

The Baring Foundation

Sources of Strength

an analysis of applications to the Baring Foundation's
Strengthening the Voluntary Sector –
independence grants programme

Cathy Pharoah

Strengthening the Voluntary Sector – independence

The Baring Foundation

The Baring Foundation was set up in 1969 to give money to voluntary organisations pursuing charitable purposes. Our purpose is to improve the quality of life of people suffering disadvantage and discrimination.

Since 1969 the Foundation has awarded over £90 million in grants. In 2006, the Foundation will award £2.5 million.

The Foundation believes in the fundamental value to society of an independent and effective voluntary sector. It uses its funds to strengthen voluntary sector organisations, responding flexibly, creatively and pragmatically to their needs. The Foundation puts a high value on learning from organisations and their beneficiaries and seeks to add value to grants by encouraging the sharing of knowledge through a variety of means.

Strengthening the Voluntary Sector

In 1996 the Baring Foundation launched the Strengthening the Voluntary Sector grants programme. This programme funds organisational development work aimed at supporting organisations to be efficient and effective.

The programme has supported 682 organisations, giving a total of £11.5 million.

Strengthening the Voluntary Sector – independence

In 2006 the Trustees added a focus to the grants programme inviting organisations to apply for work that would help them to maintain or increase their independence from government. This paper forms part of a series of papers designed to draw out the lessons learned through the grant making. Please see the back cover for details of other planned papers in the series. These will be put on our web-site as they become available.

www.baringfoundation.org.uk For more information about the programme please contact Matthew Smerdon on **matthew.smerdon@uk.ing.com**

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Executive Summary

In 2006 the Baring Foundation re-launched the Strengthening the Voluntary Sector grants programme with a new focus on supporting initiatives to strengthen organisations' independence from government. The 515 applications contained a substantial body of information on current threats to independence, and on practical steps to strengthen position and values. Because of the enormous value of this information to other organisations as well as policy-makers, a research analysis was commissioned by the Foundation. The analysis focussed on three main questions – in what ways is the independence of voluntary organisations most under pressure, how can such pressures be resisted, and how can the achievement of greater independence be measured? The research has produced some clear answers, summarised below.

Findings

Threats to independence

Threats to independence are experienced by a diversity of organisations from across the whole voluntary sector.

Voluntary organisations feel most under threat when their core services are jeopardised by the mechanics of contracting: restrictive or inappropriate performance measures, under-funding, short term funding, changed priorities resulting in funding cuts, and government not listening.

Threats to independence jeopardise organisations' values and core services and undermine organisations' growth and effectiveness.

Activity to promote independence is often prompted by sudden threats to services and is not planned or strategic.

Voluntary organisations are not opposed to change *per se*: their problem is when they feel unable to influence change which they believe their clients have a lot to lose from.

Sources of Strength

Organisations believe that there are practical ways to strengthen independence.

The priorities are developing confidence through extending skills and improving organisational competence.

Organisations need resources to strengthen their ability to plan in a more independent and long-term way.

Measuring independence

Independence is not easy to measure, but important elements include being able to protect values and core services and feeling able to influence agendas.

As the sector continues to grow and develop, it is important to ensure that it is shaped by policies which preserve and promote the very qualities which government is seeking when it commissions from sector providers and invests in sector capacity-building. This research shows how the sector itself can be strengthened to play a part in this.

1 Introduction

*It is a **challenging** time for many organisations wishing to retain their independence yet work in partnership with government-funded public services. It is a **critical** time for our clients needing support.*

(STVS application form, March 2006)

1.1 Context for the research

How can voluntary organisations maintain the right level of independence as they become increasingly significant contractors for the delivery of public welfare services? Twenty years since the introduction of contracting-out triggered the big bang in voluntary organisations' involvement in public service delivery, issues of sector independence are still at the forefront of attention.

The focus of concern, however, appears to be changing. Initial heart-searching about whether the sector should contract with government at all, is increasingly being replaced by a debate on whether and how a healthy balance between two such unequal partners can be maintained. This is a complex issue requiring policy at sector-wide and governmental levels as well as good practice in voluntary organisations' day-to-day dealings with government. The focus of this paper is on how individual organisations can be helped to achieve a position of strength in conducting their relationships with government agencies.

The Baring Foundation believes in the importance of an independent voluntary sector. The increasing complexity of the sector's engagement with government was reflected in the conclusions of its recent report, *Speaking Truth to Power* (Unwin 2004). This paper acknowledged that the growing relationship with government has meant many different things for different organisations, generating creative opportunities for policy and practice development as well as threats. It also identified a number of factors inhibiting sector engagement with government including a lack of capacity, research and evidence, skills and strategy.

In 2005, the trustees of the Foundation decided to review the Strengthening the Voluntary Sector (STVS) grants programme with the aim of focusing funding on a specific theme. From its consultations, the theme that emerged most urgently was the capacity of organisations to manage their relationships with all branches of government. This reflected the trustees' view that in the course of the increasingly significant relationships between voluntary organisations and government, some organisations were faring better than others.

The first working paper in this series accompanying the grants programme, called 'Allies not Servants', sets out the thinking behind the grants programme:

What the Foundation began to explore was what are the circumstances under which organisations can achieve a productive relationship (with government), where the experience and resources of voluntary organisations and government combine to greatest effect? The hypothesis being explored in the grants programme is that the quality and

effectiveness of the relationship is determined by the capacity of voluntary organisations to retain their independence. The programme is in no sense “anti-government”. Rather it grows out of the Foundation’s belief that the independence of voluntary action is fundamental, whatever the hue or stance of the government of the day. Now, in 2006, all the political parties agree that the sector will play a greater role in concert with all the branches of government. At this time, the programme seeks to explore and to inform the continual search to discover how these relationships can best be managed.

(Smerdon 2006)

So the Foundation began to consider how a grants programme supporting organisational development could help voluntary organisations to operate in the contracting environment. In particular, the programme considered how organisations could be helped to pursue the range of freedoms necessary to carry out their work effectively. The STVS programme was consequently relaunched in March 2006 with a new focus on tackling threats to independence. The guidelines listed a range of activities that were eligible for funding. These activities were gathered under two headings that the Foundation believes reflect the characteristics of independent organisations: ‘legitimacy’ and ‘confidence’.

Five hundred and fifteen organisations applied for funding. The applications contained a substantial body of information on how the current funding environment, and the way in which funds are transferred to the sector from government, poses threats to sector independence. They also contained invaluable insights into the practical steps which organisations felt they could take to tackle threats and strengthen their position and values. It was felt that such information could be of enormous value to others facing similar threats, and to policy-makers concerned to improve the current environment for working with the voluntary sector. As a result, a research analysis of the main messages to emerge from the body of material collected in the programme was commissioned by the Foundation.

The report is timely, providing a response to the government’s recent call for more evidence on how the sector’s voice in partnerships can be strengthened, and its commitment to the importance of the sector’s voice and campaigning role: ‘We want the sector’s voice to be heard more loudly over the coming years’.
(Third Sector Review Interim Report HM Treasury 2006)

The research reported here aims to contribute towards understanding and addressing the challenges of maintaining core values in the current daily working and funding environment. It is important to be clear that this is not about resistance to change and development, but about the extent to which – and the ways in which – organisations can be empowered to stay true to their most important principles.

1.2 Background to today's dilemmas in independence

The nature of the engagement between the sector and government is continually evolving. Undoubtedly the contractual relationship has left the sector with a legacy of issues, neatly summarised by one of the STVS applicants.

We struggle to 'justify' full cost recovery to local funders, particularly if they think they can access a 'free' service elsewhere. We constantly have to justify our model and why we deliver (even though they really value the high quality of our work). We are under constant pressure to review and justify costs ...instead of ...allowing us to get on with the job and to deliver results. With a focus on the short-term, this leads to our inability to plan and operate strategically. In this new climate, we are in fire-fighting and short-term crisis mode, hindering the organisation's growth and development.

The value of service-delivery contracts make government a major 'shareholder' in today's voluntary sector, and constitute a tranche of sector income at least equal to that from voluntary sources (and likely to overtake it). It is in the dominance of government as a funder that today's threats to independence are seen to lie, whether in its power to give or withhold contracts, or to restrict the scope of contracts, as illustrated so clearly in the quotation above. 'Allies not Servants' reviews the sector's changing relationship with government since the beginning of the contracting era in the late '80s (Smerdon, 2006). That paper provides the background to the programme and this is not repeated here.

2 A note on methodology

2.1 Content of the research

All of the information in the analysis was drawn from the STVS applications forms, whose questions provided the framework for the data collected. Their focus was on how applicants could be helped to address threats to the following core freedoms:

- to agree values and priorities based on the organisation's own experience and vision, not external pressures
- to carry out work that delivers the stated purpose of the organisation
- to negotiate robustly with funders and partners
- to challenge others and engage in public debate.

Applicants were asked to provide information on the source and nature of threats to their independence, and practical initiatives which would strengthen their position through increasing their legitimacy or building their confidence. For example:

- greater involvement of beneficiaries in organisational review or governance
- better evidence-gathering on need and evaluation of impact
- reviewing values
- developing skills and capacity in negotiating, campaigning, communicating
- diversifying income sources and improving contract pricing
- making use of the Compacts
- improving stakeholder dialogues.

There were no prescriptions as to what this might mean in practical terms. It could mean developing ability to engage with, or walk away from, government contracting. It was down to organisations themselves to identify clearly what they needed to do and why.

2.2 Aims of the research

The research aimed to explore common themes and issues related to the maintenance of independence and the protection of values. But there was no grand research design to study the state of independence in the voluntary sector's relationships with statutory agencies today. The research consists simply of an analysis of information contained in the application forms submitted to the STVS grants programme, and aimed to answer three key questions identified by the Baring Foundation:

- in what ways is the independence of voluntary organisations under pressure?
- how do organisations think they can resist these pressures?
- how can the achievement of greater independence be measured?

2.3 Methodology

The grants programme was not intended as a tool for collecting systematic evidence on the practical challenges of independence which organisations were facing. De facto, however, the responses constitute a detailed body of evidence on this. For a number of reasons, the material was considered to merit research analysis:

- all applications were made according to a standard format
- the number of responses to the programme was substantial
- there was a considerable amount of factual and other detail in the forms
- the sample represented all UK countries, national, regional and local levels
- the applicant sample had a wide spread of income and activity.

There was some over-representation of medium-sized organisations between £1- 4m as compared with the sector as a whole, and under-representation of small organisations. This was to be expected as the programme was most relevant to organisations with a reasonable amount of funding from contracting. It is not considered that this influenced the results in any undue way. Organisations with income >£7 million were excluded from the programme.

The method of analysis A number of ways of analysing the information was considered. The challenges from a research point of view were firstly that the central theme of 'independence' was fairly openly defined in the application process, to give applicants freedom to raise the individual issues most crucial to their organisation. It was possible that applicants had approached the question of independence very differently from each other, making it difficult to use a common framework for analysis.

The second challenge was that the application form is structured around a few seminal questions, but leaves applicants plenty of scope to describe their own particular situation in their own way. This posed a considerable challenge to standardising responses. One option would have been to focus on writing up a small selected sample of applications as case-studies. There was, however, enormous interest in capturing a larger proportion of the material submitted, and exploring whether some common patterns had emerged. With this in mind, an alternative option of developing a schedule for coding up material on the most important general issues was devised, tested and finally adopted.

Sample analysed Of the 515 applications submitted, a substantial sample of 384 was coded and analysed (75%). This consisted of all of the applications short-listed for consideration for a grant, and a random sample of the others.

Content of the analysis Following the questions in which the Foundation was interested, and the question format of the application forms, the analysis focussed on pulling out information relevant to the following issues:

- which types of clients would be affected by threats?
- what were the main external sources of threat to organisations?
- which areas of organisational capacity were affected by threats?
- what solutions for dealing with threats were proposed?
- how would success be measured?

Interpretation of the results In interpreting the results it is important to note the factors which influenced responses. Firstly, threats to independence were largely self-defined by the applicants within the broad framework in the application guidance. Secondly, solutions had to lie within the terms and conditions of the grant programme, focussing on organisational development and excluding routine running costs, costs of existing services, purchase of vehicles, refurbishment. Thirdly, information was provided for the purposes of obtaining a particular type of grant support. While these factors determine the scope of the responses, they do not affect the enormous value of the information provided on the real daily threats which organisations are experiencing within the current funding environment, their perceptions of what lies within their own power to influence, and the ways in which they believe they can strengthen their performance.

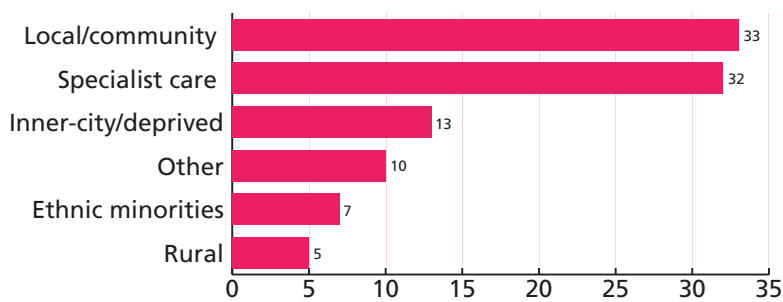
3 Findings

3.1 Threats to independence

FINDING Threats to independence are experienced by a diversity of organisations from across the whole voluntary sector.

A very important issue for the analysis was to establish whether independence was particularly felt to be at risk in any specific types of charity or client. This did not prove to be the case. Challenges to independence were identified across the spectrum of voluntary organisations, affecting infrastructure and umbrella bodies with members, as well as those directly providing public services to clients. The figure below shows the distribution of client groups served by applicants.

Figure 1 % of applicants serving specific types of client group



These results show that just over one-third of the applicants were working at the local or community level and an almost equal proportion was providing specialist care. Thirteen per cent were specifically addressing needs in deprived or inner-city areas, and 7% were working with ethnic minorities.

The results also indicate that applicants were representing a larger proportion of high needs or excluded groups than would be found across the sector as a whole. Comparable figures are difficult to get, but, for example, one-third of applicants was providing specialist care, compared with the one-fifth found in the social care sub-sector amongst the top charities (Charity Trends, 2006). The proportion of organisations serving minority ethnic groups was very similar to the proportion of the population in minority ethnic groups (ONS, 2004). The 15% of organisations working in deprived or inner-city areas are serving populations where poverty and health problems are concentrated.

Service-providing charities Further evidence that applicants were working with particularly high levels of social need was that almost three-fifths (58%) were direct service providers. Moreover they represented a wide range of need including, for example, the elderly, children and the environment, and many of the smaller, marginalised or specialised groups such as gay and lesbian, mental health, prisoners, learning disability, drugs and alcohol, women. Although constituting well under 1% of the whole voluntary sector, the applicant group represented many of the most specialised client groups within it.

These results suggest that issues of independence, and difficulty in protecting values, may be more acutely experienced by organisations providing services to high needs, excluded or niche groups. There was evidence in some of the application forms that one reason for this was the difficulty of preserving adequate budgets for specialist care within mainstream services (see below). This included instances where authorities were reluctant to work across borders, and it was difficult to make the case for some specialised needs simply from potential client numbers within one geographical area.

Umbrella groups Two-fifths of the applicants were infrastructure or umbrella bodies such as rural community councils, local care forums, councils of voluntary service, volunteer bureaux, community foundations and those serving specialised groups such as social enterprises or ethnic minorities. One-third of the infrastructure or umbrella bodies was large, complex and multi-service bodies, and two-thirds were single issue agencies.

Although there were many community forums of various kinds in the sample, just 7% were community development organisations. This may be because such agencies are less dependent on statutory funding.

Unfortunately there are no figures against which to compare whether the split of types of applicant organisations was representative of the sector as a whole or not. However, the number of infrastructure groups is clearly high. These groups have a seminal role in building sector strength and supporting change, a role acknowledged in government initiatives such as Capacitybuilders, aimed at building sector infrastructure capacity. This means that any threats to the independence of these agencies have the potential to weaken the sector as a whole.

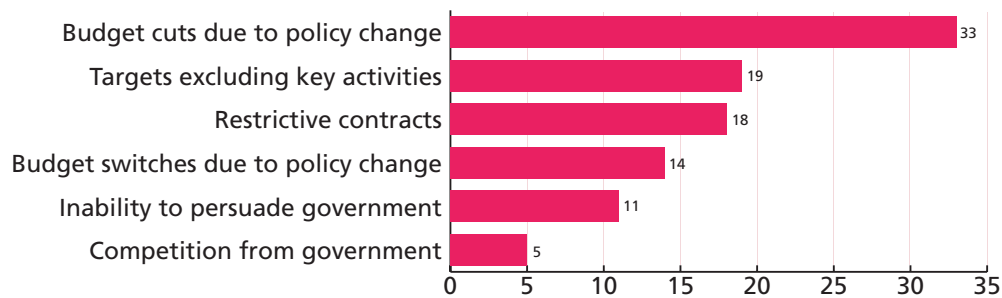
The challenges experienced by such applicants included the lack of contractual provision for their wider roles in representing their members and communities, for innovative work in identifying needs and services, and for developing challenging new skills such as in impact measurement, in their members as well as themselves. One problem, as will be seen below, is that applicants did not have confidence in presenting such needs within calculations for full-cost recovery when trying to procure contracts.

In summary, analysis of the applicant group shows threats to independence being reported across the diversity of the sector whether serving members, clients or local communities. Threats to independence appear to be particularly acutely experienced amongst organisations working with specialised and excluded groups. It is also significant that all sections of the voluntary sector were able to identify areas in which they could improve the way they worked.

FINDING Voluntary organisations feel most under threat when their core services are jeopardised by the mechanics of contracting: restrictive or inappropriate performance measures, under-funding, short-term funding, changed priorities resulting in funding cuts, and government not listening.

Just as it was important to explore whether particular types of organisation were applying for grants to strengthen their independence, it was significant to look at whether there were common sources of threat. The results on this were very clear. Of the six threats identified by applicants, the top four all relate to aspects of the way government transfers funding to the sector. The figure below maps out threats reported in the applications.

Figure 2 % of applicants identifying particular threats to independence



Budget cuts or shifts arising from policy changes One-third of the sample of applicants identified budget cuts following a change in government policy as the source of threat. Loss or shifts of funding to a new mainstream government initiative was a common issue, in the application forms, and was specifically mentioned by 14%.

Restrictive contracting The problem of contracts tied to specific performance targets which excluded key activities was raised by almost one-fifth (19%), and to restrictive remits by 18%. The exclusion of particular kinds of work, and a narrow vision of how clients and communities could best be helped was a huge source of frustration to organisations.

One example of how freedom to meet need was constricted by the narrow vision of a contract was a service providing sensitive user-oriented support to a vulnerable group of young people. The service was funded by a mainstream government initiative with an uncertain future. However the organisation was unable to take clients from outside a narrowly-defined geographical area, even although the service was sought-after by clients wanting help outside the area where they lived and had been at risk.

Inability to persuade government to listen Problems were not straightforwardly about loss of services. 11% of applicants said that government was impervious to their views. A final area of threat was government setting up competing services (3%).

All of the above problems reflect a tension at the heart of the partnership agenda, which means that organisations are partners in some circumstances and not in others. While organisations sometimes strongly believed that they had a superior service which had been marginalised, at other times they acknowledged the necessity of change but were not invited to be a part of the process of change and became victims of it. One case-study illustrates this issue well.

This was a coalition bid from groups serving minority clients with special needs. The applicants felt strongly that the Compact codes had been ignored in their negotiation with local statutory agencies. They had lost their premises, and said that they had been threatened with budget cuts when they complained. They felt that cultural and language differences had been a problem. But they also said that the voluntary sector had not understood the pressures which the statutory agencies were under, and they expressed their definition of independence as 'Being able to make choices for our community in a way that takes on board other providers' input at the same time as feeling able to challenge this'.

These results directly reflect the nature of the current contracting environment, providing first-hand evidence of its impact on the sector's task in delivering core services. Organisations are dealing largely with short-term contracts, where the contractor has the power and flexibility to change priorities, cut budgets and shift to new programmes. They are also dealing largely with contracts tied to highly-specified and narrow service-delivery outputs. Such contractual approaches directly threaten organisational independence and control over client services. For some, survival is in question. A national second tier organisation explained that:

national and local government policies for funding and procurement pose a real threat to the sustainability of agencies. At best, agencies will have to consider merging with others and committing to onerous performance targets. Small community-based agencies face the biggest challenge, but most agencies lack the means and the know-how to meet this threat.

This research could not explore different accounts which other stakeholders such as funders might have given of what happened. However, whether change was inevitable, forewarned or even valuable, the crucial issue is that, in spite of partnership rhetoric and the implementation of the Compact, voluntary-sector change or organisational development is still being triggered by external threats. It is not planned or strategic, and does not leave organisations, many of whom are providing for a high level of client need, in control of the agenda.

FINDING Threats to independence jeopardise organisations' values and core services.

Threats to independence were found to be jeopardising organisations' freedom to deliver their values across the board, affecting clients, members, staff, and quality of work. This confirms the value-driven way in which voluntary organisations work, how commitment to the mission underpins organisational culture and activities. Threats fell into themes which are grouped below.

Figure 3 % of organisations experiencing threats to various abilities*



*applicants recorded more than one threat

Providing core services The major concern expressed by applicants was that threats to their independence jeopardised their ability to meet core client needs. Almost the whole sample (92%), and the single biggest category of responses (24%) stated that the provision of core services was under threat. Some applicants were referring specifically to services which they had uniquely tailored for particularly vulnerable or challenging groups. Others were concerned about the way their expertise could add value to services and achieve far better outcomes for community wellbeing.

While there is considerable recognition that our service works (supported by a sound evidence-base of qualitative and quantitative data), we are constantly challenged by the authorities' need to deliver a (generic) solution. While they value the high quality work, they are concerned about future justification of spend on a limited number of client locations.... we are striving to provide a safe service for vulnerable (clients) at risk who have all too often been let down before and have very little stability in their lives.

Staying true to values Two-thirds of the applicants expressed threats explicitly in terms of their ability to stay true to their values, to provide the services to which they were deeply committed in the way that their experience tells them is best. In many instances applicants reported a total shut-down of an area of activity. More than two-thirds (69%) described threats to the survival of the organisation or particular projects and programmes.

central government funding has been totally withdrawn, and the future sustainability of independent expertise (from our organisation) to assist public service provision depends on securing individual agreements with over 147 local authorities

Defining clients/members' needs, Advocacy and speaking out Well over one-quarter said that their ability to define their clients' or members' needs was threatened, and a further quarter talked about threats to speaking out and advocacy.

One organisation for whom threats lay partly in having to compete fiercely for funding with other local groups said:

Funders only want us to provide front line services to clients, not to raise issues around problems regarding their policies: they are financially barred from funding a service that includes campaign and policy work, as their reporting to central funds would not allow for it.

This organisation commented that they had been told that full cost recovery was not intended to provide for activity such as campaigning. They felt sure that to include this element in their costings would inevitably lead to the failure of their tender.

Being innovative The ability to innovate is one of the most-often cited special characteristics of the voluntary sector. That one-fifth of applicants talked about their ability to innovate as being under threat is substantial evidence of the important link they made between independence and scope to promote innovation. Most attributed the shortfall in resources for innovation to narrowly-framed contracts solely covering specific service outputs, and to the difficulty of getting full-cost recovery which covered a contribution to overheads such as new development work. In addition to this, competitive pricing leaves little room for organisations to make any surplus which they could use to re-invest in organisational growth, while the practice of 'claw-back' provides a disincentive to make cost-efficiencies.

Examples of innovative areas of work in jeopardy included collecting evidence to substantiate new areas of need, developing staff expertise to provide services in innovative and more effective ways, extending existing services to new client groups, influencing mainstream policy, strengthening members' skills in new areas such as evaluation and impact measurement.

Building strong communities Another fifth described the threats to their independence in terms of inhibiting their ability to build strong communities. Given that one-third of the applicants said they served local needs and 7% were community development organisations, this is a particularly significant finding. For example, one membership body said that:

one barrier to a larger and more active membership is a perception that substantial public funding programmes have distanced us from the 'coalface' and cutting-edge work of the sector in local communities.

Many organisations were frustrated that the only way they could justify the value of community development work to funders was through identifying some quantifiable outputs, which were by their very nature a poor and inadequate measure of impact. The meaning of community activity to an isolated group cannot be summed up, for example, in the number of activities organised. More significant assessments of value such as changes in attitudes, social skills, relationships or wider community impact requires resources most groups do not have.

Others felt that a focus on government delivery targets squeezed out the capacity for adding value to services or for realising the full potential for community growth and development which some initiatives offered.

FINDING Threats to independence undermine organisational growth and effectiveness.

Many fewer applicants talked about the impact of threats to independence on the operation of the organisation itself than on its services to clients. Nonetheless, issues of organisational development were raised by significant proportions of applicants. The ability to grow the organisation's external influence and reach was mentioned by 17%, internal systems by 15%, and staff training and development by 13%. This represents substantial evidence of the way in which budget cuts and narrow contracting regimes threaten organisational effectiveness:

Whilst our direct client work tackles disadvantage and discrimination on a case-by-case basis, our wider work is unsupported both by the narrow remit of our statutory funding.

Each funder's focus on ensuring their funds deliver clear (and narrowly defined) 'improvements'...has increasingly resulted in (our) work being focused on blunt, short-term quantitative service outputs.

Although organisational competence took lower priority as a threat than client service cuts, in contrast the main solutions put forward concerned organisational and professional development. This means that organisations defined their own developmental needs in terms of their ability to defend their values and promote the interest of their clients. This is significant affirmation of the values-driven nature of voluntary organisations and of their important role as advocates of client need.

Service quality and member development Frustrations do not only apply to whether or not programmes can be delivered. Many applicants highlighted important threats to the quality of what they could deliver (16%), including the ability to carry out member development (11%). Examples of service compromise included local authorities going with cheaper options even when they acknowledge that the selected provider gives lower quality; and organisations beginning to underbid in order to gain funding.

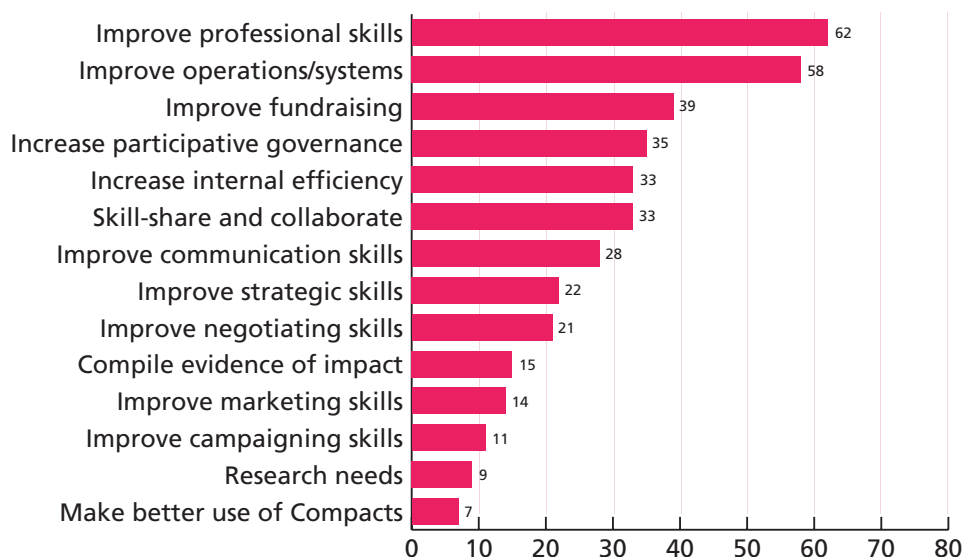
3.2 Sources of Strength

FINDING Organisations believe that there are practical ways to strengthen independence.

Having identified inroads into their independence as a problem, what options did organisations suggest would help them address such threats? As noted earlier, the STVS programme explicitly excluded funding for budget shortfalls, which might have solved a short-term problem, but would not have addressed longer-term questions of independence. It offered organisations the opportunity to build capacity to take control of their agendas. One main finding, therefore, was that many organisations believed they could find ways of strengthening their independence, resulting in the high level of applicants to the STVS programme. The nature of the challenge might well have failed to attract much response.

The other implication is that organisations do not think that independence is rhetorical. Rather it is a function that can be built into the strategies, systems, structures and skills of the organisation. This demonstrates a degree of confidence on the part of organisations that they could deal with challenges to their independence in a much more powerful way. The figure below sets out how organisations thought they could respond to the challenge of strengthening independence.

Figure 4 % of applicants by strategy for strengthening independence



**applicants gave more than one strategy*

Developing confidence through extending skills Improving core professional skills was the top priority, mentioned by 62% of applicants. This could mean several things, from improving advocacy skills or management, to offering more diverse and expert services. The common factor running through these activities is that they could all strengthen an organisation's confidence in itself, and consequently its sense of legitimacy. This could enable it to approach its stakeholders, internal and external, in more powerful and focussed ways. As the following example demonstrates, this did not necessarily mean a defensive stance, and some organisations saw the opportunity to be highly proactive:

Whilst the organisation has welcomed productive growth since its inception, its main objective is now to develop and consolidate itself as a centre of innovative excellence and share best practice and expertise with the growing number of practitioners in the field.

Creating confidence through organisational competence The second major response was to request funding to improve operations and systems (58%). Examples of improvements put forward included:

- developing accurate costing and pricing of services through training*
- embedding improved internal policies across the organisation*
- understanding legislation and staying abreast of changes*
- creating positions with the principal purpose of interfacing with government.*

Some organisations linked operational and developmental effectiveness.

We wish to carry out a bottom to top programme of management training and IT investment, encouraging local residents, users of services and non-managerial staff to examine their potential as managers, providing training to existing managers and capturing systematically the impact of the way we work in a new database.

Strengthening independence through greater legitimacy Many identified a need to strengthen their legitimacy through more participative governance. This was mentioned by more than one-third (35%). A unique quality of the voluntary sector is its potential to relate to a multi-stakeholder and user-oriented environment. The high level of requests for resources to develop this area shows that the sector is still underplaying its best strengths. For one applicant independence related entirely to stakeholder support:

Independence for an organisation based within one county which is also co-terminus with (other authorities) cannot easily be achieved through income diversification... but by demonstrating that the organisation has a democratic legitimacy that allows it to speak convincingly and assertively on behalf of (the client group).

Another said that although they wanted their activities to be led by those with most experience of the issues, they had not been able to achieve this in practice:

There is a weakness within our overall governance structure around the involvement of people with experience of these issues and we don't have a systematic way of bringing a strong and diverse perspective into our overall strategic development.

In addition to better external relationships, there were requests for the development of skills to help influence the external environment, including improving the evidence base for need (9%) and for impact (15%), improving skills in communications (28%), marketing (14%), negotiating (21%), campaigning (11%) and strategic planning (22%). Communications skills cut across many areas. Applicants talked of:

- influencing statutory agencies through a programme of seminars, briefings, workshops and press articles aimed at these audiences to raise awareness*
- negotiating with appropriate agencies for change to normative frameworks*
- maintaining sound, well-articulated belief in the 'product' and negotiating robustly for government contracts.*

The general benefit of better communications was well summed up by one applicant:

(we will) increase confidence by building understanding at all levels across the organisation of its core values, core messages and how our work is financed and funded.

Other improvements included basic competencies such as ability to fundraise for more independent income, mentioned by almost two-fifths of applicants (39%), and improving the knowledge base through collaboration (33%). Proposed collaboration included:

- using pilot schemes, involving a number of front-line agencies, to improve services and influence public policy*
- developing a sector-wide quality mark to demonstrate acceptable standards*
- creating channels for users to represent their experiences to campaigning and lobbying organisations.*

Just 7% said they could make better use of the Compact in negotiating with government funders, although the breadth of the Compact's scope means that it was probably highly relevant to many of the problems reported by organisations. Recent Compact-strengthening measures may encourage organisations to make more use of it.

Did budget cuts have any distinctive impact on organisation's choice of solution? The solutions put forward by those who gave budget cuts as the main source of threat were compared with those proposed by applicants as a whole. There was almost no difference in response patterns, except that those facing budget cuts were more inclined to ask for support in improving their fundraising skills (50%) than applicants as a whole were (39%). This shows that most organisations saw the threats to their independence as going deeper than funding shortfalls.

The research also explored whether the way in which threats to organisational abilities were identified had any specific relationship with the type of solution proposed. Because so many applicants opted for a solution which involved strengthening their core skills, this generally came out as the preferred approach, regardless of particular issues.

Overall the requests to the STVS for support reveal a sector which is experiencing ongoing threats to its independence through government contracting, but which is willing and able to identify gaps in its capacity to defend its *raison d'être*. In a lecture to mark the 10th anniversary of the Commission on the Future of the Voluntary Sector, Nicholas Deakin, (now a Baring Foundation trustee), commented that:

What is particularly striking (about the applications to the STVS programme) is the practical significance (applicants) attach to independence and the nature of the obstacles they have identified in the way of functioning independently. These are mostly local and specific, not generic. There is no conspiracy here by the Great Leviathan to take over the sector. The problems are substantial, but they can be addressed on a case by case basis.

The practical work proposed enables organisations to focus on how what they do and the methods they use make them effective. This generates those all important sources of strength they need in order to achieve the freedom to deliver their values.

3.3 Measuring success

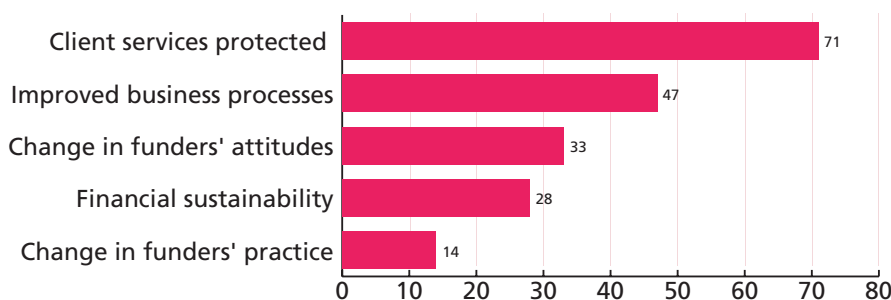
FINDING Independence is not easy to measure but important elements include being able to protect values and core services and feeling able to influence agendas.

The STVS application form asked organisations to identify how they would measure their success in strengthening their independence in relation to government. Thinking about identifiable outcomes provides a discipline for thinking through a change process from initial problem identification through setting goals, practical action plans to criteria for success. Being able to demonstrate success is another important way of building confidence. As one applicant said

This work will increase confidence about demonstrating impact by developing practical approaches to assessing and enhancing impact, capturing case studies and using learning sets.

The figure below sets out how organisations said they would measure their success.

Figure 5 % of applicants by indicator chosen to measure success*



*applicants chose more than one indicator

Delivering services to clients Many applicants found it difficult to express how change within themselves and their organisations could be measured in terms of greater independence. Nonetheless a consistent picture emerged from the results. That almost three-quarters (71%) said their success measure would be to protect and deliver their aims and objectives for clients was fully consistent with the finding that the main threat which applicants reported was to the delivery of core services. This is what organisations are ideally aiming for, but it is a stretching measure for the STVS applicants, because they had limited control over their external environments. The focus of the grants programme was on the way in which organisations tackled their problems, as a step towards better outcomes, and not on solving the immediate external threats themselves.

Greater control over work Most applicants also set out some additional 'intermediate' targets directly related to the specific objectives for which funding had been requested. So, for example, nearly one-half (47%) said they would measure success in terms of improved internal business planning and monitoring.

For more than one-quarter financial sustainability was the goal.

However, although the impact of better business and financial planning on enabling organisations to take control of their agendas was not articulated explicitly as a success measure, it is implicit in their sense of how important it was to work more effectively:

Impact will be assessed by the number of local authorities opting for service level agreements. Lasting impact on organisation's independence will be assessed by the balance of public funding from service level agreements to alternative sources of funding. Ideally public service level agreement funding should be 40-60% of total funding.

Improving skills The aim of improving skills, particularly in communications, negotiating, marketing and campaigning so as to increase ability to influence their external environment was directly reflected in the priority attached by one-third of applicants to achieving changes in funder attitudes. That the proportion aiming at changes in funder practice was much lower (14%), indicates somewhat less confidence in what could be achieved.

Increasing legitimacy Those who were aiming at better and more participative governance had a very clear picture of what success would look like:

We want to improve our evaluation procedures in order to increase legitimacy through demonstrating that our distinctive approach is effective and leads to the empowerment of our users and better decision-making.

4 Analysis and commentary

4.1 Summary of the main findings from the analysis

The analysis of the information in the grant applications showed that there were clear trends and patterns in the results. Asking voluntary organisations about threats to their independence does not lead to diffuse discussion of values but translates into some common harsh daily realities across the sector. The main results were:

- Threats to independence are experienced by a diversity of organisations from across the whole voluntary sector.
- Voluntary organisations feel most under threat when their core services are jeopardised by the mechanics of contracting: restrictive or inappropriate performance measures, under-funding, short term funding, changed priorities resulting in funding cuts, and government not listening.
- Threats to independence jeopardise organisations' values and core services and undermine organisations' growth and effectiveness.
- Activity to promote independence is often prompted by sudden threats to services and is not planned or strategic.
- Voluntary organisations are not opposed to change *per se*: their problem is that they feel unable to influence change when they feel that their clients have a lot to lose from it.
- Organisations believe that there are practical ways to strengthen independence.
- The priorities are developing confidence through extending skills and improving organisational competence.
- Organisations need resources to strengthen their ability to plan in a more independent and long term way.
- Independence is not easy to measure, but important elements include being able to protect values and core services and feeling able to influence agendas.

4.2 Taking control

Threats to core services and the way government resources are transferred

One of the clearest findings from this analysis was that organisations feel their independence is most at threat when external factors such as major shifts in government budget priorities jeopardise the core mission-driven services and activities which they value. A local charity loses funding to a more economically-competitive large national charity. Funding to a successful local programme gets subsumed within the new local Children's Trust. A primary care team recommends re-alignment of aims to compete for delivery of a local public health initiative. Clients are directed towards particular voluntary sector providers, or unable to

access services without a local social service referral. Competition for a shrinking funding pot prevents organisations from campaigning or speaking out.

The way in which government currently manages the transfer of resources into the sector puts the ability of organisations to deliver their core services under pressure. The analysis showed organisations reporting how short-term contracts, use of inappropriate performance measures, contracts restricted to narrow measurable service outputs, onerous bureaucracy and uncertainties around the meaning of full-cost recovery on both sector and government sides are all putting their independence at risk. May, amongst others, warned some time ago that the major threat to the voluntary sector was coming from competitive, market-based, restrictive and tightly-regulated approaches to government procurement. (Whelan 1999)

The National Audit Office (NAO) drew attention to wide variation in funding practice amongst government agencies in a recent report, commenting that there was no clear understanding of when grants or contracts would be most appropriate, or the difference between supporting important causes, 'giving', procuring services, 'shopping', and building capacity, 'investing'. (NAO, 2005) For an independent sector to flourish, promoting and strengthening its values, all three types of funding are needed. The sensitive, flexible services for which the sector is most valued by government will not survive without recognition of this. The information in this research shows how difficult it is for organisations to obtain funding for anything except contract delivery, and reinforces that contracts can be a poor mechanism for building a healthy independent voluntary sector. It is tempting to speculate whether the recent Third Sector Review marks another stage in which the sector engages with government, with a renewed focus on its role in advocacy?

It is important to emphasise that the voluntary organisations described in this report were not opposed to change per se. Their problem is that they are not at the heart of change, and often have a lot to lose from it. The difficulties experienced by voluntary organisations of moving from the 'outside' to the 'inside' of partnerships are described by Taylor in detail (Taylor 2001). The complexities are well-exemplified in the STVS research case-studies.

When policy shifts inevitably mean new funding programmes, many organisations are left stranded. These are all issues which the Compact was designed to address. The research showed that organisations were not making as much use of the Compact as they might, and it is to be hoped that the introduction of Compact Plus and the appointment of a Compact Commissioner will help organisations find their way to it.

The NAO's survey of local authorities showed that many had a good idea of how to strengthen the contribution of the voluntary sector, mentioning approaches such as new mechanisms to involve the third sector in policy design, and having corporate level objectives for the voluntary sector. ACEVO pointed out at its 2005 conference that:

an expanding role in policy implementation and service delivery has transformed the sector's relationship with government. Often it is now government that challenges the sector to secure and demarcate change, rather than the reverse.

The STVS research analysis suggests that the extent to which the sector can and should be a player in policy development is currently compromised by threats to independence.

Community organisations included in this report appeared to have particular problems in persuading funders of the value of their mission and work. They are particularly at risk in a contract regime which demands measurable performance outputs, because so many of their objectives such as changes in attitude, relationships, empowerment and quality of life are hard to measure. These are also extremely expensive to measure, and organisations have few resources for this. Recent government reviews have placed a strong focus on the contribution of community organisations. The ODPM's recent report highlights the need for more community assets (ODPM 2006), and the TSR Interim Report both acknowledges that community groups have difficulties with funders and that smaller ones particularly need grant support. However, organisations are still likely to need the tools to demonstrate their impact, and one of the innovations proposed in the STVS programme was to develop ways of measuring the impact of community development activities. It is a Catch 22 that local government agencies demand a demonstration of impact, but will not fund voluntary organisations to do it.

Strengthening independence through practical initiatives

The analysis showed that organisations were able to identify many ways in which their independence was undermined through gaps in their governance arrangements, skills, operations, capacity for research or evaluation, innovation and staff development. Organisations viewed these areas as potential sources of strength but developing them requires time and resources. Locke et al, for example, have discussed the complex nature of involving more users in governance (Locke, 2001). Most importantly the analysis showed a willingness to identify weaknesses and tackle change. This echoes findings of the 2006 Collaborative Inquiry into the values of the third sector which encouraged organisations to take control of their futures. The Inquiry concluded that:

We need to concentrate on what inspires us to do our work, on how our methods help us to be effective and on what we want to achieve. Organisations have to take responsibility for making this happen. No-one else will do it for us.

(Blake et al 2006)

Full-cost recovery is still not providing for many areas of organisational development, partly because the policy is not being fully implemented and partly because organisations do not have the confidence to ask for what they need. Building up internal effectiveness and expertise was a way for organisations to strengthen their confidence, their ability to take control of agendas, and to demonstrate their legitimacy. It is important that capacity-building is not only seen as a way of improving service-delivery, but as a way of growing and developing the sector's ability both to protect and promote the unique qualities for which it is valued. The evidence in the STVS grant applications indicates how lack of resources for internal organisational growth and development is contributing to undermining the independence of voluntary organisations.

The challenges of defining and measuring independence

The analysis suggests that organisations' strongest sense of independence derives from how it affects their beneficiaries. This reflects NCVO's definition of independence in terms of the ability of voluntary organisations *to determine for themselves how best to meet the needs of their users of beneficiaries, independent of any specific government targets or objectives.* (NCVO 2005) A message from this research is that unless organisations have a strong internal sense of independence, and how to grow and strengthen their values, their ability to protect their core clients will in the longer-term be jeopardised. The values of voluntary and community organisations cannot be taken for granted. They need to be preserved.

Answering some key questions

The questions which prompted this analysis were in what ways the independence of voluntary organisations is most under pressure, how such pressures can be resisted, and how the achievement of greater independence can be measured? The research has produced some clear answers. The greatest threats come from an external funding regime which is not attending to the needs of voluntary organisations either as providers or as advocates for high-needs groups. Organisations can deal better with such pressures if they have resources to strengthen their sense of values, legitimacy and ability to take control of their agendas. Success in achieving greater independence will partly be measured through assessing the extent to which organisations work more effectively, communicate better and have a stronger sense of their values. The ultimate test for most organisations will be to protect the best that they can offer for their clients, members and communities.

The impact of the STVS programme on organisational independence will be assessed in the external evaluation which the Baring Foundation has commissioned. It is seeking to add value to the STVS grants programme by sharing learning. The research reported here is part of this effort. The voluntary sector landscape is changing daily as new service-delivery vehicles and organisations are created (for example, social enterprises), and as fresh service areas are offered up to voluntary sector involvement (for example, health). It is important that the emerging sector is consciously shaped by strategies and policies to preserve and promote the very qualities which government is seeking when it invests in sector capacity-building and commissions from voluntary sector providers. This research shows how the sector itself can be strengthened to play a part in this.

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