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# GOVERNMENT POLICY, RECESSION AND THE VOLUNTARY SECTOR

A report for UNISON

**Steve Davies**  
**Senior research fellow**  
**Cardiff School of Social Sciences**

**November 2009**

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## Foreword

By Dave Prentis, general secretary, UNISON

UNISON's commitment to the community and voluntary sector is clear. We have 60,000 members in the sector, carrying out vital roles in crucial public services. Our members in the sector work provide mental health services, support for people with learning disabilities, nursing care, care for older people, services for young people, addiction services, and many more services besides. They campaign on a range of social issues, and work hard to develop new solutions that protect, enrich and change lives.



UNISON also works alongside many voluntary sector organisations, with which we share so many core values, like equality, respect and helping people make the most of the opportunities they are presented with.

We are committed to the public service ethos, and our members want to work alongside the government to maintain and improve our public services. UNISON's members in the community and voluntary sector are central to our Million Voices campaign, which calls for a fairer society and a more balanced and sustainable economy, based on social justice, good jobs, and quality public services.

This new report, by Steve Davies of Cardiff University, is an important contribution to the debate on the voluntary sector's role in the delivery of public services. It makes clear that employers and workers alike are committed to improving society and delivering quality public services, but that their best efforts are being undermined by a combination of the recession and elements of government policy.

We are clear about what the voluntary sector can offer – expertise and knowledge about many vulnerable groups, new solutions, community links, and a role working alongside the public sector. We are confident that the government wants to make the most of those qualities too. Our message to the government is clear: the voluntary sector workforce is world class, and deserves to be treated decently, with fair pay. And voluntary organisations deserve to be funded properly and with stability, so that they can continue the work they do well, and not be misused as a low-cost option.

We will work with the government to refocus the debate on high quality public services, and we hope you find this clear and thought-provoking report to be of interest and value.

## Executive summary

This report examines the current position of the voluntary sector in the UK. It does so following a period of unprecedented government engagement with the sector and, more recently, the most serious economic downturn since the 1930s.

Since 1997 there has been a huge shift in the relationship between the voluntary sector and the UK government. This has taken place at the same time as the introduction of devolved administrations in Scotland, Wales and Northern Ireland. Each of the constituent parts of the UK has now developed different structures and policy frameworks for engaging with the voluntary sector. However, despite this divergence, the broad direction of voluntary sector policy has been similar, in that all of the countries of the UK have moved towards a partnership approach with the sector. The result has been a common commitment to policy intervention and support of the sector to build its capacity.

There are four key differences in government policy towards the voluntary sector in the pre and post 1997 periods:

- the scale of the funding
- the range of provision being opened up to third sector provision
- the mechanism – the method of funding
- the politics.

Fundamentally, the changed position is built on the government's public service reform programme with its embrace of the notion of a diversity of providers, the choice agenda and latterly the proposals for personalisation of services and individual budgets.

The sector faces increased pressure on costs from two sources: the impact of the recession; and the expansion of the competitive model in the relationship between the government and the third sector. The former will affect the latter as a result of the squeeze on public spending and

consequent government funding available for either contracts or grants.

The economic downturn is likely to affect the sector in several different areas:

- demand from users
  - increased demand
  - change in demand
- income
  - contracts
  - grants
  - donations
  - investment
- volunteering
- increased competition under a funding squeeze.

Similarly, the impact of government policy will manifest itself in several key areas:

- increased competition for public funding (greater emphasis on tendering for service provision rather than grants), presenting concerns about the appropriateness of the model; the survival of some organisations; the scope for innovation within contracts; the implementation of the commissioning model; the driving down of costs at the expense of quality of service
- the consolidation of contracts, with potential threats to small organisations
- the internal effects of shifting the focus of an organisation towards winning contracts at the possible expense of client need
- the 'disconnect' between an emphasis on personalisation of services and the cost-cutting imperative
- the potential impact in terms of mergers and collaborative working or business failure
- the dangers of 'mission drift' and loss of independence.

The combination of these two intertwined sets of pressures is likely to have a significant

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effect on the workforce and employment relations within the sector in several ways:

- jobs
- pay and conditions
- professionalisation and training
- personalisation and individual budgets
- TUPE, insecurity and stress
- the potential for workplace conflict.

The way that the competitive market works and the impact of the recession is creating new problems and deepening existing ones for the voluntary sector. A tighter regulatory structure for many services provided by the sector has gone side by side with increased financial reliance on the state.

Because of their commitment to their clients, voluntary sector staff are often willing to make extra efforts in a period of crisis. However, they cannot be expected to bear the burden of policy decisions taken by commissioning bodies at local or central government levels.

Government has a duty to ensure that funding for the voluntary sector is adequate for the tasks set for it and that the sector is not seen as a cut-price answer to larger economic problems. Funding should be at a sufficient level and over a sufficient time period to meet the objectives of the service.

Voluntary sector employers have a duty to their clients to ensure that the best possible service is available to them. This, in turn, requires a commitment to ensure that sufficient staff are employed to do the job and that they are treated fairly (in terms of pay and conditions) to guarantee the maintenance of a highly motivated, highly skilled workforce. Voluntary sector workers are entitled to a democratic voice at work through their elected union representatives, but many are denied this opportunity by their employers. This should end and employers should work closely with UNISON to improve

the system of government funding of the sector.

## **Introduction and methodology**

This report examines the current position of the voluntary sector in the UK against the backdrop of a decade of unprecedented government engagement with the sector followed by the most serious economic downturn since the 1930s. The report builds on two earlier reports commissioned and published by UNISON (Davies, 2007; Cunningham and James, 2007). It examines how the twin impacts of government policy and recession are affecting both voluntary organisations and the workers employed by them. This necessitates drawing upon academic research, government and parliamentary reports as well as documentation from the voluntary sector itself – both from individual organisations and many of the various umbrella bodies in the sector.

Semi-structured interviews were conducted with a selection of UNISON lay representatives from the National Community and Voluntary Sector Forum (NCVSF). The

interviews were in the format of two focus groups and one individual interview at UNISON's annual conference. A common schedule was used as the framework for discussion for each of the interviews. A separate focus group of representatives of leading voluntary sector umbrella groups and one voluntary sector organisation chief executive was also held. A further interview by telephone was conducted with a UNISON national officer with responsibility for the voluntary sector. All interviews were recorded and transcribed for textual analysis.

A national web-based questionnaire survey of UNISON reps in the voluntary sector was carried out and responses were tabulated on to a spreadsheet for analysis. The above were augmented by observation of discussions at an NCVSF meeting in July 2009, at which notes were taken. The report also draws upon informal discussions with UNISON reps and paid officers.

# Government policy towards the voluntary and community sector

## Introduction

There is no universally accepted definition of the voluntary sector or third or charitable sector. Instead a variety of different names are used, some of which overlap. As well as those mentioned above, among the other terms used by commentators, ministers and the sector itself, are voluntary and community sector, non-profit sector, not-for-profit sector or civil society (Kelly, 2007).

The government prefers the term 'third sector' to which it applies a fairly broad definition:

*Non-governmental organisations which are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, cooperatives and mutuals. Faith groups also play a very important role.*

(HM Treasury/Cabinet Office, 2006)

The National Council for Voluntary Organisations (NCVO) uses the term 'general charities'. These are those organisations in England and Wales accepted as registered charities by the Charity Commission (together with similar in Scotland and Northern Ireland) but with the exclusion of faith groups, trade associations, mutuals, housing associations, independent schools, and charities that are owned by the government or the NHS.

This paper uses the term 'voluntary sector' and Salamon and Anheier's (1997) 'structural-operational definition' which is very similar to the definition used by NCVO and covers organisations exhibiting the following features:

- formally constituted
- not profit distributing (surplus revenues redeployed to the organisation's mission)
- constitutionally independent from the state
- benefiting from voluntarism (through donations or volunteering).

However the sector is defined, there is little disagreement that since 1997 there has been a huge shift in relationship between the sector and government. One commentator suggested that this change represented "a revolution every bit as far reaching as the privatisation of nationalised industries under Margaret Thatcher" (Mathiason, 2005).

## Devolution and the voluntary sector

This period of dramatic change in the relationship between the UK government and the voluntary sector broadly coincides with the introduction of devolved administrations in Scotland, Wales and Northern Ireland. In 1999 the Scottish Parliament and the National Assembly for Wales were created. With them came a separate Scottish Executive (from 2007 the Scottish government) and Welsh Assembly Government (WAG). Northern Ireland followed with a new executive and assembly (based on the 1998 Good Friday agreement power-sharing deal).

The voluntary sector umbrella organisations already had separate national identities and structures within the UK countries before devolution. The NCVO in fact only operates in England, but works closely with the separate national equivalents - the Scottish Council for Voluntary Organisations (SCVO), the Wales Council for Voluntary Action (WCVA) and the Northern Ireland Council for Voluntary Action (NICVA).

- private

Governmental structures are also separate. The office of the third sector (OTS), set up in 2006, is part of the Cabinet Office but only has a remit for policy development and delivery for England. The position of minister for the third sector (Angela Smith MP at the time of writing) was upgraded from a parliamentary under-secretary to minister of state in June 2009. The Compact, a national framework for government and sector relations, and the various programmes set up to support the sector - such as Futurebuilders England (now called Social Investment Business), ChangeUp (since 2006, Capacitybuilders) and Communitybuilders – are all England-based programmes.

The Scottish equivalent of the OTS is the third sector division within the directorate for public services reform. Scotland has its own Futurebuilders Scotland programme and a Scottish Investment Fund, as well as a Scottish Compact, based on the English one.

In Wales there is a statutory duty on the assembly government to promote the interest of voluntary organisations in the exercise of all its functions (under Section 114 of the 1998 Government of Wales Act). The government is required to:

*“make a scheme setting out how it proposes in the exercise of its functions, to promote the interests of relevant voluntary organisations”*  
(WAG, 2008).

The Welsh government claims that this statutory voluntary sector scheme is “unique to the United Kingdom and probably to the world” (WAG, 2008: 9). The WAG’s department for social justice and local government has a third sector unit located in the communities directorate. The government also convenes a third sector partnership council of 25 third-sector representatives, chaired by the minister, to advise on policy implementation, operation and review.

In Northern Ireland, unlike the other constituents of the UK, there is a separation of responsibility for the voluntary and community sector (overseen by the voluntary and community unit within the department for social development) and social enterprise (under the remit of the social economy unit within the department of enterprise trade and development). Because of the collapse of devolution and re-imposition of direct rule between 2002 and 2007, a number of English policy initiatives were introduced (such as a Northern Ireland Compact, Building Real Partnership) and there has been little development of an independent Northern Ireland approach.

As Alcock (2009: 3) notes:

*“Devolution of policy to promote and support third sector activity has been significant and has resulted in the creation of four separate policy regimes for the third sector across the four countries of the UK. What is more these governance and policy differences have been developed for, and with, third sector practice communities which already had distinct histories, structure and cultures within the four nations.”*

However, he also points out that despite this divergence in policy regime, the broad direction of third sector policy has been “remarkably similar” (ibid), in that all of the countries of the UK have moved towards a partnership approach with the voluntary sector. The result has been a common commitment to policy intervention and support of the sector to build its capacity.

## Four key differences since 1997

There are four key differences in the UK government’s policy towards the voluntary sector in the pre and post 1997 periods:

- The scale of the funding
- The range of provision which is being opened up to third sector provision
- The mechanism – the method of funding

- The politics

### **The scale of the funding**

The prime minister claims that the government's focus on an expanded role for the sector has resulted in:

*“doubling spending since 1997 to a total of £11 billion a year and setting up the OTS in recognition of the increasingly important role played by charities, community groups and social enterprises”*

(HM government, 2009a: 3).

NCVO's latest figures (2009) show income from government to be at £12 billion for 2007/08, of which £4.2 billion is in grants and £7.8 billion from contracts. In 2008 NCVO (2008a) reported that earned income now accounts for more than 50% of charities' income for the first time, and that this long-term trend is “driven largely by the provision of greater levels of public services under contract” (2009).

According to NCVO (2008a), in 2005/06 income from local government was just under 50% of the total income from statutory sources, with just over 40% coming from central government. Something like 70% of all interactions between government and the voluntary sector take place at local level (LGA, IDeA & LGIU, 2006; NCVO, 2006). However this is an uneven picture. Three-quarters of charities get no government funds. This is particularly the case for micro-charities. On the other hand, 25,000 charities are heavily reliant in that they receive over 75% of their income from government (NCVO, 2009).

### **The range of provision**

The growth in the outsourcing of public services to the third sector began under the Conservatives, particularly in the areas of personal social care and social housing. According to the Commission for Social Care Inspection (CSCI):

- in 1992 just 2% of home care hours in England were delivered by the independent sector
- by 2005, this had risen to 73%
- by March 2006, 80% of registered domiciliary care agencies were in the private or voluntary sectors (CSCI, 2006).

In the past, voluntary sector provision of public services was usually in niche, specialist areas or to fill gaps in public sector provision. In 2007, the Charity Commission's survey - Stand and Deliver – reported that just under a third (31%) of all public services delivered by charities are in health and social care, followed by education (15%) and children's services (14%). Non-state provision is particularly high in social care, with over 70% provided by the private and voluntary sectors between them (Department of Health, DH, 2006a).

Government policy is to place voluntary sector provision firmly in the mainstream, providing services that were previously provided by the public sector. The public administration select committee (2008a: 6) made a distinction between not-for-profit organisations providing services to the public and the change in the last decade to an “increased emphasis on the delivery of public services by third sector organisations”. According to the committee, the difference rests in the fact that:

*“public services, crucially, are funded by the taxpayer, and the responsibility for ensuring that they are delivered to every citizen who needs them lies with the state”*

(Public Administration Select Committee, 2008a: 9)

In its action plan (Cabinet Office, 2006a) for third sector involvement in public services the government identified five public service areas with the greatest potential for a voluntary sector contribution:

- correctional services
- employment services

- children's services, education and training
- health and social care services
- other local services.

### **The mechanism – the shift towards contracts**

An overall growth in funding has been accompanied by a “strong shift from grant funding to contract funding” (NCVO, 2008a: 32). This expansion of the move to a purchaser/provider split in the relationship between the state and the voluntary sector is one of the key developments. In cash terms, grants have increased over the last 10 years but the amount earned through public service contracts has grown even more. Statutory funders are choosing to increasingly channel additional money through contracts. Therefore, as Stuart Etherington of NCVO told the public administration select committee, as a proportion of public sector income, grant levels have fallen (Public administration select committee, 2008b: Ev 97).

There have been concerns that contracts were actually displacing grant funding. In March 2006 Kevin Curley of the National Association for Voluntary and Community Action (NAVCA) reported that a survey of its members suggested that there has been a 60% increase in the use of competitive tendering by councils over the previous 12 months (Curley, 2006). In NAVCA's view this use of tendering has confused “giving, shopping and investing” (Unwin, 2004) and has sometimes been inappropriate.

### **Labour's political position**

While the Labour party was always relatively supportive of the voluntary sector, since 1997 it has embraced it and assigned it a central role in public service provision that has not existed in modern times. There has been a remarkable shift in the relationship between government and the voluntary sector. The NCVO describes the period since Labour's election as “the most favourable the sector has experienced” (NCVO, 2005:6). All the main political parties share the

government's enthusiasm for the voluntary sector. One commentator (Butler, 2006a) described it as “the political establishment's hero worship of the third sector”, while Suzi Leather, the Charity Commission chair, summed it up as “the all-party love-in with charities and the voluntary sector” (Leather, 2007).

However, it is not just a friendlier relationship. It is built on the government's public service reform programme with its embrace of the notion of a diversity of providers and the choice agenda and, latterly, the proposals for personalisation of services and individual budgets.

The government identifies three stages to the public sector reform programme (HM government, 2009b). Stage 1 consisted of a programme of investment to repair the damage done under the Tories and to establish basic levels of standards through national targets, league tables, and inspection regimes. Stage 2 saw the introduction of a greater diversity of providers, more choice and more competition while stage 3 is aimed at further enhancing choice by empowering users and professionals to drive up standards. The third sector is seen as playing a key role in this - particularly in stages 2 and 3.

### **The public service reform agenda**

Determined to prove its economic competence, in 1997 the newly elected Labour government pledged to stand by the previous Conservative government's spending plans. To the surprise of some of its supporters, it went much further than this and embraced much of the neo-liberal analysis in terms of public service reform. With some amendments, they continued with what Le Grand and Bartlett (1993) called public service ‘quasi-markets’. They appeared to accept Osborne and Gaebler's (1992) reinvention of government model around the idea of an ‘enabling state’ using

markets and contracts and in which the state focuses on its core activity, leaving peripheral activities to the private or voluntary sector - 'sticking to the knitting' (Peters and Waterman, 1982). The differences lay in the fact that new Labour accepted that there was a need for an increase in public investment and there was a much less hostile general attitude to the public sector. Nevertheless, although there was initial enthusiasm for first, stake-holding (Hutton, W., 1995), and then partnership, the fundamental line of march remained the same: private sector solutions are required for public sector problems (Grimshaw et al, 2002).

The 1997 Labour party manifesto described new Labour as "a party of ideas and ideals but not outdated ideology. What counts is what works" (Labour party, 1997). Tony Blair made this a theme of his premiership and returned to it many times. In one of his first public speeches as prime minister, he contrasted the objectives of the new government with that of his predecessors, saying that government needed to be "pragmatic and rigorous about what does and does not work", that New Labour would "find out what works, and we will support the successes and stop the failures" (Blair, 1997). The 1999 white paper, *Modernising Government* (Cabinet Office, 1999:15) emphasised that:

*"Government must be willing constantly to re-evaluate what it is doing so as to produce policies that really deal with problems; that are forward-looking and shaped by the evidence rather than a response to short-term pressures."*

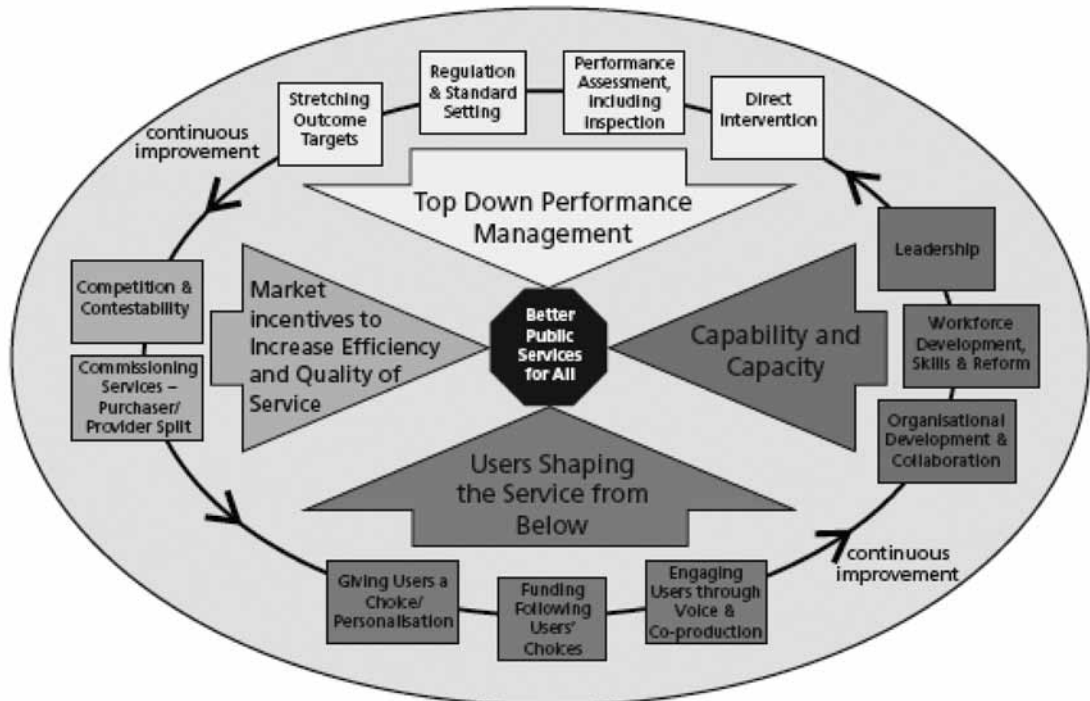
The emphasis was on a non-ideological, technocratic pragmatism, which provided a backdrop to what many believed to be an intensely ideological approach to public service reform. New Labour not only enthusiastically embraced markets but extended the influence of the market into

areas that the Conservatives had shied away from – the NHS in particular. The Private Finance Initiative (PFI) was reformed and hugely expanded; contracting out was retained (although the discredited compulsory competitive tendering model was replaced by best value); and the government generally broadened and deepened the range of market measures used across the public services.

Various attempts were made to draw on Labour's historical association with self help and co-operatives (for example, Brown, 2006), but the reform agenda's focus on markets, competition and choice meant that it had more in common with pre-1997 Conservative public service policy programme than with the Rochdale pioneers. The government shares the Conservative view that competition and choice are the drivers of improved quality and of user or 'customer' accountability. Markets can and must be utilised to drive up standards and drive out inefficiencies. If no markets exist they must be created. In the absence of market actors willing to engage in a particular market, they must be 'incentivised' to enter the market.

The government's four-pronged approach to public service reform (Cabinet Office, 2006b), combines top-down pressure from government (through performance management) with citizen pressure (through choice and voice), competitive pressure (through markets) and capability and capacity building (for civil and public servants and central and local government). It highlights the choice agenda and the key drivers to improve efficiency include the purchaser/provider split, competition and contestability, and market incentives. Within the overall model, the voluntary sector has an important role to play, as one of the four key principles of new Labour's public service reform programme is "the promotion of alternative providers and greater choice" (Blair, 2001).

**Figure 1: UK government's model for public service reform**



Source: *The UK's Government's Approach to Public Service Reform - a discussion paper (prime ministers strategy unit, Cabinet Office 2006: p23)*

Twelve years of experience and experimentation has intensified Labour's commitment to the notion that competition, markets and choice are the key drivers for improvements in public services. Typical is the objective set out in the local government white paper, *Strong and Prosperous Communities*, (department of communities and local government, 2006: 145):

*to stimulate new markets in order to secure alternative provision and enable both commissioner and user choice in areas of local Government which are currently uncontested or not fully contested... [and to] ...increase the capacity and competitiveness in existing supply markets.*

Funding by the public purse, rather than necessarily delivery by the public sector has become the key to the redefinition of public services (Blair, 2006b), and the integration

of the voluntary and private sectors in the provision of public services forms an important part of new Labour's concept of joined-up government (Clark, 2002).

The similarities of new Labour's policy to that of the previous Conservative governments can be seen by reference to the views of Nicholas Ridley (one of Thatcher's key lieutenants in the 1980s):

*I can foresee a much more diverse pattern of provision in the future by a variety of different agencies working alongside local authorities. The role of the local authority will no longer be that of the universal provider. But it will continue to have a key role in ensuring that there is adequate provision ...* (Ridley, 1988)

In a remarkably similar formulation, then Secretary of State for Business and

Enterprise, John Hutton (2006) argued that:

*Government must be ever sharper and more adept at creating and managing contestable forms of service delivery. Alternative providers whether in the private, public or third sectors, should be the norm, not the exception.*

The departure of Blair and his replacement by Brown has not led to a change in policy. Writing on public service reform in the Financial Times, Gordon Brown (2008) noted that:

*A greater diversity of providers, more choice and in many areas more competition will continue to ensure that services that fail to deliver are legitimately challenged and standards are forced upwards.*

## What is the attraction of the voluntary sector for the government?

The Conservative governments of the 1980s and 1990s had a different approach to the voluntary sector. Theirs was instrumental, in that it allowed the sector to fulfil a service agent role - often as a provider of last resort (Haugh and Kitson, 2007), but it was not seen as a major partner. The focus of the Conservatives was to cut public expenditure, restructure the economy and expand the role of the private sector in the delivery of public services. The voluntary sector did not figure largely in their reform programme.

New Labour saw the voluntary sector as the perfect vehicle for resolving what it believes to be the weaknesses and failings of the public sector. Many senior Labour figures share the Conservatives' analysis of the public sector as suffering from low productivity, offering inefficient and poor quality services, with public expenditure "excessively burdensome to the economy" (Kelly, 2007:1008) and that although there

are pockets of excellence in the public service, the absence of market mechanisms "generates complacency, conservatism and a failure to put the needs of citizens first" (Hindmoor, 2002:290).

Where they parted company with the Conservatives was that Labour believed there was a need for major investment in the public services. However the price to be paid for this funding was set out in the new government's first Queen's Speech in 1997, Tony Blair (Hansard, 1997) explained:

*"We have reached the limit of the public's willingness simply to fund an unreformed welfare system through ever higher taxation and spending."*

Given this analysis and an acceptance of markets as the driver for public service change, it was logical to involve both the voluntary and private sectors in delivering public services. However new Labour's enthusiasm for the sector went beyond this, and was based on three elements:

- the sector was seen as providing a solution to some of the perceived problems of the public sector (Kelly, 2007) such as the 'professional rigidities' and 'self-seeking behaviour' of which ministers complained
- it offered a series of positive attributes that were absent in the public sector
- it fitted in with some of the new policy priorities of the new government.

Labour regarded the public services as a bureaucratic, slow-moving, unresponsive relic of an earlier age - stuck in a one-size-fits-all, 1945 model that would have to change (Blair, 2002a). Several times in the early years of the new government, Tony Blair pinpointed the public service workforce as a problem and a barrier to change (Law and Mooney, 2008). In 1999 he told the British Venture Capitalists Association that he was left with "the scars on my back" after two years of trying to reform the public sector and that "people in the public sector

are more rooted in the concept that ‘if it’s always done this way, it must always be done this way’ than any group of people I’ve come across” (BBC Online, 1999a). At the 1999 Labour party conference, Blair complained of the “forces of conservatism” in which he included some education and health professionals for wanting to slow down or stop the public service reform programme. Again in 1999, speaking to headteachers, he said that a “culture of excuses still infects some parts of the teaching profession” (BBC Online, 1999b). In a speech at Labour’s February 2002 conference in Cardiff, Blair (2002b) described as “wreckers” public sector workers and unions opposed to “modernisation”.

The 2005 Labour party manifesto declared:

*“the voluntary and community sector has shown itself to be innovative, efficient and effective. Its potential for service delivery should be considered on equal terms”*  
(Labour party, 2005).

Several (sometimes conflicting) reasons are given by ministers for their enthusiasm for third sector involvement in public service delivery. Third sector organisations are supposedly more efficient and innovative than in-house public service providers, and it is also claimed they bring additional benefits related to their advocacy role, their influence on policy development and their beneficial effects in strengthening civic society and deepening democratic engagement. Many have recognised that there are potential tensions between the different roles urged on the third sector, but the government appears to view this as unproblematic. The government also often collapses the involvement of private sector, for-profit providers into the discussion about voluntary and community organisation provision of public services under the broader heading of alternative or ‘independent’ providers. This too has created tensions and contradictions which are ignored by ministers. Different emphases are placed on the

different aspects of voluntary sector involvement in public service delivery and this reflects the mixture of motivations and drivers of the different players involved. The paymaster general and the minister for the third sector explained the government’s aim in the foreword to their 2006 joint report, as being to reinforce the state’s relationship with the third sector and match up their respective different strengths “so that we can better enable people to change society in five key areas”:

- campaigning and voice - recognising the third sector’s ‘pioneering and culture changing role’
- public services - increased third sector delivery and changing state sector delivery to focus on public services users
- building civic society - using the sector’s ability to reach out and engage to build strong and active communities
- social enterprise - linked to regeneration and creating a stronger economy and fairer society
- creation of an environment for change. (HM Treasury/Cabinet Office, 2006)

The various attributes assigned to the voluntary sector – relating to service provision, voice, contribution to civic society and so on – are repeatedly listed by ministers as reasons for a closer relationship between the government and the sector (Armstrong, 2006; Blair, 2006b; Byrne, 2006; Miliband, D., 2006; Miliband, E. 2006a). For example, Paul Boateng, then chief secretary to the Treasury, said in his foreword to the Treasury’s Cross Cutting Review (HM Treasury, 2002):

*We look again to the voluntary and community sector to help us rekindle the spark of civic services that fires the building of strong civic communities; to reform the operation of public services and build a bridge between the needs of individuals living in those communities and the capacity of the state to improve their lives.*

Another element that attracts ministers and local councils is the idea that services provided by the voluntary sector may be cheaper than in-house provision. This is seen as a source of disquiet by the sector itself (NCVO, 2006) and regarded as mistaken in any event. NCVO emphasise that the sector's specialist services (much admired by ministers) in areas of market failure or niche markets are likely to cost more, rather than less, as there are fewer economies of scale.

The use of the voluntary sector is also thought to fit well with the government's policies on 'localism' or decentralisation, choice and personalised services (Armstrong, 2006), although this arguably conflicts with new Labour's centralising tendency. The government sees the voluntary sector as locally embedded and better placed to articulate the needs of local communities (Haugh and Kitson, 2007). In contrast with previous Conservative governments, social exclusion and the environment are identified by the government as important policy priorities and these are areas in which the voluntary sector is both active and experienced (Haugh and Kitson, 2007).

Finally, in contrast to the public scepticism towards private sector provision of public

services, charities and the voluntary sector more generally retain a considerable amount of public trust (MacErlean, 2005; Mathiason, 2005; Caulkin, 2006). This also plays better within the Labour party than an emphasis on private provision, as ministers are able to appeal to Labour's historic association with the co-operative movement. Together these obviously present political possibilities for public service reform that would not exist if the only policy alternative was privatisation funded by taxpayers' money.

Burnham (2001) describes Labour's use of markets in public service provision as a governing strategy of "depoliticisation", or the adoption of a rule-based system in contrast to a discretion-based or "politicised" system of economic management. This does not remove politics from public service provision, but places "at one remove the political character of decision-making" (Burnham, 1999). The state is left with arms-length control but with the supposed benefit of being able to distance itself from the impact of the decision. Contracting out is a key element of a depoliticised approach, reducing direct state control of public service provision through the use of markets and reliance on semi-independent or independent regulatory or audit bodies.

## Impact on the voluntary sector

### Introduction

The sector faces increased pressure on costs from two sources: the impact of the recession and the expansion of the competitive model in the relationship between the government and the third sector. The former will affect the latter as a result of the squeeze on public spending and consequent government funding available for either contracts or grants.

Overlaid on top of the cost pressures are the many ways in which government policy is encouraging or pushing practice within the sector in a particular direction. This next section examines these various forces for change.

### Effects of the Recession

#### Introduction

In the 2008 pre-Budget report the chancellor announced that there would be a squeeze on public finance to achieve £35 billion of efficiencies by 2011. At the recession summit convened by the National Council for Voluntary Organisations (NCVO) in November 2008, there was conflicting evidence of what lies ahead for the sector during a recession. Much of the conjecture was based on the experience of the last recession in the UK and USA – neither of which may be particularly useful. NCVO believes that there will be mixed impacts: some organisations will fail, others will become stronger; there will be increased demands in some areas and reduced demand in others. The variable impact of the recession will be dependent on size, sub-sector, and geography. In the short term, mid-sized organisations are believed to be most at risk. Mohan and Wilding (2009) agree that the recession will have very diverse impacts and stress that “it will create challenges other than increasing demand for services and pressure on revenue streams”.

They call for a structured programme of support from government and argue that added urgency is given to this because of the “increasingly important role played by the sector in the delivery of public services, it is also arguable that we have created a situation where they cannot be allowed to fail”.

In addition, the sector’s problems are unlikely to end once the recession is over, because the long-term impacts on the public sector and hence government funding are likely to be severe. As John Low, chief executive of the Charities Aid Foundation, (CAF) said:

*“Even though there are welcome signs the recession is technically ending, the economic downturn is still severely impacting on charities, many of whom have had to cut jobs while facing increased demand for their services.”*  
(The Guardian, 2009a)

In similar vein, the government notes that although small and medium-sized community organisations are often best placed to provide responsive advice and support services in deprived communities, they are also least able to secure funding (HM government, 2009a:9). In addition, it seems that because income from philanthropy is likely to remain fairly resilient, the key factor for many third sector organisations will be government funding (NCVO, 2008b).

The recession is likely to affect the sector in several different areas, the most challenging being what Charity Commission chair Suzi Leather calls “that double whammy of a drop in income as well as an increased demand for services” (Butler, 2009). These include:

- demand from users
  - increased demand
  - change in demand
- income

- contracts
  - grants
  - donations
  - investment
- volunteering
- increased competition under a funding squeeze.

### **Demand from users**

Demand for services provided by the third sector already appeared to increase at a relatively early stage in the downturn, even if some of the evidence is anecdotal, according to the National Association for Voluntary and Community Action (NAVCA, 2009). In August 2008, one survey (Charities Aid Foundation/Association of Chief Executives of Voluntary Organisations, 2008) suggested that demand for charities' services increased by 72% in the previous year. This rise in demand was accompanied by the charities experiencing rising costs. Certain services are particularly affected by additional demand – those dealing with housing, debt, employment and mental health (HM government, 2009a).

The CAF expects this trend to continue with a perspective of:

*“considerably restricted resources, increasing numbers of closures and mergers, together with a steep rise in demand for services”*  
(CAF, 2008:1).

This was confirmed with another CAF survey, reported in February 2009. This was of 322 charities providing services likely to be in demand during the recession. These included financial advice, help with housing, employment advice, educational services to help people get new jobs, assistance with basic living costs, services to help people manage stress and other mental or physical problems. Over half (51%) of the charities surveyed reported an increase in demand in the previous three months (CAF, 2009).

One sector representative from the disability area predicted that government funding is about to go into steep decline just as a “demographic time bomb” explodes, creating a big increase in demand for the services of the voluntary sector over the next few years and placing a big strain on resources (interview panel, June 2009).

In March 2009, the Charity Commission (2009a) reported that one-fifth of charities (20%) experienced an increase in demand for their services or charitable activities. However there appears to be a growing difficulty in meeting the increased demand. In the Charity Commission's previous survey, one in seven of those experiencing an increase in demand felt unable to meet it, but this figure has now risen to over one in five (Charity Commission, 2009b).

NCVO (2009a) commented that long-term societal trends such as the changing needs “of a rapidly ageing, super-diverse population do not diminish in the face of a recession and may in fact increase”. Not only is there a reported increase in demand for certain services – NAVCA highlights advice agencies, agencies that support the unemployed and those which support people with mental health issues – but there is a combined effect at work. There is both an increase in demand (new users), intensification in demand from existing users, and a tension between the two. NAVCA (2009: 2) points to fears that

*the difficult cases - for example young offenders with multiple problems - will go to the back of the queue as people with higher level skills become unemployed and need training/job search support.*

This could be exacerbated by a payment-by-results system, encouraging the ‘parking’ of difficult cases and the ‘creaming’ of the easier to place.

A May 2009 survey of charities conducted by PricewaterhouseCoopers (PwC), the Institute of Fundraising (IoF) and the Charity Finance Directors' Group (CFDG) found that 36% of respondents expected to see an increase in the demand for their services over the next 12 months (2009). This is despite the fact that 34% expect to see a decline in the level of their activity and 20% expect to see cuts in services (ibid).

One UNISON activist pointed to the paradox that although the charity shops are receiving less in donations, more people are using them:

*...there's more footfall but there's less to buy so we're anticipating a real churn on that... because the voluntary organisations to an extent sponsor some work.*

(Interview, June 2009)

### Income

The voluntary sector receives income from a variety of sources – grants, contracts, donations etc. A breakdown is provided in

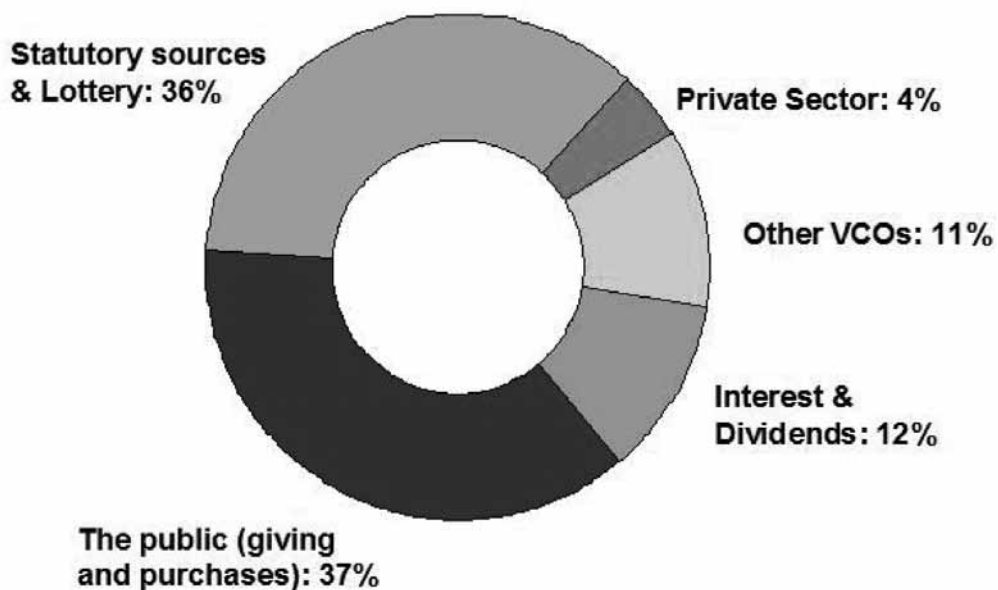
Figure 2 below.

In the main the voluntary sector relies on support from individuals through donations, purchases at charity retail outlets, volunteer time and the state in its various forms (including the Big Lottery Fund) – whether that be through grants or contracts. Other sources of income include investment income (which obviously varies with the general health of the market) and trust and foundations, which are, themselves, part of the sector.

Examining the last recession, NCVO (2008b) reported that over a two-year period (1991-93) around a third of charities suffered a decline in their total income in cash terms and, once account is taken of inflation, two-thirds of charities had a real fall in income.

Attempting to draw lessons from even further back, Mohan and Wilding (2009) examined the experience of voluntary (charity) hospitals in the interwar years. They found that the impact was very uneven and that it was impossible to make any generalisations about the effect of economic adversity. This

**Figure 2: Source of sector's income**



Source: NCVO recession summit paper, 24 November 2008

led them to predict that, for today's voluntary organisations:

*“the impact of the recession will depend as much upon the internal management capacity and decision-making, and on their existing resources, as on the external environment”.*

They also examined American evidence and concluded that “recessions are by no means fatal to charitable activity”. However the lesson that they draw from the historical experience of both the UK and the USA is that it is not helpful to refer to the sector as a whole in terms of the likely impact of the recession as the sources of economic duress – “rising levels of need, dependency upon a small number of income streams or donors, poor capitalisation and reserve levels - are not evenly distributed” (Mohan and Wilding, 2009).

NCVO (2009a) argues that, compared with the recessions of the 1980s and 1990s, charities are in much better shape today and although they will face challenges many are well placed to support their beneficiaries and voice their needs.

Nevertheless, there is widespread speculation that the voluntary sector will suffer a major decline in income as a result of the recession. Various surveys have revealed fears among third sector organisations that income from all sources will fall. Nearly nine out of ten (88%) respondents to a CAF/ ACEVO survey (2008) believed that the sector's income would fall in real terms, and 17% reported having already experienced a fall in income.

In December 2008, a joint report from PwC, the IoF and the CFDG estimated

that the recession could leave UK charities with a deficit of £2.3 billion, with charities concerned about a fall in donations, declining income from investments, and their resulting increased dependence on government funding (Dudman, 2009).

A follow-up survey in May 2009 found that the situation had deteriorated since the previous December (PwC/IoF/CFDG, 2009) and those respondents expecting a decrease in income over the next year as a result of the recession increased from 39% to 56%. In addition 45% have experienced an actual fall in income since December 2008 and an additional 30% report no growth in income.

Mohan and Wilding (2009) urge caution in interpreting these surveys as they are often small scale and:

*Even if they were representative, such surveys report perceptions of what might happen rather than hard economic evidence as to what is happening, and they are hardly disinterested, since organisations might be expected to exaggerate adversity and penury in order to attract funding (whether from public or private sources).*

However there is some solid information on the experience of the sector in the early part of the recession. In March 2009 the Charity Commission (2009a) revealed that 52% of charities have been affected by the downturn (up from 38% in the previous survey in September 2008). Of these, 58% reported a reduction in income. Investment income was the most affected by the downturn with more than half of charities with such income reporting a reduction in its value.

**Table 1: Whether charity has experienced a reduction in income due to the economic downturn, by income band**

Income band:	Total	Small Under £10,000	Medium £10,000- £99,999	Large £100,000- £999,999	Largest £1 million +
<b>Unweighted Base (all affected)</b>	<b>614</b>	<b>114</b>	<b>137</b>	<b>177</b>	<b>186</b>
<b>Weighted Base (all affected)</b>	<b>88,501</b> %	<b>42,966</b> %	<b>27,509</b> %	<b>13,862</b> %	<b>4,165</b> %
Yes	58	60	55	65	46
No	34	34	36	27	43
Experienced a drop in income not to the economic downturn	1	1	1	3	1
Don't know/not sure	6	5	8	5	11

Source: report prepared by CGA for Charity Commission, September 2008  
 Carr, H (2009) *Tracking the Impact of the Economic Downturn: A View from the Charity Commission. Paper to Voluntary Sector Studies Network/NCVO Research in the Voluntary Sector Conference, September 2009.*

Children England found that 44% of 125 English children’s charities had a negative change in funding over the previous two years; 28% had to issue redundancy notices in the previous 12 months or anticipated needing to do so by the end of the financial year; and 40% were in “a vulnerable funding position with the potential to close if anticipated funding does not come through” (Thompson and Whitaker, 2008: 3). A CAF (2009) survey in January 2009 reported that 41% of charities said that in the last three months they have received less funding than they had budgeted for; on average dropping by just over a fifth (22%).

NAVCA (2009) argues that several sources of income are under threat during the recession. They specifically identify:

- rental income/income from tenants (organisations and individuals)
- income from sale of property or development of property
- assets and income from sales of services.

These include charities’ retail operations, and NAVCA highlights furniture recycling charities as being likely to see a decline in donations as people ‘make do’ rather than buy new furniture and consequently do not donate

their old furniture to charity. One UNISON activist explained the position for charities’ retail activity:

*There has been significant impact on their capacity to fund raise and what you have is less stock coming into the shops, for instance, because people are hanging on to their clobber so they’re not doing the big life laundries like they used to, so there’s less stock to sell. On the other hand there’s more footfall but there’s less to buy so we’re anticipating a real churn on that... because the voluntary organisations to an extent sponsor some work. They’ll put in voluntary funds to keep things going when they’re in discussions with local authorities...*

(Interview, June 2009)

### Government funding

NCVO (2009a) estimates that three quarters of all voluntary sector organisations (around 117,000) do not receive any funding from government – either through grants or contracts. However, 27,000 of the 40,000 organisations that do have a financial relationship with the state, rely on it for over 75% of their income. Most of these

organisations are large or medium-sized (three quarters of all statutory income to the sector goes to those organisations with an annual income of £1 million or more). Medium sized organisations – with an income between £100,000 and £1 million – receive less in total than the larger bodies but are more reliant on state funding, with it providing almost 40% of their income. Most of those that do not receive government funding are small or micro organisations.

With a greater reliance on state funding of various kinds than the largest charities, and less capacity for independent fund raising, it is likely that the medium-sized voluntary organisations are most at risk in the economic crisis. As David Brindle (2009) pointed out:

*These groups are, of course, precisely those that have already been finding the going hardest. Squeezed on the fundraising front by the marketing might of the big names, they have embraced public services contracting with enthusiasm. Now they will be hearing the unmistakable sound of roosting chickens.*

Local government provides 47% of statutory income (£5.7 billion in 2006/07) to the voluntary sector, compared to the £3.3 billion expenditure by central government departments in 2005/06 (NCVO, 2009a). Social services organisations receive the highest proportion of government funding running at £4.2 billion in 2006/07. This reflects the massive shift in provision since 1997 with a huge increase in the voluntary sector workforce employed in social work activities. Between 1997 and 2006, the number of employees increased by 58% to 350,000 (NCVO, 2009a). Although a smaller segment, those voluntary organisations providing employment and training services rely on government funding for over two thirds of their income (ibid). Voluntary organisations in certain parts of the country (Yorkshire and the Humber, the East Midlands and Wales) are particularly reliant

on government funding.

NCVO (2008b) cites evidence from the last recession which suggests that both central and local governments cut funding. In addition, practices associated with a funding crisis, such as public bodies delaying payment, also lead to cashflow problems for third sector bodies.

In a report for the Home Office on central government funding of the voluntary sector between 1982/83 and 2001/02, Mocroft and Zimmeck (2004: 19) noted:

*...in general, funding of voluntary and community organisations expands and contracts more markedly than Government spending as a whole. In other words, central Government departments appear to treat this kind of funding as a more flexible or discretionary element, to be increased or decreased in response to economic exigencies or policy changes in high-profile areas such as homelessness, unemployment or crime.*

## Grants

Public sector grant providers will inevitably feel the pinch as the tighter public finance regime takes effect. NAVCA (2009: 4) also warns: “When under pressure councils often take services in house or target voluntary sector grants” and this may be exacerbated in those councils that invested in Icelandic banks.

It is generally argued that in the recent period, government grants have remained relatively stable while contract funding from government has increased. However, Kevin Curley of NAVCA (2009) recently referred to research carried out by the National Finance Hub which “showed that there had been an overall cut in grant aid from local authorities of 13% over the past three years”.

Grant providers who relied on the financial services sector will have less funds to

distribute. NAVCA points to the north-east of England and Cumbria as being particularly reliant on the Northern Rock Foundation, but the problem extends much wider than this. For example, the £57 million and £55 million in charitable donations made by Royal Bank of Scotland and HBOS respectively in 2007 are unlikely to be matched either in this or future years (Jones, 2009). A similar retrenchment can be expected from trusts and foundations that lost money in investments in the Icelandic banks.

### Donations/Corporate giving

Pointing to evidence from both the USA and the UK, NCVO (2008b) suggest that individual donation-giving does not necessarily fall in economic downturns. And while charitable giving does not rise in tune with the pace of GDP growth, neither does it fall in line with GDP contraction. So a recession may just slow down the long-term growth in individual charitable donations.

Despite this, in October 2008 the Charity Commission (2008) reported the results of a survey of 514 charities which found that 25% of charities that collect monetary donations reported a decrease in donations in the previous year.

At the NCVO summit, Karl Wilding argued that while donations from rich individuals are likely to remain steady, they may

*become more conservative in their giving, focussing more on those they already give to rather than giving to new organisations, and seeking to give direct to causes rather than through activities such as charity balls.*  
(NCVO, 2008c)

In fact it appears that the overall level of donations and the large donations from rich individuals are both down. A CAF/NCVO study (2009) reports a decrease of 11% (or £1.3 billion) in the total amount donated in the UK. In 2008/09 both the average donation and proportion of people giving dropped back to 2006/07 levels - a

significant real-terms cut compared with 2007/08. Part of this decline is due to the reduction in the numbers of large donations, and there has been a “noticeable fall in average donations by higher-income earners and those in professional occupations” (CAF/NCVO, 2009:3). The authors suggest that overseas and historical evidence support the view that the decline in charitable giving will be “short-term and moderate” (CAF/NCVO, 2009:4).

On the other hand, corporate giving is more closely aligned with economic performance and company profit. Giving goes up in the good times and falls in the bad (NCVO, 2008b). This is backed up by a survey of 450 senior UK business leaders which reported an expected drop in corporate giving of 34% this year - 60% of respondents expect their organisation to cut its charity budget (Jones, 2009). This could result in a cut in business donations of £500 million.

Perhaps predictably, the PwC/IoF/CFDG survey of charities (2009) reported that in terms of both future expectation and actual experience, the trend for corporate income is downwards. In December 2008, they reported that 71% of respondents expected no growth or a decline in corporate income over the next 12 months. This figure has now gone up to 87% of respondents. In December 2008, 37% of respondents reported having already begun to experience the impact of the downturn in terms of corporate income. By May 2009 this figure was 56%.

### Volunteering

In recent years, the UK government has taken a number of initiatives to encourage volunteering. It sees volunteering as contributing in several different ways – adding to the delivery of public services, bringing communities together, assisting in combating social exclusion and in boosting employability for those out of work. NCVO estimates that the economic contribution of volunteers in 2007/08 was £22.7 billion (Benioff, 2009).

Citing evidence from the recession in the 1990s, the government suggests that more charities are likely to experience an increase in volunteers than a decrease, but recognises that some people who become unemployed cannot afford to volunteer because of the costs involved, for example transport (HM government, 2009a).

NCVO (2008b) agrees that the impact on volunteers will be mixed. It accepts the government's point that there may be a potentially larger pool of volunteers, and that there are costs to the volunteers (such as transport), that if not met result in volunteers dropping out. But NCVO also points to the costs incurred by the organisations deploying the volunteers in terms of training and management. In that key sense, volunteers are not "a free good". Seven per cent of charities reported that they were recruiting volunteers as a means to increase the resources available to them (Charity Commission, 2009a).

Whilst volunteering opportunities can be invaluable to those who have lost their jobs, NCVO recognises that it is important that volunteering is not used as a way of providing cheap labour or trying to manage growing unemployment. Volunteering England is working with the TUC to revise guidelines on the relationship between paid staff and volunteers (NCVO, 2008c). The government reports (HM government, 2009a: 15) that the Joint Compact Action Plan will include:

*"recognising the distinctive role of volunteers, including that funding for services should not be cut on the basis that volunteers can replace paid staff".*

### **Increased competition under a funding squeeze**

The trend for ambitious national charities to enter bids to win local contracts – begun as a result of the public sector reform programme – may be exacerbated under recession with the larger charities taking an even greater share of government

funding and growing larger while the smaller organisations face collapse. A chief executive related this to the quality of commissioning:

*"Recession is just going to exacerbate those problems because we're going to be tendering for smaller and smaller amounts and with an audience that don't necessarily understand how to go about good quality commissioning and don't necessarily understand the service that they are being asked to assess anyway"*

(interview panel, June 2009).

One sector representative predicted that there are 'some providers that will actually go bust':

*...either because the services aren't viable any more and they withdraw or because their costs are not competitive enough to keep up with procurement exercises. We've already seen in a couple of local authority areas, the voluntary sector completely wiped out of home care because they just cannot compete because their unit costs and their staff costs and they're still paying pensions and they're still trying to do what they can for the workforce standards and they're being absolutely wiped out by private companies who don't pay pensions, who have zero hour contracts for staff and who can compete in...*

(Interview panel, June 2009).

## **Impact of government policy**

### **Introduction**

The shift towards the provision of public services through contracts – particularly for the medium to large voluntary sector organisations – has had a huge effect. Some see it as a mixed blessing. As Adam Sampson, the former chief executive of Shelter, put it, the "contract culture has driven efficiency and forced charities

to import standards of professional management and focus on delivery that were foreign to many of them just a decade ago". However there has been a price to pay for this:

*The focus on getting the cash and delivering the contract has taken attention away from the person who should matter most to a charity: the beneficiary. The race for price cuts has tempted some charities to bid at levels they cannot in practice deliver, or to drive quality down below the point at which their services meet need.*  
(Sampson, 2009)

UNISON activists reported that voluntary organisations responded in a variety of ways: cutting back on certain services, delaying the introduction of services, moving into new areas of work, and using the income from new contracts to "shore up existing services" (questionnaire responses, 2009).

The marketisation of the services provided by the voluntary sector has even extended to those services that were never provided by the public sector, such as advice centres. Steve Johnson, Advice UK CEO, told the All Party Parliamentary Group (APPG) (2009a) that despite advice never having been a public service and neither local nor central government ever having assumed responsibility for adequate funding of it, it finds itself now subject to the government's public service reform agenda and the attempted introduction of various market pressures. He told the APPG that advice centres are often pushed into wasteful activity or actions that are not in the best interests of clients by the current commissioning structures.

Another view expressed is that UK government policy is supportive towards the voluntary sector but that implementation leaves a lot to be desired. One sector representative said:

*There's a huge difference between what's coming out of Government and*

*what's happening on the ground and it couldn't be starker...*  
(Interview panel, June 2009)

Another spoke of

*A lot of difficult dealing and obviously a drive for low costs while the rhetoric the whole time has got quality. There's just a huge disconnect. I think it's painfully obvious to everybody. The point is how do we reconcile that?*  
(Interview panel, June 2009)

A third referred to the

*...disconnect between national policy and what is actually seen in local Government. That's a huge difference. A lot of the policy's very well intentioned...*  
(Interview panel, June 2009)

A different perspective was offered in relation to Scotland, where one sector representative praised the supportive approach of the Scottish government but argued that the removal of ring fencing on funding has left the government without the ability to direct local authorities in their relationships with the voluntary sector. The situation was described as:

*A systematised disconnect. Whatever comes out of central Government, they can exhort local authorities to treat us fairly or to conduct themselves in a certain way but they've actually removed from themselves any ability to make it happen from the centre...*  
(Interview panel, June 2009)

### **Increased competition**

The combination of the recession and current policy exacerbates already existing trends. Arguably it changes the behaviour of both funding bodies – particularly local authorities - and providers. This is reflected in a greater focus on competitive tendering, and less on grants. Kevin Curley of NAVCA sees this as a new threat to the sector with a view among some local funders

that grants are a thing of the past and that future funding for the sector lies entirely in contracts. (Curley, 2009:9). He says that even contracts as small as £25,000 are now being let by competitive tender, even though there is no legislative imperative to go to tender for small contracts and, of course, grants are not subject to tendering at all. He described competitive tendering as “a very blunt instrument” for improving standards, and blamed local politicians for letting the procurement process undermine their leadership role (Jump, 2009a).

The Commons communities and local government committee (2009a: 24) noted that the burdensome and expensive nature of constant cycles of competitive tendering has “a disproportionate impact on third sector and smaller providers”. Women’s Aid Federation England (2009) argues that one of the by-products of a system of competitive tendering can be

*distrust and conflict between previously cooperative organisations. This poses a threat to effective partnership working to meet the needs of survivors and their children.*

A sector representative pointed out that the market affects voluntary sector and private sector organisations differently:

*It’s a very big concern for organisations heavily involved in public service delivery to plan and fall back and obviously having a diversity of income sources is really important... it’s difficult and I think we’re going to see a lot of problems in the future because unlike the private sector, unlike, say Serco, that has hundreds of contracts. If a few of them dry up, they just reshuffle but if you’re a voluntary organisation that depends on two or three... The third sector is at a real distinct disadvantage when it comes to delivering public services... they can’t just pick up and open another business... If those contracts suddenly disappear for whatever reason, or there’s a big change, you’re really*

*heavily impacted, heavily dependent. And of course that raises big issues of the independence of the sector.*  
(Interview panel, June 2009)

One chief executive referred to the different degrees and skill in commissioning that are possessed by local authority teams and recounted how some local authorities have attempted to remedy that by buying in expertise:

*A lot of local authorities are subcontracting the tendering process so we’ve had experience recently of working with the team employed by [X] council – they’ve subcontracted to [company Y]... the sorts of questions and the lack of understanding that were demonstrated by that team just beggars belief... I’m not saying that from a position of sour grapes because we actually got one new contract out of it but it was just an absolute nightmare from beginning to end...*  
(Interview panel, June 2009)

Derek Smith of Action Planning told an ACEVO meeting: “If your organisation is one that doesn’t like the idea of competition, it might not be around in 10 years.” He warned that voluntary organisations need to become more like private sector organisations, emphasising contract management, business planning and marketing and that projects should be devised to fit the agendas of funding bodies (Jump, 2009b).

There is growing concern about the impact of competition, partly due to the growth in size of contracts (discussed below), partly because of disquiet over the way bids are evaluated, but also because larger organisations are better placed to buy in or grow the tendering skills required. One sector representative was convinced that there was an overemphasis on cost in tender evaluations:

*We’ve had some organisations that have lost contracts and the basis of it is something like 1.5% out of a 100 in*

*an evaluation score... scoring systems for most tenders less than robust. They don't look at quality properly, they don't look at independent evidence, they don't have any kind of objective view... (Interview panel, June 2009)*

One sector representative expressed his organisation's worries about the commissioning agenda in the following terms:

*...the way that it is disadvantaging the smaller local community organisations and groups... the big danger... is that the national organisations - who are a lot better equipped to deal with this agenda - coming and delivering services that aren't necessarily the best for that local area... Building social capital is never measured so you end up with an organisation that can beat the local ones on costs and can tick all the boxes but is it actually delivering the best for the people they're meant to be serving? (Interview panel, June 2009)*

Another expressed exasperation with the lack of hard evidence relating to claims about tendering improving the quality of service:

*Can we debunk this myth that competition is good? Is it good for public services? We're all just told it's good. But is it? Is there any proof that quality has improved? ... there's a real difference between organisations that deliver public services and organisations that don't... public service delivery organisations tend to have a big organisational focus on that: who they employ and the nature of their business, it becomes much more of a business model. And of course there's another divide between large organisations and small organisations and there's a real concern about polarisation and is the delivery of public services within the third sector dividing organisations? ... To what extent... is the third sector subsidising public services and what*

*does that mean for the third sector? Because it's not good if we, as the taxpayers, are paying once for public services through our taxes and then paying again through our donation to a third sector organisation. That's a big problem and it really undermines the credibility of the third sector, calls into question what charities and voluntary organisations are for, what their purpose is. (Interview panel, June 2009)*

Another sector representative argued that there is nothing wrong with competition if the right people are making the choices – what was called a “fantasy commissioning model” in which commissioners give entry to the market to organisations that can provide personalised services, offer people control in social care, let them lead their own lives and support their independence and the individuals decide which organisation will provide that support. Competition should be triggered by quality not cost and the people who use the services should have a say in who provides their support. However, she contrasted this model with the current position in which

*...competition is triggered by the need to comply with regulations, the need to save money, the need to consolidate contacts. Any other need than the need of the people who actually want the service and their involvement in any of the decision-making on who actually gets the contract is virtually non-existent. So on that level competition is bad, but it could be different. (Interview panel, June 2009)*

Questions have been raised as to whether the contract regime is undermining the voluntary sector's ability to innovate (which is, after all, one of the government's justifications for extending the sector's involvement in the delivery of public services). One sector representative said that although historically the sector was responsible for many innovations and the

development of new models in social care and other public services:

*I think the question now is the capacity of those organisations is being eroded because they're having to spend all their time tendering to hang on to what they've already got... in a tendering exercise I've yet to see a tender that actually asks an organisation: what is your capacity to develop and innovate?* (Interview panel, June 2009)

A chief executive provided an example to show how the current system works against innovation:

*We spent last year £15,000 on consultants to carry out a feasibility study for us because we were picking up that the way in which alcohol detox was being delivered was not meeting the needs of the clients. And we consulted widely on it, the consultants did a wonderful job, and put together a really good report that basically said 'you need to change the way the service is delivered'. So we then went to speak to a number of the Supporting People teams and said this is what we think needs to happen – they'd contributed to it as part of the consultation on the feasibility study – but their response was: 'well we can see that but when we want a new service we'll go out to tender for it and you'll have your opportunity to tender then at the same time as everyone else will'. Now we spent the £15,000 because we'd had a few good years of making surplus, we had some reserves that we built up, and last year we only just broke even and putting together a break-even budget for this year has been even more difficult. There's no way we'll agree to spending £15,000 of our money on innovating, coming up with new approaches, new developments if we don't have a funder who's prepared to share the risk with us. And worse still, we go around telling everybody about it and they go out to*

*tender and they'll give it to somebody else who having found out a better way of doing it will come in and undercut us in terms of price. So what's the incentive for voluntary sector organisations to innovate in a system like that?* (Interview panel, June 2009)

Another sector representative commented:

*How do you innovate in a contract?... Innovation's the new buzzword and there's a fund to help the third sector innovate... Who carries the risk? Innovation means allowing the room for a possible failure... Contracts and innovation make strange bedfellows.* (Interview panel, June 2009)

The continued focus on costs, and more specifically the driving down of costs, in local government procurement remains an issue for many in the voluntary sector. One sector representative noted that this is often tied to unimaginative and rigid reproductions of previous service provision:

*...it's the models of care. If you have an organisation that simply does what has always been done, provides personal care, say, in exactly the same way as somebody else has done it but they come in cheaper because they don't pay their workforce enough then I think where is the merit in being a voluntary organisation?* (Interview panel, June 2009)

Several UNISON representatives also focussed on the issue of driving down costs in the tender process. One said that the local authority:

*...have told our organisation they want us to save seven and a half per cent on our services...and if we don't reach that then they'll put them out to retender. So we're being blackmailed...they're now looking at withdrawing working night shifts and putting in cameras.* (Interview panel, June 2009)

Another added that:

*We've got the tenders coming up and then they're renegotiating so you're having to provide more services for less money and you're having less staff to provide those services. And it's very short-term contracts. Whereas before it would be like 10-year contracts it's now two-year contracts and funding has been a third or up to a half reduced by local authorities.*

(Interview panel, June 2009)

### **Consolidating and aggregating contracts – squeezing out the small organisations**

Curley (2009) argues that the drive for efficiencies (which will inevitably intensify under the pressure of recession) has created a trend among funders to offer larger contracts aggregating smaller ones in the search for economies of scale. Often these are too large for many voluntary sector organisations to bid for successfully.

Pauline Kimentas, NAVCA local commissioning and procurement manager, says that this indirectly favours large – often private sector – organisations:

*They have the economies of scale and can employ members of staff, or even teams, just to write tenders...Some even bid on a loss-leader basis, so they don't expect to make or may even lose money, because they want to get a foothold in a particular market.*

(The Guardian, 2009c)

A sector representative argued that this approach was “anti-personalisation” and “cuts specialist organisations off at the knees” (Interview panel, 2009). In its evidence to the communities and local government select committee, Women's Aid Federation England argued that:

*...commissioning through competitive tendering has resulted in the closure*

*of some independent specialist domestic violence services who are unable to compete with larger organisations, particularly specialist services for black and other minority women. Commissioning practices are inconsistent and often not compliant with the Compact agreement... Where domestic violence services are commissioned, there is a tendency to favour cost over quality of service provision. Larger organisations with little or no expertise are being awarded contracts and gender-neutral services are favoured, despite what evidence tells us about the need for women-only services and the requirements of the gender equality duty.*

(Women's Aid Federation England, 2009)

A chief executive pointed out that smaller organisations are being pushed into consortia in order to bid for large generic contracts. This suits local authorities as larger contracts are easier to manage but this can create problems for providers and clients. Another sector representative said that:

*We want the small organisations to get together or be part of these bids but the big organisations who can lead on these bids or deliver them, they've got no incentive to work with anyone else because the companies...if they can deliver it why should they talk to the local community group...they've got to deal with lots of people, it's going to be complicated, might eat into their profits. They can do it themselves, it's easier, so the incentive has got to be put in there and I think it's got to be forced hasn't it? They've got to be forced to work with other groups because there's no natural incentive to do it.*

(Interview panel, 2009)

The government has issued a guide to assist voluntary organisations that are working, or considering working, within a consortium to deliver public services under contract (Office

of the Third Sector, 2008). This is obviously an attempt to remedy some of the negative repercussions of the marketisation of provision. However, the perception of some in the sector is that the situation is made worse by the commissioning approaches of some public sector organisations. Referring specifically to the Learning and Skills Council (LSC) and the department for work and pensions (DWP), one voluntary sector chief executive said that they are:

*most difficult to engage with...we're not one of the smaller ones and I know my way around the system. Yet we find it difficult because both of the bigger public sector organisations are going for preferred contractors on the understanding that they will then subcontract and indeed they don't subcontract in many cases.*  
(Interview panel, June 2009).

Kevin Curley, chief executive of NAVCA, agrees and blames councillors for allowing small charities to be sidelined through the imposition of a procurement process that uses "crude competitive tendering" (Jump, 2009a). Because of their lack of resources and experience at tendering, some "specialist services have chosen not to submit a tender, even for services that they currently ran" (Women's Aid Federation England, 2009:7).

The emphasis on tendering also draws in new entrants to the market in search of the money. These are often private sector bodies or other third sector organisations trying to diversify. Sometimes it is large national charities moving into areas previously provided by small local organisations. Although competition is supposed to drive up efficiencies, it may just drive out small and specialist charities.

For example, in the north-east, a Women's Aid group recently lost a large domestic violence support services contract to a housing association, thereby putting at risk the future of the local Women's Aid

organisation (Curley, 2009). AdviceUK – the national body for local advice centres – points to Leicester and Hull where citizens advice bureaux have lost their funding. In both cities the new provider is a private sector company A4E. AdviceUK warns that this will happen in more areas (Curley, 2009). These concerns led Richard Gutch (former chief executive of Futurebuilders England) to comment:

*...smaller, local groups are being squeezed out; there are increasing instances of national third sector providers, such as the Shaw Trust, or commercial providers, such as A4E, winning tenders against local providers, and then asking them for help with local information and contacts. There is a real danger that the valuable social capital provided by groups such as citizens advice bureaux, Home-Start and other local community groups will be lost.*  
(Gutch, 2008)

Similar observations were made by Ceri Jones of the Social Enterprise Coalition to The Guardian:

*There have been community organisations active in recycling, but large private finance initiative contracts for waste, which include recycling, means big commercial organisations are at an advantage.*  
(The Guardian, 2009b).

### **Changing the internal focus towards winning contracts**

It is argued that while contracting does not necessarily drive up standards, it can be extremely wasteful and produce unintended consequences (Curley, 2009). Transaction costs can be high and are incurred where previously there were none or they were negligible. Organisations become good at tendering, but not necessarily good at service provision; they may embark on "market-friendly, not client-friendly, paths of development" (Evans et al, 2005:93).

A report commissioned by AdviceUK (2008) examined advice services in Oxford and Powys, and found that contractual targets and conditions were distorting the performance of advice agencies in ways which made it more difficult to direct effort and resources into meeting client needs. Under legal aid reform many advice centres are paid a fixed fee per 'matter' dealt with for eligible clients. This led to advice agencies dividing client enquiries into several 'matters', restricting what was done for the client and closing cases early in order to claim their fixed fee.

Much of the work of advice centres is 'failure demand' - work that comes from the failures of public service administration (often by DWP, HM Revenue & Customs or local authority housing and council tax benefit operations). These failings not only create unnecessary work for the advice centres but also unnecessary costs within public services. Yet the practice of funding advice transactions only means that there is no incentive or resource available to feed the experience and knowledge of failed systems back into the public service (AdviceUK, 2008). As one sector representative commented in relation to commissioning: "People are beginning to speak the language of outcomes but not really following it through" (Interview panel, June 2009).

Many charities are realigning their internal structures so that they are geared up for competing for contracts and some have run down other aspects of their work such as policy development, campaigning and advocacy. It also increases the dependency of large sections of the sector on state funding.

One chief executive explained:

*...when I came into the organisation I had to restructure the organisation so that we would have some tendering capacity so we have a relatively small team two, two and a half members of staff working on tendering. That's a resource which in my view would be*

*better spent on improving the quality of service delivery. We spend a lot on quality of service delivery but I see very little evidence of that being used in determining the allocation of tenders. I think there's lots of rhetoric and lots of descriptions in the documentation about how quality will be judged but given that we as a sector in housing support are not open to what I would call proper inspection - we have reviews from Supporting People teams. How they relate quality of service to decisions on tendering I'm not very clear on at all. (Interview panel, June 2009)*

A UNISON activist related a similar change in their organisation:

*We have what we call assistant directors who are predominantly just above the manager level; they assisted in disciplinaries, met and greet people. They've now become business partners... that is their sole role now is to tender. And you've got human resources who are now business human resources, again there's this tendering. It's not to do with work relations and human resources. And the managers who were project managers, the remit was just to run the project: they're now taking on the human resources role and they've also got to look at financial and health and safety - all with no training. So they've just got a basic manager qualification and that's it: they're having to take on all the responsibilities and do the work of about three people. (Interview panel, June 2009)*

Another noted:

*...the amount of staff time that's now taken up with preparing bids for work and how that's taken management time away from the supervision of staff... doing beauty pageants to get the money in. That's the thrust of what the middle managers are having to do. (Interview panel, June 2009)*

In a study of social care services in Scotland, Cunningham and Nickson (2009:1) showed that re-tendering in particular was becoming “a major challenge to the financial stability of voluntary sector organisations” and cited respondents’ views about the waste of time and resources involved with re-tendering.

## **The potential impact of personalisation**

The latest phase of the public sector reform programme is ‘personalisation’ and often associated with it is the notion of individual budget holding. This is still at a very early stage. ACEVO, the third sector chief executives’ lobby group, defines personalisation as

*efforts to make public services more people-centred, i.e. more tailored to their needs, more controlled by them, and more ‘co-produced’ by them.*  
(ACEVO, 2009:9)

Very few people would argue with the aim of making a service more geared to the individual needs of the client and more open to adjustment and control by them. ACEVO’s Mathew Pike enthusiastically claims that as a result of personalisation, third sector organisations in three years’ time will be different places, with new systems, staffing structures, pricing models and products (Pike, 2009).

The Commons communities and local government committee (2009a: 17) add a note of balance by pointing out:

*Personalisation of services is good for increasing service user choice, but sometimes too much choice is overwhelming or even inappropriate. Careful consideration must be given to how to balance personalisation with important commissioned services for people who need emergency support, or who are unable – or unwilling – to choose.*

Some, like Pike, argue that personalisation will save money but personalisation is

unlikely to be cheap and yet the government is pushing this through at a time of financial constraint. Others are more sceptical – particularly of individual budgets. One sector representative said:

*It could never work in practice for so many reasons... It’s just the most half-baked idea and it’s a shame because obviously personalisation of services is a great idea but this whole individual budgets and direct payment – that’s just sloughing off accountability.*  
(Interview panel, June 2009)

There is a more general tension between individualised services and making savings. Referring to a claim made by one council that home care is a “volume business”, a sector representative declared that “you can’t have personalised services and volume business. It doesn’t make any sense” (Interview panel, 2009). Community Care Providers Scotland (CCPS) illustrated the tension between personalisation and cost-cutting when it related reports from members in some areas of Scotland:

*... that models of one-to-one support are being abandoned by commissioning authorities and that, instead, people are being directed back to day centres and group homes, because they cost less to provide.*  
(CCPS, 2006: 13)

There are also issues of quality and accountability. One sector representative said:

*There’s a huge workforce issue around personalisation and direct payments and PA assistants and all of that because you have a very heavily regulated workforce if you’re employed by an agency and if you’re employed directly by a service user, none of that applies... makes it a lot cheaper... but where are the safeguards both for the individual using the service but also for the employee?*  
(Interview panel, June 2009)

Personalisation in adult social care may leave some longstanding local organisations with nowhere to go. NAVCA fears that the organisations best able to thrive in an age of personalisation will be large, private sector providers often with poorly paid and poorly qualified staff. Ultimately it could mean poor quality services and ironically less choice for service users not more (Curley, 2009).

### **Mergers and business failures**

The government is urging the sector to consider mergers as a way of ensuring survival and some have already done so and, no doubt, more will follow. The Charity Commission and NCVO have set up collaborative working units to provide advice and support for voluntary organisations considering merging or closer collaboration. The Charity Commission is working with the OTS to raise awareness among charities of the new funds available to help them work more closely together or merge. Collaborative working as a way of maximising resources still appears not to have been generally considered by charities. Commission chair Suzi Leather told the all-party parliamentary group on the community and voluntary sector (APPG) (2009b) that progress remains slow and that only 3% of charities are currently considering collaboration or merger and that there is much greater scope for this kind of approach.

Stuart Etherington, NCVO chief executive, told the APPG meeting that the recession is most likely to push medium-sized charities towards mergers and collaborative working as, by contrast, small charities will continue to work effectively and that larger charities have the capacity to change direction (APPG, 2009b)

From April 2009, the Royal National Institute of Blind People (RNIB) and Action for Blind People officially joined forces in an association to share resources, skills and expertise (RNIB/Action for Blind People, 2009). Help the Aged and Age Concern have also merged to form a new organisation and

from spring 2010 will be known as Age UK.

The increase in competitive pressure - particularly as the private sector becomes more involved in these areas - could mean that the alternative to some form of merger is that some charities collapse (as Deloitte warned in January 2009) with all the consequences that has for the service users. This would see the third sector facing the sort of classic shakeout as a result of a downturn that is more associated with the private sector.

### **Independence**

Since the push to increase the involvement of the voluntary sector in the delivery of public services began, there has been a concern that too close an engagement with government would compromise the sector's independence and its role as an advocate of its client group. As Cunningham (2008:23) points out, research on the private sector "reveals how commissioning organisations in supply chain/contractual relations do, in reality, intervene to shape policies with which they have contractual relations".

The Commons public administration select committee examined this point in relation to the voluntary sector and was unconvinced, noting that:

*While the scale of third sector involvement in service delivery remains close to its current small-scale level, many of the risks to the sector which were identified in our inquiry appear to us to have been overplayed.*  
(Public administration select committee, 2008a: para 229)

The government's recent decision to withdraw the £750,000 funding for a campaigning research programme aimed at helping small charities campaign and advocate for change has revived some of these worries. It drew a strong response from the NCVO, whose chief executive, Stuart Etherington said:

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*I am appalled at the decision to withdraw this funding. Charities play a critical role in campaigning and advocating for change. Without them, the voices of marginalised people can often go unheard. Making this decision at such a late stage has resulted in a complete waste of public funds and time for all involved.*

(NCVO, 2009b).

Fears have also been expressed about possible “mission drift” (Cunningham, 2008:19) as increased reliance on state funding possibly distorts the goals and actions of voluntary sector organisations. Others argue that this is an issue for certain voluntary organisations involved in tendering rather than a general problem across the sector. One commentator speculates that Nacro, the crime reduction charity, has compromised its independence as it is now:

*forming a partnership with a private prison corporation to bid for contracts to run jails in London and Liverpool. It was straining credulity to imagine that it could argue for fewer people to go to prison when its new business model relies on the judiciary sending a steady stream of customers through the cell doors.*

(Cohen, 2009)

He suggests that, once reliant on the state, it is difficult for voluntary organisations to break free and that such dependency is unhealthy for both the sector and the wider society.

## What does all this mean for the workforce and employment relations?

### Introduction

Today, the sector is a major employer. In England in 2007/08, 540,000 people were employed, which represented 464,000 full-time equivalent employees. Two thirds of these are women (305,000) and a third are men (159,000) (Cabinet Office, 2009). The twin demands of the recession and increased competition for contracts means that there is growing pressure to cut staff costs, including pay, jobs, pensions, hours of work, training. The impact on staff of increased competition was described as “profound” by one sector representative who emphasised that organisations were examining all areas of staff costs so as to be able to compete with the private sector for government contracts. This means:

*...organisations that are renegotiating terms and conditions, renegotiating pensions, especially pensions: the disparity between a pension in the third sector and a pension in the public sector now is absolutely massive. You've got managers who are being asked to oversee more service area, stripping out management levels making flatter structures: that has an impact on individuals. Even kind of basic things like subsistence allowances, mileage rates all coming down which...does actually start to play then on the psychological contract you have with voluntary organisation and the self exploitation of staff, who always traditionally in the voluntary sector have gone the extra mile but now grudgingly, they are being put in the position of having to, because otherwise we're going to lose the contract. What can we do?*  
(Interview panel, June 2009)

It is generally accepted that people choose to work in the voluntary sector because of a sense of commitment to a particular cause

(Paton and Cornforth, 1992; Zimmeck, 1998) – staff are seen as highly committed – but the increased pressures outlined in the following paragraphs may be undermining this commitment. As one UNISON activist said:

*I'm not sure I'd like to work in an organisation in which people weren't prepared to go the extra mile; it's the extra marathon that's the problem.*  
(Interview panel, June 2009)

### Jobs

As staff costs represent around half of charities' total expenditure, it is not surprising that jobs are threatened in those organisations facing a decline in income. UNISON activists report (Questionnaire responses, 2009) that job cuts come in a variety of forms from redundancies through 'temporary' recruitment freezes to a policy of not filling vacancies. Following a reduction in staff numbers, sometimes the work is reallocated thereby increasing workload for those that remain, and in other cases the service is discontinued or reduced. This seems to have happened in areas in which specialist assistance was provided to those most in need or in areas that were seen as not part of the core work, such as social events for service users.

A Charity Commission (2008) survey, which found that 25% of charities that collect monetary donations reported a decrease in donations in the previous year, also revealed that of those that reported a decrease, one in twelve had to make redundancies as a direct result. However, only 2% of charities reported that in order to reduce their costs they were reducing the numbers of staff or hours of staff (Charity Commission, 2009a). And the National Council for Voluntary Organisations (NCVO) suggests that “the

concentration of staff in contract-funded social care activities may limit redundancies in the sector” (NCVO, 2008b:2). They also speculate that as the labour market slackens as a result of the recession, there will be downward pressure on staff costs. Similarly, it may be easier to remedy skills gaps and shortages.

At the 2008 recession summit, NCVO (2008b) was already reporting “anecdotal evidence” that some third sector bodies were making redundancies. At the end of May 2009, The Sunday Times reported (Bartlett, 2009) that NSPCC and Shelter were laying off staff and that “up to a third of all charities report that they will have to follow”. Following a cut of 150 senior managers’ jobs, Scope’s then chief executive, John Sparkes told the newspaper:

*We’ve cut a quarter of senior staff so that we can prioritise services. Since the autumn we have been feeling the pinch. Our legacy income is down 15% and we weren’t in a particularly strong position with reserves. There wasn’t enough rainy-day money, and it’s raining.*

As well as laying off senior managers, Scope has also rationalised internal structures, combining back-office posts in communications and marketing in an attempt to maintain service provision (Bartlett, 2009).

Meanwhile Ramblers has warned its staff that redundancies are likely and that the Scottish and Welsh offices will probably close. As well as the actual offices being closed, all staff in Scotland and Wales may be made redundant with a small number re-employed at lower wages, working from home (Wiggins, 2009). Ramblers vice-chair, Tom Fisher told the Sunday Herald: “In order to balance the books, the trustees of the

Ramblers reluctantly decided that significant staff cuts were unavoidable.” Reflecting the anger in Scotland, Denis Canavan, the convenor of Ramblers Scotland said: “As a former MP and MSP I have been involved in many industrial disputes, and I’ve never seen a group of workers subject to such shabby treatment.” Edwards, 2009). There is now a possibility of Ramblers Scotland splitting from the UK body (Fyall, 2009).

## Pay and conditions

Even under the Conservative governments of the 1980s and 1990s, there was evidence that the developing contract culture was pressing down on terms and conditions in the voluntary sector (Cunningham, 2000; Cunningham, 2001; Cunningham, 2008). Some voluntary sector organisations continue to follow the local government national joint council agreement on pay. However, many no longer do so and UNISON activists report that a number are now actively considering withdrawing from this commitment in order to save money. One activist related how:

*We are seeing a lot of competition. Basically our organisation is trying to bring down wages, bring down terms and conditions so that it can compete.*  
(Interview panel, June 2009)

Several organisations have either actually suspended or abolished incremental pay progression or are considering it. Many more are looking for new flexibilities in terms and conditions in a sector that is not known for over-generous pay - at least at the lower levels (Parry and Kelliher, 2009; Cunningham, 2009). One activist reported that problems over pay are creating retention problems in the organisation:

*We’re noticing more and more staff*

*leaving, who've been with us for a long time... One comment I had was "I can go and work in Tesco for less hours and get more money". It's not what they want to do because they enjoy doing what they're doing but they'd be better off.* (Interview panel, June 2009)

In Scotland there previously existed a code of practice drawn up by the Scottish Council of Voluntary Organisations (SCVO) which committed local authorities and providers to the principle of harmonisation of terms and conditions of staff. The National Joint Council/Scottish Joint Council (NJC/SJC) collective agreement was used as a guide, and the same annual increases and improvements to terms and conditions would be implemented. As one Scottish voluntary sector representative said:

*People started off in a very well intentioned way in that respect. Subsequently in the last 20 years or so that has completely gone out of the window, so most, if not all of our organisations have had to negotiate their staff groups off NJC scales. If they were on it formerly contractually, they're not anymore and that is simply a result of authorities not being willing to fund those contracted services to the same proportion they would fund directly provided services.* (Interview panel, June 2009)

According to this interviewee, a downward spiral has been created, in which:

*... you've got organisations having lower costs simply because that's the money they get, then public authorities seeing them as lower cost providers. That sort of feeds off itself.* (Interview panel, June 2009)

A possible example of this took place in October 2009, when staff at Scottish-based charity Quarriers reluctantly voted for a pay freeze after four months of negotiation between charity management and the staff

union, UNISON. Workers will also lose half of their payment entitlement for public holidays, and extra pay for night work will be phased out. Hugh Walker, director of finance and corporate services at Quarriers, told the branch that the changes would "enable us to submit competitive tenders, retain services and hold on to jobs" (UNISON Quarriers, 2009). The charity began with a stance of demanding agreement to a range of far-reaching changes and threatened to dismiss all 2,000 staff and re-engage them on the new contracts. As it was, as UNISON Quarriers branch secretary noted:

*Quarriers didn't get everything they wanted but they did get a lot of concessions. Staff voted for the agreement probably more out of fear for their jobs than anything else.* (Little, 2009)

Residential care services may offer a glimpse of future developments in the sector more generally. These services were opened up to the private and voluntary sectors early on (under the Conservatives in the 1980s and 1990s) and today, according to analysts Laing & Buisson, in 2008 just 35,400 of the 271,100 residential care places available were provided in council-owned homes (Bawden, 2009). In 2007, 92% of places in residential and nursing homes having older people as their primary clients were in the private and third sectors. Just 8% were provided by local authorities (Cangiano et al, 2009:12). Workers in these care homes are paid very low wages. According to Cangiano et al (2009:22) the median gross hourly pay for care workers in the quarter from December 2008 to February 2009 was £6.56 (a little above the minimum wage of £5.73). However within that average there were wide variations with workers in the private sector paid less than those in the voluntary or public sectors, and some workers are even paid (obviously illegally) below the national minimum wage (Cangiano et al, 2009: 25).

Low pay and poor conditions means that

there is a serious problem of recruitment and retention in care homes. Turnover varies across the sector but is higher overall in care jobs than most other occupational areas. Within the care sector, figures for 2007/08 in England show that it is highest in the private sector (23.6%), with 9.6% turnover in the statutory sector and 15.8% in the voluntary sector (Cangiano et al, 2009). The care home owners blame local authorities for underfunding provision (Bawden, 2009).

An unintended consequence of the problems of low pay and poor conditions is the reliance on migrant workers. In a survey, Cangiano et al (2009) found that 19% of care workers and 35% of nurses employed in the care of older people in the UK were migrant workers and 28% of care workers and 45% of nurses recruited in 2007 were foreign born.

The lack of a national agreement or set rates for the job is seen by some as major problem that allows costs to be driven down artificially. One sector representative commented:

*...in any other public service you'd have a rate for the job, nursing, teaching, emergency services, police, you name it, there is a rate for the job and in social care there isn't. There is no lower limit other than basic legal protections which apply across the board and our view is that we should do something about that because otherwise the effects of price-driven competition will be, we'll end up – there's a campaign in The Observer now for waiters to be paid the minimum wage because tips are making up their wages – it's entirely conceivable to me that we will get to that point in social care where you're actually paying people less than the minimum wage and expecting some health service users to tip. It sounds crazy but we're not that far away from it really.*

(Interview, June 2009)

The attitude of some local authorities

towards the costs of home care and carers' pay rates is illustrated by the evidence provided to the Scottish Parliament's local government and communities committee by Jim Wilson, head of older people's services at South Lanarkshire Council. He attempted to justify a cost of £10 an hour (including just £5.70 minimum wage to the carer and enough to cover overheads, management and training as well) by claiming that "Home care is very much a volume business" (Scottish parliament, 2009: col. 2104).

Another activist illustrated how the cost pressure was pushing down on jobs, pay and conditions:

*...gradually staff are having imposed restructuring so they're doing less hours during the day working with clients...they're reducing management structures... using more volunteers now so you'll have one member of staff that's employed and gradually it's been introduced that you'll have more volunteers. And then staff are being made redundant. We've had a pay freeze this year. Also they froze the increments... We don't get bank holiday enhancements. They're asking us to volunteer time, get it back as TOIL. The trouble is you never have the time to get that TOIL back because you're always on the shop front working with people.*  
(Interview panel, June 2009)

UNISON activists report that members have faced demands for, and in some cases the imposition of, cuts in shift cover, in hours and in travel allowances (Questionnaire responses, 2009). The frustration of staff in the face of this apparently relentless pressure on pay and conditions was reflected by the words of the UNISON activist who said:

*...the sort of thing that I think we've seen happen is that people have been because of their commitment to their work and their commitment to being in a voluntary organisation about being flexible and going the extra mile. The*

*dilemma is it becomes an expectation and it becomes a contractual obligation because that's the next thing that happens. And that's the thing that, it's great as long as management don't take the piss and sometimes they do.*  
(Interview panel, June 2009)

## Professionalisation and training

One voluntary sector representative commented that the relentless downward pressure on costs runs counter to all the policy developments around social care and government aims of driving up quality in the sector. These are:

*...all about a competent confident workforce and upskilling and making sure people are professionally qualified and respected and rewarded and supported in the workforce, but at the same time procurement policy is driving costs in completely the opposite direction so you've got this massive policy clash now between what government is saying about how social care needs to develop and what it's saying about how public procurement needs to develop. They just don't fit.*  
(Interview panel, June 2009)

Furthermore, in social care, the drive towards professionalisation is being led by the regulatory framework, which now affects all sectors in the same way but, as another representative put it:

*[commissioners] want professionalisation but they're not willing to pay for it and how do you have professionalisation if you have fragmented services? This whole personalisation – where's the professionalism there?...where's the accountability? ...They're asking for the world, top quality and professionalisation but they don't want to pay for it, so how do you deliver that?*  
(Interview panel, June 2009)

Despite the drive towards professionalisation, the squeeze on costs appears to cut across this – at least in some voluntary organisations. One UNISON activist said:

*You're expected to do training but they won't provide the training. So if you need to do something you have to provide your own training just to move on within the organisation... They'll only provide mandatory training, so it'll be first aid, code of conduct, child protection and that's it. Very minimal, so if you want to do anything like training autism, you have to pay for your own training or source the funding.*  
(Interview panel, June 2009)

One UNISON activist argued that cost pressures were producing a kind of process of de-skilling in which, unless specifically called for in the contract, work previously done by qualified staff would now be done by unqualified staff:

*I think there will be a continual eroding of the amount of people you need to deliver a service compared to the answer to that question two or three years ago. The levels at which people are employed at. If there's not a statutory obligation to have a qualified member of staff then you won't have qualified staff being employed. If there isn't a regulatory requirement for certain specific qualifications then you won't have those people having to have those qualifications in post... That's what we're already seeing and that's what we'll continue to see... in fostering and adoption you need to have, to be qualified at a certain level with certain experience for your service to be registered through OFSTED, Care Council, keeps changing but there are tasks within fostering which in the past qualified social workers would have done but now they will get unqualified social workers to do because you don't need*

*to be a qualified social worker to do that task.*

(Interview panel, June 2009)

The trend towards fragmentation and simplification of tasks in the voluntary sector in response to cost pressures as a result of the competitive market does allow for the deployment of less qualified staff in various areas of work. However, it runs counter to the efforts to 'professionalise' the staff in the sector and, in areas like care work, also has the effect of 'reducing the emotional aspect of care work and diluting their skills (Cunningham, 2008).

## Personalisation and individual budgets

There is a fear among some union activists that the latest drive for personalisation and individual budgets may prove to have the biggest impact of all. UNISON is on record as supporting the principles behind the personalisation agenda (Communities and local government committee, 2009b: Ev 86-87) but has expressed concern at the inadequacies of the measures for service-user involvement and the potential threats to specialist services.

Activists predict the growth of generic service providers, employment brokers and hyper-flexible forms of working, with little direct employment as voluntary organisations bid for complex holistic contracts, embracing a combination of services, for example, mental health, employment placement and housing advice. This could potentially threaten the provision of specialist expertise but would possibly meet with government approval.

## TUPE, insecurity and stress

Because of the short-term nature of much of the funding, insecurity is not new in the voluntary sector (Cunningham and James, 2007). Employees in the sector are more likely to be on temporary contracts than

employees in either the public or the private sector (NCVO, 2007). The number of employees on temporary contracts in the voluntary sector has remained static over the last decade while the numbers on temporary contracts in the private sector decreased since 1999 by an average of 3.6% per year and 2.3% per year in the public sector (ibid). Cunningham (2001:236) observes that "the funding environment was leading to a greater reliance on atypical forms of employment, such as temporary contracts".

The NCVO recession summit recognised that one of the impacts of the recession will be increased job insecurity and stress levels amongst staff (NCVO, 2008c). There are a range of potential causes for this. Voluntary sector staff are renowned for working beyond scheduled hours because of their commitment to the client group but Tom Stannix, co-founder of mental health organisation, Coasts, has warned of the need to avoid exploiting the good will of staff to win contracts. He told The Guardian (2009b):

*We tend to be cheaper than public or private providers because we use volunteers but also because of the voluntary sector culture, in which staff often work longer hours than they're supposed to. It's important we don't exploit staff in this way, which is why we're telling our people we don't expect them to do more than what they're paid for.*

Stress and insecurity could be exacerbated by the uncertainty over contract tendering. Women's Aid Federation England (2009) claims that:

*The competitive tendering environment and insecurity of contracts is having an adverse effect on partnership working and is resulting in high staff turnover or inability to replace staff when contracts are short term.*

One sector representative complained that

contracts can be won or lost on the basis of very small differences in tender scores with “hundreds of staff transferring between organisations on the basis of a flawed system and tiny, tiny differences in quality between them” (Interview panel, June 2009). Even if the contract is won, the end result could be an increase in insecurity. One UNISON activist described the situation as involving “a lot of insecurity. Recent tenders for contracts resulted in new employment contracts for support staff attracting lower salary, less annual leave and longer working hours” (Questionnaire response, 2009)

Another UNISON activist explained:

*People leave to take an unstressed job in a supermarket. There's a lot of stress on the senior staff as well who are having to bid for these contracts and they are just getting more and more insecure about their organisation, they're spending more and more time scrambling for money instead of running a service, worrying about the next contract...*  
(Interview panel, June 2009)

The situation could be even more profound if the contract is won with the onset of what one sector representative called “the TUPE nightmare”:

*We've had organisations that have had to absorb staff from five or six different providers because of consolidated contracts being on offer. You end up with an organisation that's got five or six or seven different terms and conditions that they then have to keep going because of TUPE regulations. A lot of private providers that inherit these contracts are now looking at ways out of that.*  
(Interview panel, June 2009)

These difficulties are magnified several-fold if the first consortium loses a re-tender to a second consortium and is obliged to absorb

staff from several different providers. In certain instances, the transfer of a contract from one provider to another can cause serious problems for staff even, or especially, if they transfer over to the new provider. As a sector representative recalled:

*We've had a recent re-tender in the city of Edinburgh where quite a progressive forward-thinking organisation lost a contract to what was quite a conservative Christian organisation. This was a homelessness tender and this organisation on its website said that we do what we do because of our belief in the Almighty. And then staff being TUPE'd over to this organisation thinking “well God that's not what I signed up for”, so it's not even going over to private. And the reverse could be true where people had signed up for that kind of Christian ethos and then find themselves working for some kind of wacky bohemian third-sector organisation that doesn't share any of that.*

The insecurity of knowing who the employer might be after a tendering exercise was highlighted several times by UNISON activists. For example, one said:

*...there's been a significant impact of knowing where you're going to be working next year, so people who started off working in a voluntary organisation by choice could end being TUPE'd either to another voluntary organisation or back into the local authority. And people who were in the local authority who never wanted to go into a voluntary organisation may find themselves TUPE'd into voluntary organisations.*  
(Interview panel, June 2009)

## Potential for conflict

The NCVO recession summit recognised that the recession could herald an increase

in conflict over staff pay and terms (NCVO, 2008c). In response to this, NCVO wants to see an increase in government provision of minimum three-year contracts to help provide stability and security for the sector as employers and unions to work together to prevent or minimise conflict through increasing the use of mediation services, which need to be provided at an affordable cost to the sector (NCVO, 2008c).

UNISON activists report that the pressure created by marketisation is having an impact on the internal life of voluntary sector organisations and the way that staff are treated, with “less concern for staff”, that there is a harsher managerial approach “because they think the local authority is standing over them, looking at them and watching them”, and managers are “suspending people much more quickly... if anything goes slightly wrong” and they “clamp down on absence as well... because managers are worried about local authority inspections” (Interview panel, June 2009). Several agreed with the view that there has been a “massive” increase in disciplinaries in the last year. There is some evidence that, in relationships governed by contracts, the commissioning organisation “can have considerable influence over discipline, supervision and grievance to the point where such employer functions are exercised by non-employers” (Cunningham, 2008: 31).

At the end of 2007, there was a warning of the danger of a “wave of industrial unrest” in the sector (Cook, 2007). That did not materialise, although there were some bitter skirmishes and near misses, including:

- at Shelter around the abolition of increments and the lengthening of the working day
- problems at Quarriers around underfunded local authority contracts
- another narrowly avoided dispute at the Elfrida Society
- Turning Point abolished increments
- Children’s Society considered pay cuts

for workers after failing to win council contracts.

Churn between different providers and the transfer of workers from one employer to another under TUPE is another potential area of conflict. There was a clash in 2007 between GMB and Ingeus (formerly WorkDirections) after it won a contract previously delivered by the Shaw Trust and initially tried to avoid its TUPE obligations (GMB, 2007).

UNISON is involved in a bitter dispute with private care home owner Excelcare after members were transferred over to the company when Essex County Council sold its care homes. Staff were supposed to be protected under TUPE but after a few months, Excelcare tried to persuade staff to voluntarily transfer to its inferior terms and conditions. Those who refused had their contracts terminated and, at the time of writing, were taking unfair dismissal, constructive dismissal and breach of contract cases against the company through their union (Bawden, 2009).

## Conclusions and recommendations

The combination of the way that the competitive market works and the impact of the recession is creating new problems and deepening existing ones for the voluntary sector. A tighter regulatory structure for many services provided by the sector has gone side by side with increased financial reliance on the state. There are tensions within this that need to be recognised and addressed. Beneath the “benign language of partnership” (Evans et al, 2005: 78), there has been a fundamental restructuring of the relationship between the state and the sector – a restructuring in which the power is wielded by the state through the contracts that it commissions. Some progress has been made in convincing commissioners of the need for longer-term commitments to engaging the voluntary sector (the target of a minimum period of three years for contracts appears to be broadly supported). However this modest progress is likely to be completely undermined if commissioning bodies simply see the use of the voluntary sector as a means to drive costs downwards in response to their own cost pressures as a result of the recession. As the communities and local government committee recently warned (2009a: 77), the benefits of three-year funding settlements “must not be lost as the financial settlements for local authorities become tighter”.

As one sector representative explained:

*If the rhetorical support for the third sector is genuine, and I think it is, the way the funding of the system is set up actually negates all the good things that government values about the sector. So if there are things you value about the sector – like its independence, like its capacity to innovate, like its service delivery capacity – you need to set up the funding and regulatory system to nurture that and not squash it flat.*  
(Interview panel, June 2009)

Cost pressures inevitably affect the jobs, pay and conditions of voluntary sector staff – through cuts in staffing levels, pay cuts or freezes, threats to the pension scheme and a deterioration in conditions. Because of their commitment to their clients, voluntary sector staff are often willing to make extra efforts in a period of crisis. However, they cannot be expected to bear the burden of policy decisions taken by commissioning bodies at local or central government levels. And it is a mistake to imagine that there is an infinitely elastic level of tolerance for this among staff. Many studies have shown that pressure on employment conditions has a detrimental effect on the mission attachment of voluntary sector employees and can result in ‘burn-out’ and disillusionment (Cunningham, 2008). In turn this results in retention problems and extra expense for the employer in the long term.

Government (at both central and local level) also has a duty to ensure that funding for the voluntary sector is adequate for the tasks set for it and that the sector is not seen as a cut-price answer to larger economic problems. Funding should be at a sufficient level and over a sufficient time period to meet the objectives of the service.

Voluntary sector employers have a duty to their clients to ensure that the best possible service is available to them. This, in turn, requires a commitment to ensure that sufficient staff are employed to do the job and that they are treated fairly (in terms of pay and conditions) to guarantee the maintenance of a highly motivated, highly skilled workforce. Voluntary sector workers are entitled to a democratic voice at work through their elected union representatives, but many are denied this opportunity by their employers. This should end and employers should work closely with UNISON to improve the system of government funding of the sector.

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## Notes





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