforms, which impacted on TSOs' clients, organisations were increasingly seeking to have an influence. For smaller TSOs, being a member of a partnership forum was the most effective way.

5.37 However, other 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. Other means included participating in consultations run by the Government.

5.38 There was a potential tension for TSOs representing the views of services users to local authorities. The effectiveness of the campaigning voice may be compromised by the tension between the need to take a critical position on local authority decisions in relation to care whilst also being contractors to local authorities. For instance:

> "There has been criticism of the sector generally that their campaigning voice has been compromised because they are providers of services contracted with local authorities. And to criticise people who feed you is perhaps not wise and therefore we don't do it as strongly as we should".
> (Senior Manager, National Health and Social Care Provider, year three)

5.39 This was less of an issue in relation to Government:

> "There has always been less concern about government because they have broad shoulders but [as] an ex-director of social work once said 'local authorities have very long memories'".
> (Senior Manager, National Health and Social Care Provider, year three)

5.40 In year two, an officer in a large TSO working across Scotland described how they sought to influence policy on the issues concerning them. This differed depending on whether the issue was UK or Scotland driven:

> "[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, year two)

Raising organisational profile

5.41 A number of organisations had aimed to increase their visibility in order to maintain or raise the organisational profile. This was in the hope of being in a better position to secure funding. In year three, one large national organisation had been making efforts to raise its profile at the local level by ensuring local managers attended local provider forums and other local networks. This was in response to increased localism so that the organisation was perceived to be a local provider and not just a national provider.

Conclusion

5.42 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 take stock through strategy reviews which refocused and defined their purpose and strategic direction. 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. Some organisations were looking at new ways of working to help reduce costs, and this trend looked set to continue as the personalisation agenda developed further.

5.43 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.

5.44 Another means of diversifying funding included pursuing strategies to increase fundraising, for instance from private donations and legacies. Some organisations had accessed investment funding through, for instance, the Scottish Investment Fund, for capital equipment or in order to develop various activities in their organisations. With a few exceptions, accessing commercial loan finance was rare.

5.45 Many TSOs had looked at, or were looking at, restructuring in order to 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.

5.46 With the emergence of new policy trends such as the welfare benefit reform, a number of organisations were putting more emphasis on campaigning to influence policy that impacted on their client group. Some organisations were also active in increasing their visibility in order to raise or maintain the public profile of the organisation.

5.47 A recent survey of charities in the UK found that the sector was in the middle of a major re-shaping[35], and this is mirrored in our own research in Scotland. Many TSOs were making significant efforts to respond positively and pro-actively 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).

[35] Charity Finance Group/Institute of Fundraising/Price Waterhouse Coopers (2012) *Managing Charities in the new normal – A perfect storm?* The latest instalment in the series of 'Managing in a Downturn' surveys, at http://www.cfg.org.uk/Policy/have-your-say/surveys/closed-surveys/2012/april/cfdg-iof-and-pwc-managing-in-a-downturn-survey-2011.aspx

CHAPTER 6: CONCLUSIONS

6.1   Over the three years of the research there had been significant political and policy changes that had important consequences for TSOs in Scotland. Alongside the general financial climate of low or negative economic growth and public sector spending cuts, these represented huge challenges, as well as potential opportunities, for many organisations.

6.2   TSOs who focused on employability-related activities tended to be more subject to changes of policy at UK level, although some funding did come through LAs. Policy determined at Scottish Government level was generally more relevant to TSOs who specialised in health and social care. However, since activities of TSOs often overlapped, most were affected by policy at all levels.

6.3   There was a significant time lag between the making of policy and putting it into practice at the level of the third sector. As we have seen, the impacts of a number of policies were only just starting to be felt at third sector level in year three, despite having been enshrined in policy for several years. The full impacts of the Work Programme and Personalisation, for instance, were still unknown and unlikely to be clear until sometime into the future. This was probably because of a number of reasons, including, among others: (1) policy is generally filtered through a number of agencies, such as local authorities and community planning, before reaching the third sector; (2) there was a lack of clarity about how some policies should be put into practice, meaning that the details of policy, and their implications, were having to be worked out on the ground.

6.4   While some TSOs had made reductions in some services because of cuts, most had avoided this through costs savings elsewhere or using accumulated underspends from previous years. They were also keen to minimise the impact on clients where possible. It was staff within TSOs who had felt the impacts most acutely with redundancies, reduced hours, changes to terms and conditions, no salary uplifts and increased workloads creating an atmosphere of anxiety and uncertainty. However, good communication during a time of organisational change could help maintain positive staff relations and morale.

6.5   TSOs were undergoing a major re-shaping. Many had or were making significant efforts to respond positively and pro-actively 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 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).

6.6   It is important to recognise that there was no reductive response to the current economic climate, no 'one size fits all'. For some TSOs, mergers were an appropriate response, for others they were 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.

6.7   Senior management and Boards within TSOs faced a number of challenges presented by the changing policy and financial environments. On the whole, however, they had risen to meet these challenges suggesting that many TSOs were taking a dynamic approach to change.

6.8   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 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.

6.9   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. However, the 'sense of being in competition' with other similarly focused TSOs increased over the three years because funding cuts and increased tendering created a more competitive environment. The experience of partnership working with local authorities varied, with some reporting better communication and dialogue, while others reported lower levels of contact.

6.10   There were indications that opportunities for involvement in service design by the third sector may be increasing, with potential cuts actually creating more opportunities for some TSOs to negotiate the shape of services at local level. Local partnership forums such as community planning and provider forums also offered opportunities to help shape local services. However, tendering remained an obstacle to greater involvement.

APPENDIX A: CASE STUDIES

This section provides case study analysis for 5 of the 8 case study organisations that participated in the research and gave permission for their information to be provided. These case studies demonstrate the range of strategies and responses that organisations have taken over the period of the research. They are presented to show change over time by demonstrating the prevailing issues and selected responses year by year.

NATIONAL HEALTH AND SOCIAL CARE PROVIDER (anonymous)

	NATIONAL HEALTH AND SOCIAL CARE PROVIDER		
Field(s) of Activity	Mental health, homelessness and addictions		
Geographical Coverage	Across Scotland		
	2009/10	2010/11	2011/12
Number of Staff	745.73 (FTE)	674.39 (FTE)	652.27 (FTE)
Annual Income	£22,424,000	£23,336,000	N/A
Proportion of Income from Public Funding	85% from LAs and SG	£86% from LAs and SG	N/A

Year one (2010)	Year Two (2011)	Year Three (2012)
• 2008 New CE appointed • 5 Year Corporate Strategy beginning 2009/10 • Management restructuring • Redundancies and changes to staff terms and conditions	• New structures bedding in • On-going review of staff roles • Property rationalisation in Glasgow • Review of properties in other areas for rationalisation • £2M savings made by April 2011	• Appointment of Fundraising Manager and Team • On-going review of staff roles • Review of properties in other areas for rationalisation • Preparation for personalisation (self-directed support) • Work Programme

Background

A third sector organisation helping those with mental health problems; homelessness issues; addiction issues and those who experience social exclusion. The organisation was initially set up to support the interests of those with learning difficulties and mental health problems. They provide services such as accommodation and rehabilitation; and are committed to the principles of user involvement and in doing so challenging discrimination. The organisation also has a lobbying role and tries to influence government policy in Scotland.

Year One (2010)

In 2008 a new Chief Executive (CE) was appointed. With the support of the Board, the CE aimed to develop a strategic focus. 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 they 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 included 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 were 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 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, year one)

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.

Year Two (2011)

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 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.

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 £2 million. 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.

Year Three (2012)

In year three, the organisation continued to look at further property rationalisations. In the previous year, they had rationalised the offices based in the Scottish Borders as well as maximised use of existing spaces:

> "…in the Borders we've relocated…3 services, so rather than being all spread out, they are now all in the same office and that's the approach we've been taking really is continuing to see not rationalising for the sake of it but where we have several properties can we bring them together. We can't always, but to see where we can".
>
> (Senior Manager, year three)

As in year two, review of staff roles remained on-going. By 2011/12, overall staff numbers (full-time equivalents) had been reduced to 652 (down from 746 in 2009/10).

In accordance with the Strategy, the organisation had appointed a Fundraising Manager who started in Spring 2011. Following this, a small fundraising team was appointed. This team aimed to raise income generated through fundraising, although at the time of the year three fieldwork (carried out between February and April 2012), it was too early to ascertain the level of success.

By year three, the organisation was preparing for the move towards personalisation of services in the Glasgow area. In addition, they were also sub-contracted through the Work Programme although had received limited clients. Both of these programmes represented a challenge and an opportunity for the organisation in terms of changing the way that they worked, and potential for new work. As well as the changes made in years' one and two, they had also been making greater use of part-time staff in order to be more flexible in meeting client demands. However, there were still uncertainties about how they would need to change further in the future in order to respond to these new programmes.

LEAD SCOTLAND

Lead Scotland	REGIONAL LEARNING PROVIDER		
Field of Voluntary Activity	Disability Support		
Geographical Coverage	8 local authorities in Scotland		
	2008/09	**2009/10**	**2010/11**
Number of Staff	16 all staff including PT	17 all staff including PT	22 all staff including PT
Annual Income	£562,793	£491,941	£524,840
Proportion of Income from Public Funding	93% public funding	75% from LAs and SG	61% from LAs and SG

Year one	Year Two	Year Three
• Small national learning support provider • HQ based in Edinburgh • Learning Co-ordinators based across 8 LA areas	• Core funding reduced • HQ staff go to 4-day week • Reduction in Development staff time • Look at alternative sources of funding, e.g. fundraising, work towards become SQA centre	• Internal Reflection period • New contracts • New ways of working, e.g. group work • Capital equipment investment • Fundraising • Delivering an accredited award

Background

'Linking Education and Disability' (Lead) is a specialist Scottish-based third sector organisation that seeks to widen access to learning for disabled people and carers of disabled people. The organisation is limited by guarantee and is registered as a charity in Scotland.

Year One

Learning Co-ordinators based in eight local authority areas across Scotland provide guidance and support to disabled people, carers of disabled people and other socially and/or educationally excluded or isolated people. Learning Co-ordinators also support volunteers to provide additional support to the client group. Each learner is supported to develop their own action plan, which results in a tailored and unique service from Lead. Head Office is based in Edinburgh. Lead Scotland also provide capacity building and training to external agencies, including consultancy

services to support other organisations who want to widen access to learning or offer more inclusive volunteering opportunities.

Funding came through a mixture of a Scottish Government core grant and project funding which came via a variety of sources, but particularly local authorities.

The organisation was also looking at the potential to develop social enterprise activity in the future in order to build the longer term sustainability of the organisation. There were some concerns raised about ability to cover core costs as well as unfair competition from public sector providers.

Year Two

By year two, the organisation had experienced a 20% cut to their core grant from the Scottish Government. They carried out a staff consultation in order to review what could be done to save this cost. Lead was keen to avoid redundancies so decided to reduce the hours of staff at head office from 5 days to 4 days a week. Development Officer (who provide capacity building and training to external agencies) time was also cut from 10 days to 2 days per week, with one officer taking voluntary redundancy. This meant some re-organisation of tasks, with some support and administration functions being transferred to the Learning Co-ordinators.

At this time, the organisation was also developing fundraising activities through encouraging volunteers and learners to raise funding through 'Friends of Lead'. They were also aiming to increase income from legacies and had produced a leaflet to this effect. In addition, they hoped to develop activities working towards providing SQA awards, although this was a longer term strategy.

Year Three

In year three, Lead had won a number of new contracts. This included a pilot project through the Big Lottery Fund (Get Connected and Lead project) and hosting a new post of Policy and Information Officer. They were also spending more time identifying alternative sources of funding.

The CE had carried out an internal review of the organisation during this time in order to divine a future strategy and how to reduce costs. Out of this had come a number of initiatives including looking at new ways of working. For instance, they had previously supported high needs clients with one-to-one support. While this remained important, they had recently started to do more group work which represented a progression route for clients and freed up some staff time to meet increasing demand.

> "I had a 3 month sabbatical and it was really about 'Is there still a place for Lead in 21st century Scotland or is the way we deliver our service too expensive in the current climate?' The results of that 3 months…was that there is definitely still a need…one of our USPs is our one-to-one support in home or in a community setting that the individual is comfortable with but that's the really costly side of what we do… we are not going to do away with that if at all possible, but they progress then onto a group

learning situation… We probably do a lot more group type of activity than we used to".

(Senior Manager, year three)

Lead was also using technology in order to reduce staff costs. As a small national organisation with staff geographically dispersed they received some funding to invest in capital equipment such as video conferencing and Adobe Connect with allowed staff to communicate without incurring the travel costs. They had made a difficult decision, however, to reduce the money spent on advertising and marketing because this was deemed less effective.

The organisation continued to develop fundraising activities, although the income generated was still small. They had, however, made significant progress towards becoming an SQA recognised award centre. Although this goal was still way off, by year three they were able to deliver accredited awards including SCQF Level 3 and Level 5 Community Action and Leadership through the Get Connected and Lead project[36].

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[36] See the dedicated website for more details: http://www.getconnectedandlead.org.uk/

FORTH SECTOR

Forth Sector	LOCAL EMPLOYABILITY PROVIDER		
Field of Activity	Mental health and employability		
Geographical Coverage	Edinburgh		
	2008/09	2009/10	2010/11
Number of Staff			
Annual Income	£1,431,703.00	£1,689,997.00	£1,370,511.00
Proportion of Income from Public Funding	Not available	Not available	33%

Year one
- Business Plan (following process of reassessment started in 2008)
- Development Arm set up as separate company
- review of social firms

Year Two
- Rationalisation of firms - invested in another complementary business
- £1M SIF award to develop 'employability hub'
- Application to National Lottery for additional funding for 'employability hub'

Year Three
- One social firm sold, others under review
- Awaiting notification of National Lottery funding application in order to develop the 'employability hub'

Background

Forth Sector provides 'employability support to aid the recovery of people with mental health problems'. 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.

Year One

Following a process of reassessment, the organisation developed a Five Year Business Plan:

> "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".
>
> (Senior Manager A, year one)

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As part of this, they carried out a review of the existing social firms. At that time, these included a laundry, a soap making business and a guest house which offered supported work placements for clients. In recent years, the businesses had been in a state of flux, with a lack of investment and the economic downturn affecting the viability of some of these.

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 provides support for other social enterprises, but still had an important role in the charity, particularly since the social businesses had been struggling.

Year Two

By year two, Forth Sector Development had been doing well, picking up a number of major contracts to support other third sector organisations to develop social enterprise activity.

> "[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, year two)

A decision was also made to rationalise the social firms. In order to access some of the organisation's capital assets, they were planning to sell the Guesthouse. They also invested in another laundry business in order to complement their existing business.

At the same time, they had 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 hoped to win from the National Lottery, they hoped to have completed the build and move by summer 2012.

At the same time, they were also looking at what to do with the other social firms that were 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, year two)

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 hoped that through significant investment now, they would be able to forward towards a successful and sustainable future.

Year Three

Forth Sector Development continued to do well and had worked with Government, local authorities, private and third sector organisations to provide professional support and consultancy services to develop social enterprise activity.

The Guesthouse had been sold and the profits from the sale had allowed for "a little investment in some of the departments". Meanwhile, the new laundry acquired in year two had been merged with the existing laundry making further cost savings. In addition, they had been successful in pulling down some development funding (from Esme Fairburn) which was:

> "Allowing them to review some of the businesses…that's helping some of the development of the businesses, so the businesses are developing and growing…the money's allowed some sales and marketing managers to come on board, one's on board and there's another post coming on board. Their role is to increase the sales for the businesses and that will then generate more income into the organisation".
>
> (Senior Manager, year three)

The Duddingston Yard development project had been put on hold awaiting confirmation of Lottery Funding. There had been some complications with the application resulting in a delay, but it was anticipated that this would be successful and the project would go ahead in the future. It was hoped that this major investment programme would see the number of clients supported increase fourfold, the cost of supporting clients would fall further, the quality of services would improve and trading revenue would double, as well as an increase in the economic and social impact.

ROSEMOUNT LIFELONG LEARNING AND FLEXICENTRE

Rosemount	LOCAL LEARNING PROVIDER		
Field of Activity	Learning and childcare provider		
Geographical Coverage	North Glasgow		
	2008/09	**2009/10**	**2010/11**
Number of Staff			
Annual Income	£1,307,888	£1,309,493	£1,494,391
Proportion of Income from Public Funding	Not available	36% from local authorities	31% from local authorities

Year one	Year Two	Year Three
• Local learning provider • Subsidised childcare • After school care service • Review of costs	• Restructuring of services for greater integration • After school care closed due to funding being cut	• New work contracts lead to recruiting new staff • Childcare provision becomes mostly self-funding • Application to expand business

Background

Rosemount Lifelong Learning and Flexicentre are based in two centres in North Glasgow and provide childcare and adult learning opportunities to local communities. It aims to 'reduce poverty by providing high quality childcare and increasing lifelong learning opportunities in an approachable and supportive community setting'.

Year One

Rosemount continued to provide varied and innovative services to local people as it had done in previous years. However, the organisation had experienced greater demands and heavier workloads due to the economic downturn which had seen parents in the local area losing jobs or reducing hours. There was also a downturn in the number of college places that were offered to Rosemount learners.

In response, the organisation carried out a review of costs in order to identify potential savings and planned to carry out a review in the year ahead.

Year Two

In a review of services, the organisation resolved not to "ambulance chase...funding", but to be led by a set of key priorities linked to community need:

"We set our priorities because we are very close to the communities that we serve and we see the need and basically we've been, for a long, long time, about equal balance in our services for children and parents and we respond to the need. Over the years we have stayed fairly true to their 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 were we are diverging is another one of our 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 years time the policy will come back round again".

(Senior Manager, year two)

The Board of Directors took the decision to close the after-school care services following several years of sustained losses in providing it. Other local childcare services were able to offer places. Voluntary severance was offered to all staff within Rosemount, rather than compulsory redundancies within the after-school care services. This way staff could be re-deployed across the pre-school nursery services.

In addition, they had also reduced the hours the crèche was provided for in the Flexicentre. They stopped providing the service in the quietest hours between 3-5pm, but still provided a service between 10am and 3pm and in the evening (in busy periods). They found it difficult to raise money to cover the cost of the crèche and parents only paid a nominal amount (the parents had no money themselves as most were signing on). Rosemount had tried to get money for the crèche included in funding applications for adult learning programmes but found that funders tended to be unwilling to pay for this service.

There was also major restructuring within Rosemount Lifelong Learning with two previously separate departments, Family Links and Guidance/Employability, merging under one line management structure. The 'Integration' Agenda was introduced by the new interim CE (following the early retirement at the beginning of 2011 of the previous CE). Programmes previously run within these departments were integrated within the same department resulting in more 'cross fertilisation' and good practice. There was also a perception that this would also be more attractive to funders because they were "getting more bang for [their] bucks".

Year Three

By year three, the organisation had further reduced overheads through moving accommodation. They had looked at staff costs and invited staff to consider alternative working hours where suitable (e.g. term-time and part-time working), also encouraging more flexibility. The childcare provision was moving towards more fee-paying, where parents paid for places. There had also been some management restructuring with managers being given responsibility for their own budgets.

Working in partnership, they had also applied to the Big Lottery Fund to refurbish the Flexicentre and make it a community café and learning space through the 'Our Place' initiative.

The organisation had been successful in winning a substantial new contract working with young parents as well as gaining an extension to an existing one resulting in 6 additional staff members being recruited.

They had also, or were intending to, submit bids for additional funds because despite a pro-active and positive approach, there were still uncertainties about future with two major funding streams coming to an end in the summer.

THE WISE GROUP

Wise Group	NATIONAL EMPLOYABILITY PROVIDER			
Field of Activity	Employability, regeneration and social economy			
Geographical Coverage	Scotland and North East England			
	2008/09	**2009/10**	**2010/11**	**2011/12**
Number of Staff	more than 400 staff	PTE 153 FTE 420	PTE 355 FTE 516	PTE 168 FTE 477 (unaudited)
Annual Income	£16,923,623 (2007/08)	£20,759,048	£32,181,460	£26,626,084 (unaudited)
Proportion of Income from Public Funding	The majority of the income has come from public sources.			

Year One	Year Two	Year Three
• Core activities focus on employability, regeneration and sustainability • Diversifying activities • Tender for prime contractor in Work Programme • Set up a partnership network of TSOs across Scotland	• Unsuccessful as prime contractor for Work Programme • Developing new business areas • Plan to use partnership network to develop future opportunities	• Reduced staffing levels • Development of new business • Investment programme • Major new contract

Background

The Wise Group was established in 1983 as a project to address unemployment and fuel poverty in poor areas of Glasgow. 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.

Year One

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. In order to tender as a prime contractor for the Work Programme in Scotland, 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.

Year Two

By year two the organisation had learned that it had been unsuccessful in being selected as a prime contractor for the Work Programme. This meant a significant loss of income. The organisation was focused on developing new business areas in regeneration, skills and training, employability, criminal justice, waste reduction, waste minimisation and environmental impacts.

However, the partnership network set up in response to the Work Programme remained an important means to move forward and develop future opportunities. 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. The Wise Group 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".
>
> (Senior Manager, year two)

Year Three

Largely as a result of the loss of the Work Programme funding, by year three, the organisation had significantly reduced staffing levels. It had been a challenging time for the organisation going through two stages of redundancies. At the same time this has stimulated thinking about the organisation's purpose:

> "The other side of this is that it has made us...rethink what we do as an organisation and what we're about. We haven't changed our basic mission and values about…believing work is the route of the poverty for most people and we are about changing the lives of individuals and communities. So we're still focusing on the same activity but it's made us more creative and enterprising I think... We've got a new business strategy…we're still focusing on the same activity which is employability, sustainability, criminal justice and regeneration and supporting other social

enterprises. We have got the balance of what we do away from responding to central government, we still obviously respond to tenders from wherever they come out".

<div align="right">(Senior Manager, year three)</div>

The organisation had also carried out some small restructuring at senior management levels, in terms of revising roles and responsibilities. They were also focusing on new business and investment. They were actively seeking external investment and had already received support through the Scottish Investment Fund to development their infrastructure for bidding for work with the Flexible New Deal and the Work Programme. This included developing IT and management systems. They were concerned to maintain the capacity of the organisation so they could continue to bid for large contracts.

The Wise Group were actively working with the private sector and had developed a partnership with Microsoft and O2 called 'Cloudwise' which was a third sector IT consultancy. They were also in the early stages of business planning for numerous other activities in partnership with others, including: developing ideas for the employability and training element of a national renewable energy scheme; the training element of reuse and recycling of IT equipment; and an empty homes initiative.

The organisation had also been successful in winning a major new DWP project 'FamilyLinks' working with workless families in the North East of England. They were also a sub-contractor to the Work Programme although referrals had been limited at the time of the case study.

APPENDIX B: 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 original objectives were 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 organisations 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

In addition, at a meeting of the Research Advisory Group in February 2011[37], 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)

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[37] Research Advisory Group Minutes of the Meeting, held at Scottish Government, Victoria Quay, Edinburgh on 9 February 2011

- 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)

The 2012 year research aimed to build on and extend the previous objectives as well as responding to emerging policy. At a meeting of the Research Advisory Group in November 2011[38], the members suggested the focus of the 2012 year research should include the following:

- Partnerships and collaborations – continuing from year two

- Support for third sector (from Scottish Government and elsewhere), including: views on; experiences of; how well supported are organisations feeling

- Local Infrastructure (interfaces) and how dynamics might be changing

- Consequences of the Work Programme, Personalisation and Welfare Reform agendas

- Shift into prevention and early intervention and the extent this was happening (awareness of and impact of Change Funds)

- Involvement of third sector in public services design (and Public Social Partnerships)

- Skills challenges e.g. around leadership, governance, business skills and how these affect sustainability; relationship of skills to resilience amongst organisations

- Staffing and Volunteering issues

- Employment of staff including numbers of FTE and pay changes.

Where feasible, the research in year three was extended to cover the additional topics suggested.

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[38] Research Advisory Group Minutes of the Meeting, held at Scottish Government, Victoria Quay, Edinburgh on 2 November 2011.

APPENDIX C: METHODOLOGY

The methodology involved qualitative research within 20 third 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.

A qualitative longitudinal approach was used to ensure that the complex and fluid experiences of participants over a three-year period were reflected in the report. A qualitative approach ensured that interviewers could explore important and sensitive issues in depth with research participants. The importance of understanding and reporting changes over time within third sector organisations and how those changes are embedded in patterns of social, economic and political change has meant that a broad range of issues were explored during interviews between researchers and participants.

Case studies for 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.

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, 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, which is also used as evidence for year two.

Case studies for year three were carried out between January and May 2012. Focus groups were carried out between October and November 2011 and between January and March 2012.

Initial selection of case study and group work organisations

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

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.

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

The case studies included face-to-face interviews 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 services. 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 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 each year can be found in Appendix D. A copy of the main interview schedule used in year three is attached in Appendix F.

In years two and three the main contact in each organisation was 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. All eight organisations originally involved were able to participate for all three years.

Focus groups

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[39].

One representative from each organisation (usually the Chief Executive or a member of the senior management team) attended the focus groups. Where an organisational representative was unable to attend the focus group, telephone interviews were conducted. A common discussion framework was used – see Appendix F.

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[39] Note that these categorisations were not applied rigidly and there was some overlap in the activities of organisations.

Over the three years, two organisations were unable to continue their original participation. 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. In year two, one organisation had merged with another TSO not involved in the research. The new TSO was approached and agreed to take part in the research in year three on behalf of the original organisation.

Anonymity

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 E. 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

Data from each year was analysed using the Framework analysis method[40]. This is a 'matrix-based method for ordering and summarising data' (Lewis, 2007: 550). Key themes from findings are identified and divided into sub-topics. Matrices are then drawn up in Microsoft Excel, each representing a different sub-topic. Columns represent sub-topics and rows represent participant interviews.

The first stage of the qualitative longitudinal research was to apply the Framework and identify significant topics and sub-topics. This provided a flexible common core framework that enabled 'comparability over time and between projects' for which 'the use of common data collection tools and reproducible modes of analysis are suggested'[41]. Thematic analysis has been carried out on individual focus group and case study data collected in each year. 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.

For the longitudinal analysis, later data were then added to the earlier data within the Framework enabling accounts provided by different respondents at different points in times to be compared.

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[40] Lewis, J. (2007) 'Analysing Qualitative Longitudinal Research in Evaluation' in *Social Policy & Society*, Vol. 6, No. 4, pp. 5455-556, 6:4.
[41] Holland, J. (2007) Issues in Qualitative Longitudinal Research; Workshop held at London South Bank University 2007, p.10.

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.

Methodological challenges

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.

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.

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, attrition had been minimal. Of the 20 organisations taking part in year one (baseline), only two focus group participants were unable to continue and replacements were found for both.

There was some attrition of interviewees within case study organisations. This was because of staff leaving the organisation, being unable to set up interviews within the timeframe or because access was restricted by the key contact. Where possible, alternative participants were interviewed.

APPENDIX D: PARTICIPANTS IN THE CASE STUDIES

Case Studies	Year One	Year Two	Year Three
National Health and Social Care Provider	Senior Manager x 3 Manager x 3	Senior Manager x 2 Manager x 4	Senior Manager x 2 Manager x 4
National Health and Social Care Provider	Senior Manager x 2	Senior Manager x 2	Senior Manager x 2
National Employability Provider	Senior Manager x 4 Manager x 5	Senior Manager x 2	Senior Manager x 2
Local Employability Provider	Senior Manager x 3 Manager	Senior Manager x 2	Senior Manager x 2
National Health and Social Care Provider	Fieldwork took part Senior Manager x 4	Senior Manager x 2	
Regional Learning Provider	Senior Manager Officer Regional Manager Project Officers x 8	Senior Manager Senior Officer Regional Manager Project Officers x 3	Senior Manager Senior Officer Regional Manager Project Officers x 3
Local Learning Provider	Senior Manager Manager x 5	Senior Manager x 2 Manager x 2	Senior Manager Managers x 5
Local Health and Social Care Provider	Senior Manager x 2 Manager x 7	Senior Manager x 3 Project Officer x 2	

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

APPENDIX E: ORGANISATIONAL PROFILES

Case Study Organisations

ORGANISATION A	NATIONAL HEALTH AND SOCIAL CARE PROVIDER		
Field of Voluntary Activity	Mental health, homelessness and addictions		
Geographical Coverage	Across Scotland		
	2008/09	2009/10	2010/11
Number of Staff	-	745.73 (FTE)	674.39 (FTE)
Annual Income	-	£22,424,000	£23,336,000
Proportion of Income from Public Funding	-	85% from LAs and SG	£86% from LAs and SG

ORGANISATION B	NATIONAL HEALTH AND SOCIAL CARE PROVIDER		
Field of Voluntary Activity	Disability Support		
Geographical Coverage	Across Scotland		
	2008/09	2009/10	2010/11
Number of Staff	-	-	-
Annual Income	£29,276,426	£29,822,562	£30,926,821
Proportion of Income from Public Funding	The majority of the income has come from public sources		

ORGANISATION C	NATIONAL EMPLOYABILITY PROVIDER		
Field of Voluntary Activity	Employability, regeneration and social economy		
Geographical Coverage	Scotland and North East England		
	2008/09	2009/10	2010/11
Number of Staff	more than 400 staff	153 (PTE) 420(FTE)	355 (PTE) 516 (FTE)
Annual Income	£16,923,623 (2007/08)	£20,759,048	-
Proportion of Income from Public Funding	The majority of the income has come from public sources		

ORGANISATION D	LOCAL EMPLOYABILITY PROVIDER		
Field of Voluntary Activity	Mental health		
Geographical Coverage	Edinburgh		
	2008/09	2009/10	2010/11
Number of Staff	-	-	-
Annual Income	£1,431,703.00	£1,689,997.00	£1,370,511.00
Proportion of Income from Public Funding	-	-	33%

ORGANISATION E	NATIONAL HEALTH AND SOCIAL CARE PROVIDER		
Field of Voluntary Activity	Disability Support Care, Education, Health & Employment support to disabled people		
Geographical Coverage	Delivers services people from 29 local authorities		
	2008/09	**2009/10**	**2010/11**
Number of Staff	820 (FTE)	1,229	1,146
Annual Income	£29,719,000	£29,161,000	£1,146,000
Proportion of Income from Public Funding	86%	87%	87%

ORGANISATION F	REGIONAL LEARNING PROVIDER		
Field of Voluntary Activity	Disability Support		
Geographical Coverage	8 local authorities in Scotland		
	2008/09	**2009/10**	**2010/11**
Number of Staff	16 all staff including PT	17 all staff including PT	22 all staff including PT
Annual Income	£562,793	£491,941	£524,840
Proportion of Income from Public Funding	93% public funding	75% from LAs and SG	61% from LAs and SG

ORGANISATION H	LOCAL LEARNING PROVIDER		
Field of Voluntary Activity	Learning and childcare provider		
Geographical Coverage	North Glasgow		
	2008/09	**2009/10**	**2010/11**
Number of Staff	-	-	-
Annual Income	£1,307,888	£1,309,493	£1,494,391
Proportion of Income from Public Funding	-	36%	31%

ORGANISATION I	LOCAL HEALTH AND SOCIAL CARE PROVIDER		
Field of Voluntary Activity	Social care and sustained employment services		
Geographical Coverage	Scottish Highlands		
	2008/09	**2009/10**	**2010/11**
Number of Staff	-	-	-
Annual Income	£725,566	£811,609	£728,812
Proportion of Income from Public Funding	-	-	69%

Focus Groups

HEALTH AND SOCIAL CARE FOCUS GROUP

ORGANISATION HS1	
Field of Voluntary Activity	Community services
Geographical Coverage	Aberdeen

ORGANISATION HS2	
Field of Voluntary Activity	Disability/young people
Geographical Coverage	Central Belt, Glasgow and Highlands

ORGANISATION HS3	
Field of Voluntary Activity	Learning disabilities and mental health
Geographical Coverage	5 Local Authorities in the West of Scotland

ORGANISATION HS4	
Field of Voluntary Activity	Childcare and learning support
Geographical Coverage	Highlands, Moray, Argyll and Bute

EMPLOYABILITY/REGENERATION FOCUS GROUP

ORGANISATION ER1	
Field of Voluntary Activity	Youth charity
Geographical Coverage	Dundee, Glasgow and Edinburgh, UK

ORGANISATION ER2	
Field of Voluntary Activity	Criminal justice services
Geographical Coverage	25 Local Authorities in Scotland

ORGANISATION ER3	
Field of Voluntary Activity	Adult learning
Geographical Coverage	Most Local Authorities in Scotland

ORGANISATION ER4	
Field of Voluntary Activity	Employability
Geographical Coverage	Dundee

EQUALITIES FOCUS GROUP

ORGANISATION EQ1	
Field of Voluntary Activity	Young people and Health
Geographical Coverage	Edinburgh

ORGANISATION EQ2	
Field of Voluntary Activity	Learning disability
Geographical Coverage	Edinburgh

ORGANISATION EQ3	
Field of Voluntary Activity	Lone parents
Geographical Coverage	National advice service and projects in 6 Local Authorities

ORGANISATION EQ4	
Field of Voluntary Activity	Health
Geographical Coverage	Across several Local Authorities

APPENDIX F: FLEXIBLE INTERVIEW SCHEDULE

THE CHANGING PUBLIC SERVICES LANDSCAPE IN SCOTLAND: OPPORTUNITIES AND CHALLENGES FOR THE THIRD SECTOR

Year Three Case Studies/Focus Groups
Outline interview schedule
November 2011

Collect Documentary Evidence
Ask for copies of organisation's annual reports and other records in order to gather data for the previous three years on:

- Annual Income
- Sources of income (particularly proportions from public funding)
- Number of FTE staff (if changes, is this because of changes to hours, redundancies etc. Collect data)

Information about Use of Data and Consent form for Research Participants
Where possible, send out confidentiality forms before the interview/focus groups. At the interview/focus group explain the arrangements and obtain consent (where possible) for:
1. Use of the Data (2009-2012)
2. Data Handover to Scottish Government (after 2012)
3. Storage of the Data with the Timescapes Archive

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

Topic 1: Responses to the Changing Policy and Funding Environment

- What changes have there been in the last year in the policy AND/OR funding 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, etc. 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 has been the impact of the Work Programme (where relevant)? Is the personalisation agenda relevant to you and if so, how has this impacted? Has the policy shift toward prevention

and/or early intervention had any impact on you and how? Have you accessed the Change Fund?

- [For selected case study organisations only: how has policy/funding/economic environment impacted on volunteering within the organisation?]

- What opportunities and challenges have these presented?

- How has your organisation adapted/responded? (e.g. identify the stage organisations are at with organisational reviews, making costs savings, diversifying the funding base/social enterprise). In particular, what changes have there been to jobs, pay etc.?

- Have you considered accessing other types of funding such as private finance/loan finance/higher risk capital since the last meeting? 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 2: 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?

- Have there been any changes in the role or level of involvement of the Board since the last meeting? (Explore views of role of Board, effectiveness of it, is it strategic, visionary?)

- What have the challenges been for leadership within the organisation? (e.g. 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 4: Partnerships/Relationships/Interfaces[42]

- 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 aware of third sector "interfaces" that have been 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? E.g. 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)

- Have you been involved in service design? E.g. through Public Social Partnerships, through dialogue with funders, changes in tendering. To what

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[42] 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.

extent have you been involved in service design? Have opportunities for involvement changed since the last meeting? If yes, how?

- 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 7: Future Opportunities and Challenges

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

APPENDIX G: POLICY AND FIELDWORK TIMELINE

Table 1: Policy and fieldwork timeline

Date	UK Government	Scottish Government	Fieldwork
2007		SNP minority government elected	
		Concordat	
2008		Enterprising Third Sector Action Plan 2008-2011 published	
		£30M Scottish Investment Fund opened	
		Process of creating Third Sector Interfaces began	
2009		Future Jobs Fund launched	
		Joint Statement between Scottish Government, COSLA, Solace Scotland and SCVO	
2010 Jan			
Feb		Self-Directed Support Strategy Consultation	
Mar		Public Services Reform Bill	
Apr			
May	Coalition Agreement		YEAR ONE
June			
July			
Aug			
Sep			
Oct			
Nov	Work Programme competition		
Dec		Self-Directed Support Draft Bill	
		Launch of Christie Commission on Future Delivery of Public Services	

2011			
Jan			
Feb	Welfare Reform Bill		YEAR TWO
Mar		Child Poverty Strategy	
Apr		All 32 Interfaces in place	
		Scottish Investment Fund extended until March 2012 with additional £3M funding	
May		SNP majority government elected	
June			
July			
Aug			
Sept			
Oct			
Nov			
Dec			
2012			YEAR THREE
Jan			
Feb			
March			
April			
May			

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