Main Findings

- Third sector organisations (TSOs) are adapting to significant levels of change in the political and policy environment as well as the challenging financial climate. Key reforms that were impacting on the sector at the time of the research (2009-2012) included localism (with more local control over planning and services); the personalisation agenda (self-directed support); welfare reform; the Work Programme and the consequences of the UK and Scottish Government Spending Reviews.

- TSOs were reforming their organisational structures and methods of delivery to ensure that they were in a strong position to respond to change. Many had or were making significant efforts to respond positively and proactively to the challenges presented by the changing funding and policy environment. TSOs had looked at a variety of strategies to cut costs and remain competitive, as well as diversifying their funding base.

- Public spending cuts had impacted on staff through redundancies, reduced hours, wage freezes and changes to terms and conditions. Changes had created an atmosphere of anxiety and uncertainty among staff in many TSOs. Despite this, TSOs were keen to minimise the impact of spending cuts on service users wherever possible.

- TSOs were conducting internal strategic reviews to ensure that services were being delivered efficiently and that their activities were consistent with organisational principles. Efficiencies were being achieved through organisational restructuring, redundancy planning, reducing staff costs, property rationalisation and, in a small number of cases, mergers with other TSOs.

- The pace of change created the need for strong, consistent leadership with managers often being required to embrace a wide range of specialist roles. Boards of Directors and Trustees were of increasing importance as a source of knowledge, experience, skills and support.

- TSOs were aware of the importance of partnership working and were keen to facilitate it. However, they were also aware that tendering put them in competition with other TSOs which may have made partnerships more difficult.

- Funders were increasingly outcomes focused and TSOs welcomed the shift towards measuring “soft” outcomes as this was the area where they felt they added the greatest value.
1. Introduction
The Scottish Government has acknowledged that the third sector has a key role to play in delivering public services that are high quality, continually improving, efficient and responsive to local people’s needs. This study explores the experiences of third sector organisations (TSOs) in Scotland over time in response to the challenges and opportunities of the political and economic environment in which they operate.

2. Methodology
The methodology involved qualitative research with 20 TSOs based in Scotland over a period of three years. The methodology involved two key components: (1) in-depth case studies with eight TSOs and (2) three focus groups involving twelve additional TSOs.

3. Context and impact
From 2007, the SNP has led the government in Scotland - firstly, as a minority government and then, following the May 2011 elections, as a majority government.

Localism is a key policy priority for the SNP government. The 2007 Concordat between Scottish Government and local government included the principle of more local control over planning and services (called ‘localism’). While this principle was often supported by TSOs, the impact on TSOs in practice had been more problematic. Localism has meant the loss of central political control over the direction of services as each local authority has sought to meet the needs of local people.

Personalisation (or self-directed support) was becoming increasingly important for TSOs providing services in health and social care. Personalisation brings significant change to the way in which services are structured and delivered. As service users become purchasers of care, new models of service delivery and payment are required. Greater service flexibility is needed to meet the varying demands of service users. There is an expectation that service users will seek services that reflect their lifestyle preferences and that traditional buildings based provision will diminish.

Tendering has been the dominant model by which services are contracted between local authorities and TSOs. However the rise of personalisation and the opportunity for service users to have greater control over their care budgets may see the function of tendering change as personalisation becomes a more common mechanism of service delivery.

Disconnected policy was a term commonly used by interviewees. This refers to a lack of clarity in how policy would work in practice, a lack of ‘joined up’ policy, contradictions between policies at different levels, such as at UK and Scotland, and differences between local authority policies.

Funding cuts were widely anticipated. There was a mixed picture in terms of the level and extent of funding cuts and new funding opportunities. Many organisations had received continued funding but with no inflation up-lift or with a budget reduction. Cuts of between 5% and 30% were expected in the years following 2012. A few TSOs had made reductions in services because of cuts. Most had avoided this by absorbing the effects through cost savings elsewhere or using accumulated underspends from previous years.

TSO staff with responsibility for service delivery have experienced redundancies, reduced hours, changes to terms and conditions and increased workloads. This has created an atmosphere of uncertainty and anxiety among many staff in TSOs, with a negative impact on staff morale. However, good communication during a time of organisational change could help maintain positive staff relations and morale.

4. Key cross cutting themes
Leadership: Increasingly there was a requirement for leaders that could understand the implications of change within an organisation and in the external environment. There were challenges for senior managers in maintaining staff morale, closing services and opening others, working with the media and campaigning on behalf of service users. Managers in smaller organisations often had to embrace a wider range of roles since increasingly important specialist support roles were not available to them, e.g. marketing, information, human resource management, operations management.

Boards of Directors and/or Trustees of TSOs could potentially offer valuable skills, knowledge and experience to support Chief Executive Officers (CEOs)/Directors in their role. A number of organisations noted a welcomed increase in Board involvement to support organisations in meeting the recent challenges. Some organisations had conducted skills audits of Boards to ensure that they possessed the skills and experience to support senior managers.
**Funders:** A number of TSOs felt that funders had become more focused on measuring outcomes over the three years, and in particular ‘soft’ outcomes. As TSOs felt this was an area where they could add value, this was generally welcomed. A number of organisations had explored innovative ways to demonstrate client progress to funders. This included measuring ‘soft’ outcomes, particularly in relation to clients whose literacy and numeracy were limited. While there was still no standardised way of measuring outcomes, some TSOs were making important steps towards developing tools flexible enough to be applicable across a number of different projects and funders.

**Partnership:** TSOs were aware of the importance of partnership working as a means of meeting the challenges created by the policy and funding changes. Accessing funding was a key driver for partnerships and many were keen to be involved in more ‘joined up’ working. A senior manager in a health and social care TSO commented that there is a ‘growing expectation and pressure to work collaboratively rather than in competition’. However, tendering processes and funding cuts had led to competition between TSOs for new funding opportunities. Historically, this competitive environment may have undermined opportunities for partnerships between TSOs.

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

**Local Authority Role:** Many TSOs reported that they had good relationships with local authorities, and a number reported improved communication and dialogue with more opportunities to discuss how services could be organised in the light of cuts. However, others found difficulties accessing local authority staff, particularly where the local authority had undergone major departmental restructuring and/or staff redundancies. In the longer term, the personalisation agenda is likely to change the relationship between local authorities and TSOs with local authorities seeing a decline in their role as a purchaser of services.

5. **Third Sector Responses**

The need to pursue new funding opportunities and meet policy priorities has had the potential to cause ‘strategic drift’ which threatened to undermine organisational identity. Many TSOs were undertaking strategy reviews to ensure that organisational activities were consistent with founding principles.

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

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

Many TSOs had looked at restructuring to make cost savings and remain competitive, thereby improving resilience. Strategies explored by organisations included: organisational restructuring; redundancy planning and reducing staff costs; considering how to best utilise property assets, through for instance, property rationalisations (closing satellite offices and centralising into one space); and mergers with other organisations.

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

6. **Conclusions**

The third sector is in a state of flux. Politics, policy, funding and organisational change within third sector organisations over the previous three years are likely to fundamentally alter the way in which services are delivered by TSOs in the future which will impact on service users’ experiences.

In the years following 2012, increasing pressure on public spending will impact on the availability of services and require TSOs to consider if the delivery of some services is financially feasible or is properly aligned with organisational aims.
Personalisation and the self-directed care agenda are likely to change the relationship between local authorities and TSOs. Local authorities may see their traditional role as the purchaser of services eroded as service users acquire an increasing influence over personal budgets and care packages. This changes the role of local authorities to one of oversight and quality control.

In light of these changes, TSOs have demonstrated foresight and adaptability in understanding how they must change their internal practices to react to changes occurring in the external environment.

This research has shown the range of strategies that different organisations have employed to do this and has found that there is no single or simple solution to managing this challenging environment. TSOs have realised an opportunity to re-evaluate their purpose and role, develop a stronger strategic focus and increase their resilience, and this should help them to weather the challenges that lie ahead.