

Spring | 2010

MOBILISING THE HIDDEN ECONOMY OF THE THIRD SECTOR

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A shared misconception

Along with other sections of society, the so-called third sector faces severe financial constraints over the coming years. At the same time, demands on its services will increase as unemployment bites further and the public services retrench.

All political parties hope that the third sector will find ever more ingenious and economical ways to mobilise local communities to cope with adversity. Public policies to encourage this, whether from Labour, Conservative or Liberal sources, share some strengths and some misconceptions. All recognise the importance of strengthening community life. Labour stresses the role of local communities in holding local public services to greater account to deliver effectively. Conservatives stress the role of local communities in solving their own problems. All three main parties look to 'social enterprises' to lead the sector in becoming more self-reliant and less grant dependent.

This notion of social enterprise as the economic model for the whole third sector is the Achilles' heel of all three approaches. Pressing small mutual aid organisations - by far the majority of the sector - to behave like commercial enterprises, even 'non-profit' ones, undermines rather than strengthens the internal life of communities. Micro-organisations which provide help, activities and social networks directly and flexibly with a minimum of cash cost or bureaucratic interference have little desire to divert their energies to pursue a more expensive, more indirect and less autonomous route to achieve the same thing. Other ways need to be found to boost their role.

Illusory homogeneity

The misconception arises from the illusion, inflated over recent years, that the whole of the voluntary sector has become professionalised. This is compounded by the official definition of voluntary organisations as bodies which 'reinvest their surpluses' for community benefit. The tens of thousands of community groups that knit social life together across the country have no surpluses. Their benefit to the community is a direct uncoded response to need and interest.

The top echelon of the third sector has indeed become highly professionalised and business-like, and this is a great strength in terms of delivery of those services in which it specialises. This has little to do with the inner strengthening of community life. It plays a vital part in national life but has mistakenly been taken to typify the third sector as a whole.

Since this stratum of the sector works largely through paid staff, and the mass of smaller groups are assumed to be simply smaller versions of the same sorts of organisation, the notion has arisen that it would be more efficient for society if the small groups also learned how to

earn their costs through business models and contractual types of arrangement. It is presumed that in the absence of this model they must be reliant on grants.

Perverse effects

The error is gross. The great bulk of the resources of the small groups is their own uncosted and unsubsidised labour. Most such groups neither get nor seek grants, let alone contracts. Those that do obtain grants return far more than the value of the grant through their own voluntary labour. A typical group of this kind might receive a £5,000 grant and deliver £50,000-worth of service to the neighbourhood. To require it to divert its efforts into 'earning' the £5,000 puts the other £45,000 of value severely at risk. For many it leads down a path of loss of autonomy, loss of volunteers, increase of bureaucracy in order to cope with the technicalities of employing staff, and then naturally seeking full cost recovery. Many groups following this path fall by the wayside. Those that succeed may end up providing the same service they were providing before, but now at ten times the cost to the taxpayer.

What is required instead is a segmented policy which reflects the real anatomy of the third sector. The sector consists of radically different strata performing different functions in different ways. The outlines of this dichotomy are well known to the workers and active citizens who operate with it on a daily basis, but are largely invisible in public debate.

Major new evidence

In 2009 however the first ever comprehensive national (English) survey of the third sector provided a mass of new evidence which makes it possible to analyse these issues objectively. Produced by IpsosMORI for the Office of the Third Sector, the survey's immediate purpose was to provide a baseline for an indicator in the local government performance framework (National Indicator 7, 'Environment for a Thriving Third Sector'). In the event, however, the survey provided much broader evidence of the nature of the sector. (See www.nstso.com.)

One would therefore expect the survey to have automatically become a key reference point both for policy on the sector and practice within it. Three factors have muted the response:

- The findings are worrying for local public bodies: only 16% of respondent organisations across the country felt they owed any of their success to the relationship with local public bodies.
- The findings are worrying for local third sector umbrella bodies: most organisations in the sector are not benefiting from their services. This is less surprising, since many of these organisations are themselves far too small to cover the whole of their notional territory.

- The analysis provided by IpsosMORI is largely limited to the original purpose of supporting the indicator – much of the wider significance of the data remains unexplored.

The real profile

No one has yet done a complete analysis but these are some findings which can be identified using the excellent online cross-tabulation facility:

- The great majority of organisations in the sector are small community groups or voluntary organisations with no employees and little money. Nevertheless they produce as much volunteering as voluntary organisations with five, ten, twenty or more paid staff.
- The largest part of these smaller organisations are ‘below the radar’ – not registered charities nor found on formal lists of organisations, and could not be captured by the survey. Nevertheless, these smaller kinds of groups also form the majority of respondents even *above* the radar.
- What matters most to most organisations about the relationship with local public bodies is not money but contact, influence, being heard, being valued and practical advice and support. Money is also important but comes after these.
- If you draw a line between organisations on the basis of having above or below £25,000 a year, or having up to two or more than two employees, those below the line, amounting to well over half the respondents, have less contact, encouragement and recognition from local public bodies than those above the line.

Policy implications

What are the implications of all this for policy? The huge swathe of small community groups is the key to the inner strengths of communities. These are the groups which run social clubs, sports clubs, youth clubs, tenants’ associations, residents’ associations, neighbourhood watch groups, playgroups, health groups, choirs, drama groups, ex-offender support groups, mental health survivor groups, friends of hospitals, friends of parks, expatriate groups, refugee support groups, and groups which campaign to save or improve local amenities, prevent unsightly developments or obtain better delivery of a public service.

To describe their activities as ‘services’ only captures part of their value. Whatever their overt aims, they are also places where people make friends, overcome isolation, find out what’s going on in the locality, learn cooperation, hear about unadvertised jobs, learn skills. Even though the great majority of activity is not at all political in a party sense, this layer of social activity is integral to the health of democracy. It is where people learn to cooperate, compromise, argue their case, tolerate differences, get a feel for how public decisions are

made, take responsibility and are held accountable by their peers. For some it leads on to formal civic roles or party political involvement. But for all it is part of living democracy because a key feature of these groups is their independence both of state control and market pressures.

But if all these groups function spontaneously what is the need for policy about them, other than the right to free association?

What must concern policy is that community groups are fewest and weakest where they are needed most – in areas of multiple disadvantage. There are always some exceptionally public spirited residents who form such groups, but isolation, fear of assault, poor health, poor public transport, limited cash and numerous other low profile obstacles result in sparse coverage and limited impact where problems are greatest. And where relationships between residents are fractured, public services also tend to retreat, pinning low expectations on the area and then inadvertently acting down to them. At the same time, such areas consume disproportionate amounts of public resources through their higher crime, poorer health and greater unemployment. Britain as a whole may be far from broken but conditions in particular neighbourhoods give a strong impression of bidding for that unenviable status, and the cracks in the social fabric are sometimes felt far afield.

Such areas therefore inevitably pose acute dilemmas for public policy. Governments of every persuasion have made some effort to stem the concentrations of adversity. For many years schemes of amelioration consisted almost entirely of material improvements – jobs, housing, amenities. These of course remain important but they don't achieve lasting effect without changes in relationships, activities, self-organisation and participation by local residents. New Labour at last introduced some objective measures of these factors, and David Cameron, in his Hugo Young memorial lecture, articulated in a seemingly fundamental way the need for the state to assist local society to become more responsible and self-directing. As we have said, however, both approaches still fail to reflect the true economy of the third sector, in particular the local community-based part of it, sometimes called the community sector.

Method

What, then, is required? The Home Office's 2004 study, *Firm Foundations*, found that there were five key factors affecting whether local community organisations were flourishing in a locality:

- accessible and affordable space for meeting and activities
- skilled community development support
- networking between the individual groups and communication with other bodies both in and outside the sector

- availability of small grants
- availability of learning about citizenship

Who can put these conditions in place? Local authorities are clearly central to this, but they need the collaboration of other public bodies and third sector umbrella groups. The Local Strategic Partnerships and their thematic and territorial offshoots provide a framework for collaboration at a relatively large scale local level, but still somewhat remote from the neighbourhood level. Neighbourhood Management schemes have been useful in bringing together key players at a more tangible level, but these are still relatively few in number, and the all-important component of strong resident participation is still elusive in many cases.

A fundamental key is the role of community development. As well as providing direct help to groups, community development workers are skilled in mobilising the other factors and knitting them together with the role of local public bodies. The community development profession itself, however, is not well organised to advance this agenda. Its establishment is generally widely and thinly scattered amongst different agencies, its presence in disadvantaged areas is patchy, and its professional culture tends to be weak on strategy and evidence. Nevertheless it has a strong practice base, wide experience and, of all front line workers, the clearest focus on how local communities work and how local conditions can be improved from within.

Assessing cost benefits

To be sure, putting these factors in place also has considerable costs. But both longstanding experience and recent projects suggest that a strategy of this character would contribute substantially to overall economies and efficiencies in social policy. Most top-down initiatives which address the need for economies in public services, for example the current Total Place initiative, do so simply by trying to identify elements of current cost to be cut back, even knowing that these will have negative impacts which may result in subsequently greater costs of other kinds.

A strategy to build up the inner strength of local communities represents a more sustainable rebalancing both of input and control between public services and citizens. The HCA Academy's *Empowerment Skills for All* report (2009) suggests ways in which all local public agencies and front line occupations can be guided to contribute to this direction of travel within existing resources. CLG's *The Community Development Challenge* (2006) shows how the community development occupation can be strengthened. The Department of Health's *Health Empowerment Leverage Project* (2010) is demonstrating how a more strategic form of community development can make catalytic improvements in distressed neighbourhoods by changing the dynamic between local residents and service providers. Using these footholds, a comprehensive study should be undertaken of policy options to boost the community sector, and their respective cost benefits.

The authentic role of social enterprises

What then of social enterprises? These are indeed another important stratum of the sector. And they can be further differentiated by particular functions. Certain types of organisation, such as Councils of Voluntary Service, so-called Anchor Organisations, Rural Community Councils and Community Trusts provide one or several of the key factors needed by community groups and are therefore vital to the health of the smaller organisations. But coverage is patchy, and many of these 'local infrastructure organisations' are themselves not much bigger or better resourced than the groups they seek to help, or lack some of the skills required to serve the different parts of the sector.

Other social enterprises are simply non-profit small businesses, which, by repute, may have a more personal touch, and more locally attuned approach to delivering a specialist service than the large public or private agencies. Supporting them by contracts to deliver some part of public services may improve service delivery and diversify competition amongst delivery agents.

It may also be that becoming a social enterprise is a good way for some proportion of community groups to grow. Certainly it should be an option and support should be available. But it will not be taken up by the majority of groups, nor need it be: they are already performing a vital function for society, and what society mainly needs from them is to do more of what they are good at.

Conclusions

The following conclusions flow from this analysis:

- Policy towards the third sector needs to be segmented according to different policy aims and different strata within the sector.
- The policy objective of fostering greater internal strengths of local communities to cope with stresses and strains, increase citizen responsibility and invigorate local democracy should focus mainly on creating the right conditions for autonomous local community groups to flourish.
- The right conditions start with the five key factors identified in *Firm Foundations*: space, community development help, networking, small grants and citizenship learning.
- The community development workforce and management should be reviewed to create and deploy a more skilled profession, operating a more coordinated approach to neighbourhood, parish and estate development, the interface with public services and guidance to other front-line workers.

- The cost benefits of supporting community groups in a wider, more systematic (but still arm's-length) way should be analysed, taking account of the relationship between social capital and demand on public services, and compared with other forms of provision and models of third sector development.
- A separate policy of fostering community enterprises should be assessed for its value in diversifying local providers, achieving locally-sensitive service delivery, helping build greater self-sufficiency in the local economy and providing a pathway into this type of operation for those community groups who advisedly wish to go down this development route.
- Community groups should not however be pressured into imitating the social enterprise model but should be strengthened in their spontaneous functions, through the kinds of support they naturally seek, including modest grants accompanied by light touch accountability.
- Neighbourhood management type arrangements which create greater collaboration and efficiency between local front line service providers should be made available much more widely but at the same time build towards neighbourhood *self*-management, whereby local residents play a genuinely leading role, and local community groups take a progressively larger part in local improvement.
- Steps should be taken to ensure that all local public bodies understand this agenda, recognise its role in meeting their need to engage with their users, and help to create the right conditions by the way they conduct their transactions with local people and groups.
- Local third sector umbrella groups and intermediary bodies should be given the capacity, remit and skills to achieve a more inclusive reach into the hinterland of community groups to help meet this agenda.
- The national survey of the third sector should be further analysed to produce better understanding of segmentation in the sector and to illuminate the different types of economy that operate in different types of third sector organisation.
- The condition of the local third sector, particularly the community sector, should become a standard component in local profiling such as the index of multiple deprivation.

This paper is part of the draft of a pamphlet for the launch of an initiative called PACES by Gabriel Chanan and Colin Miller, dedicated to improving strategies and skills in community engagement and development.

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