

Beyond Profit

Future Scenarios Towards 2010

Report
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OPM®
252B Gray's Inn Road,
London WC1X 8XG

tel: 020 7239 7800
fax: 020 7837 5800
email: office@opm.co.uk
web: www.opm.co.uk

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Executive Summary

Purpose

The purpose of the event arranged by the Charity Commission, the National Council for Voluntary Organisations (NCVO) and the Office of Public Management (OPM) was to provide a broad range of stakeholders with an opportunity to think about the challenges and opportunities facing the sector, and to generate debate about policies and priorities for the future. Participants were invited to consider two distinctly different but realistic future scenarios and their potential impact on strategic planning for the sector and beyond. Stakeholders included voluntary organisations focussing on children, health, environment, animal welfare, education, poverty, development and community work, guidance, advice and other infrastructure support; funders and government; commentators and regulators.

Key Issues

Key issues common to both scenarios, that the sector and regulators need to address:

- There is likely to be a growing differentiation between large, primarily service based, organisations and small local organisations, with a possible squeeze on medium sized bodies.
- The sector will continue to diversify, and boundaries are likely to blur further with commercial activities such as those carried out by social enterprises, public and community interest companies joining more traditional voluntary sector organisations.
- There will be increasing/continuing pressures for improved effectiveness and accountability, whether the source of income comes from the public sector or private donors. Public sector finance will be seeking demonstration of efficiencies and private donors will increasingly seek reassurance that they are not subsidising under-funded public services.
- Existing high levels of public confidence in the sector will need to be actively protected and preserved, especially as branding may be diluted through increased public service delivery and use of more innovative joint commercial working. There is a risk of reducing confidence in charity as a result of increased exposure and involvement with these areas where public confidence has declined.
- The development of a workable definition of 'public benefit' will be a key element in establishing the credentials of the sector, and will need some public involvement in the process.
- Infrastructure bodies will need to respond to the increased pressures to provide support that helps membership organisations to interpret and navigate a complex and changing operating environment and to respond to the differentiation and diversification of 'the sector'.
- The need to manage the burden of regulation and use self-regulation where appropriate, while reporting regulatory findings to the public.

- The incentives and sanctions at the Charity Commission's disposal, ranging from its current power to remove trustees and freeze accounts, to developing a broader range of tools to address the range of scenarios that might arise in the future.

Opportunities and Challenges

A raft of common challenges and opportunities for the sector and beyond emerged from the discussions on the day.

- The scope for infrastructure bodies and large charities to provide more support for smaller organisations.
- The potential for foundations and independent funders to work collaboratively to fund minority and innovative areas more effectively.
- Opportunities for investment in communities and self-help / grassroots organising models as a way of increasing engagement and democratic involvement in the sector.
- The capacity for regulators to work more effectively with each other and infrastructure bodies to deliver effective balanced regulation which protects the public interest.
- Promoting positive messages about the sector as a whole.
- Maintaining the independence and distinctive features of the voluntary sector.
- Professionalisation, efficiency and effectiveness – demonstrating the sector's ability to deliver without losing added value.
- The growing divide between large and small charities.
- Getting the balance between regulation and self regulation right.
- Achieving genuine, valuable partnerships in public service delivery, which acknowledge the unique approach and added value the sector can bring.

Introduction

The Charity Commission and NCVO worked with OPM to design a futures scenario event, held at NCVO on the 7th December 2004. The purpose of the event was to provide a broad range of stakeholders (Appendix 1) with an opportunity to think about the challenges and opportunities facing the sector, and to generate debate about policies and priorities for the future. This report outlines key findings from the day.

How the event worked

Scenario planning helps organisations to explore uncertain futures and to devise medium-term contingencies for action. But perhaps more importantly, it helps organisations identify those actions that remain robust no matter what the future may bring. OPM designed two plausible scenarios.¹ Whilst the scenarios were not intended to represent ‘the’ future, taken together they describe a range of future possibilities designed to provoke constructive thinking. The data in the scenarios were limited to background events that were, for the most part, beyond the immediate control of charitable organisations or regulators – for example the economic situation, the political climate and social trends. On the day, participants worked in small groups representing rough ‘coalitions of interest’. The groups were as follows:

- Table one: voluntary sector group A (groups focusing on children, health, the environment, animal welfare).
- Table two: voluntary sector group B (groups focusing on education, poverty, development, community level groups).
- Table three: voluntary sector group C (groups providing advice, guidance and other infrastructure support).
- Table four: funders and government.
- Table five: commentators.
- Table six: regulators and others.

Each ‘coalition of interest’ developed a strategic response to the first scenario – and recorded key points on flip charts. After they had thought through their response to the first scenario, participants were invited to negotiate and influence other players. After an hour and a half, discussions were halted and perceptions of the most important issues and challenges were shared. Participants were then invited to repeat the process for the second scenario. Once both scenarios had been completed and debriefed, participants worked in mixed groups to explore the strategies developed by each group, and the implications for the sector, government, and regulators. A final plenary discussion drew together key findings from the day and identified a number of critical challenges and areas for further exploration that were felt to be relevant across both possible future scenarios.

¹ The full scenarios and a more detailed explanation of the process are available on the Charity Commission website www.charitycommission.gov.uk.

Key Findings

Scenario 1 – Top-down collective future 2005 to 2010

Political: Global environment unstable, with terrorism still on the agenda. Labour have a small majority, but are strong in Parliament. Policy of de-centralisation and regionalisation of the political process has continued. Government focus on driving down costs of service delivery results in more public service delivery by not-for-profit and private sector organisations. Contracts are fewer and larger, with pressure to demonstrate efficiency through national targets and performance indicators, and a high level of regulation.

Economic: Domestic economy strong with growth at 2.5% per year.

Social trends: Donations and voluntary involvement drop off, with increasing confusion about what the sector is and what it is for. Increase in media stories about poor service quality from voluntary organisations.

Although a strong economy and Government would create some opportunities in this scenario, participants felt that only some organisations would benefit, and declining participation in voluntary activity and falling charitable donations would challenge the health of the whole sector.

Sector challenges:

- **Polarisation**

Larger organisations will be better geared to win contracts and meet Government demands for efficiency, service delivery and reporting. This will gain them an increasingly powerful voice on the national stage. Small local organisations are unlikely candidates for public service delivery, and will probably retain local support for their activities. Grassroots and neighbourhood level activity may even benefit from a ‘backlash’ against larger organisations perceived to be more distant from local communities, which may stimulate increased support for highly localised voluntary activity. Medium sized charities are most likely to be affected – either pressured to merge in order to be able to compete for public service contracts, or struggling to survive with falling donations from other sources.

- **Infrastructure bodies’ role in mitigating fragmentation**

The risk identified above is that this scenario could potentially fragment further an already highly diverse sector. Infrastructure organisations would have a key role to play in providing cohesion and enabling the sector to speak with a unified voice. The challenge for infrastructure organisations is to clarify their focus and client base, and respond in particular to the needs of smaller organisations. Larger organisations might also consider taking a stronger role in supporting and promoting the interests of smaller organisations operating in their field.

- **Developing independent funding capacity**

Foundations and other non-Government funders would have a key role to fill this funding gap. A strong economy would have a positive impact on Foundations' capacity to fund parts of the sector not involved in service delivery, and less popular with the public. They could work with the sector to develop new and helpful alternative funding models, such as bridging funds for securing financial stability.

- **Growing Communities**

A continuing decline in public confidence in the political process, and corresponding lack of engagement in local government, could threaten the important role and financial health of local government. This could produce additional pressures on those parts of the sector engaging in public service delivery contracts. However, the voluntary sector could have an important role to play in mobilising communities and reinvigorating or providing an alternative form of local democracy – either through re-engaging citizens in local political structures, or through gaining recognition as an equally valid form of democratic participation.

- **Demand for Professionalisation**

A consequence of increased involvement in public service delivery will be an expectation by funders that the sector will demonstrate value for money, efficiency and effectiveness. To retain the distinctiveness of the sector in this environment, the 'value added' element would also need to be clear. Infrastructure organisations could facilitate organisational evaluation, building user involvement into the process, to explore the added value dimension and ensure that the needs of beneficiaries are met.

- **Keeping the sector distinct**

A risk arising from increased public service delivery, professionalisation and working with cross-sectoral partners is that there will be public confusion about the role and status of charities. The sector will need to explore ways of maintaining and promoting the voluntary ethos, and to identify and promote its distinctiveness from both the state and the private sector.

Regulator challenges:

- **A shift in local authority thinking**

Local authorities engaged in contracting out public services to the voluntary sector need to move away from the practice of awarding contracts to the lowest bidder. As the sector raises its ability to demonstrate value for money, the purchasers need to develop a bidding framework which takes account of the wider benefits to society of working with the voluntary sector. Local authorities might be given a social objective, as well as a best value one.

- **Defining public benefit – form vs. function**

With increasingly blurred boundaries and different legal forms for a mixture of social and entrepreneurial activities, the question was raised whether the focus of regulation should be on charitable forms or charitable activities. The same issue applies for funders.

Although definitions of public benefit would evolve over time under common law, there will need to be greater clarity, as the regulators play their part in addressing public confusion. It will also be important to maintain links between regulators in the devolved environment, to ensure that there is some consistency in definitions throughout the UK.

- **Ensuring that regulation is not a deterrent**

The scenario of a tighter regulatory framework and focus on demonstration of efficiency and performance could lead to overburdening the sector with regulation, stifling innovation and risk-taking. The opportunity for regulators is to develop a lighter touch, while the challenge is to not neglect parts of the sector which might suffer as a result (e.g. funders may have less confidence if parts of the sector are not regulated). There is also an opportunity to support self-regulatory initiatives. Regulators have a challenge to get their act together to avoid duplication and unnecessary burdens. There are opportunities to develop e-enabled common reporting systems, and to revise regulatory frameworks to ensure they are more relevant to and reflect the needs of customers, clients and citizens.

- **Championing the sector, or public benefit?**

The Charity Commission could further enhance its influencing role to provide greater support for the sector in certain cross-cutting areas. For example it could play a key role in educating local authorities in support of attempts to promote a revised purchasing model which adopts a more holistic approach to service delivery, with social impact measurement. Alongside the sector, the Commission could also help to provide a strong voice to counter negative media coverage of the sector, particularly on behalf of smaller organisations, in order to maintain public confidence and trust. However, it would have to maintain its independence of the sector, and be seen as a champion of public benefit rather than the sector itself.

Scenario 2 – Bottom up/disorganised future 2005 to 2010

Political: Global focus on environmental issues supplants lessening terrorist threat. Domestic politics weaker with a slim Labour majority struggling to get definitive political positions agreed. Public sector spending squeezed in search for efficiency savings. Less focus on state provision, more on individual choice.

Economic: Poor domestic economy, with growth at zero.

Social trends: Single-issue campaigns attract greater support, particularly among the young. Increased lobbying and campaigning against state cuts. Sector income decreases, both from public sector contracts and private donations. Increase in social entrepreneurial activity to bridge the funding gap. Increasing movement towards mutuality and support for local activity and community assets, with backlash against distant large charities.

Whilst there was a recognition that the more threatening economic environment in scenario two presented some clear challenges for the sector, there was a general perception that conditions may also create new opportunities for voluntary action.

Sector Challenges:

- **Individualism, Extremism, Isolationism**

A declining economy could lead to greater inequality and social fragmentation along class, race and faith lines. Support for the far right might rise, with a corresponding lower tolerance for visible minorities. Self-interest may become more pronounced, with people 'turning in on themselves' and focussing more narrowly on their immediate circle of family and friends, with less involvement in voluntary and community activity.

- **Post code lottery**

With the economic squeeze and tighter government funding environment, the risk is that service delivery could increasingly become a 'post code lottery' – with some areas suffering from substantial cuts, whilst in others service levels would be maintained, perhaps due to the strength and ingenuity of particular local agencies or partnerships. There is a danger of voluntary sector activity also clustering in the richer areas in response to the patchy availability of funding, and so reinforcing inequality across geographic areas.

- **Added-value losing out to cost**

A more stringent economic climate might serve to reinforce local authority purchasers' natural tendency to focus on cost, rather than effectiveness or 'value added', when awarding contracts. This might result in sector providers losing out to other suppliers, particularly those in the private sector who could offer lower prices. The sector might have to respond by rationalising their activities – cutting back on some areas in order to balance their budgets. These pressures could drive voluntary and community organisations to merge back office facilities in order to create efficiencies. With the growing emphasis on direct payments from the state to service users, there may be a need for the sector to develop more tailored, personalised, services in order to better respond to individual needs.

- **Nationals developing regional and local strategies**

In order to thrive in this scenario, national organisations would increasingly need to develop effective regional and local strategies and deal more directly with local agencies – e.g. Primary Care Trusts and Learning and Skills Councils. However, again as in scenario one, there was a general feeling that the middle might be squeezed as the larger, more successful organisations merged and grew.

- **Re-connecting with local need**

This scenario might present some important opportunities for smaller, local, voluntary and community sector organisations. The economic squeeze might provide an opportunity for the sector to reconnect with those in most need – to rediscover and refresh the sector's longstanding role in fighting disadvantage. Local and neighbourhood level organisations will have a critical role to play in bridging divided communities and creating social cohesion, encouraging re-engagement with politics and political structures at a local level and providing a means whereby skills, capacity and wealth could be redistributed to those in need.

- **Mind the funding gap**

Available resources will be lower and demand/need higher in this scenario, leading to a need to develop more innovative ways to ensure that funding will go further. Foundations and other independent funders may come under greater pressure to support areas of government priority, but will be better placed to provide support for minority/unpopular causes. They could also work together to redress the balance on social and territorial justice issues (e.g. focus funding in areas losing out from postcode lottery). With fewer financial resources, ways of optimising non-financial resources would need to be highlighted, with a huge potential for mutuals, cooperatives and the self help movement in championing the needs of the most needy. However, although the legal framework in which charities operate is currently being reformed, the framework under which these organisations operate is not. There was a feeling that change in this area is much needed and long overdue.

In the context of funding cuts, local authorities could still play an important role in supporting the voluntary and community sector by transferring assets to the voluntary sector, thus providing a resource that could be used by the whole community.

- **Supporting the small**

Renewed emphasis on local level activity would have importance consequences for infrastructure organisations. Effort and resources would need to be focused in particular on providing start up support for organisations – with perhaps less emphasis on organisational development and capacity building for established medium and larger organisations. As in scenario one, there would be an important role for larger voluntary and community organisations in supporting fledgling organisations.

- **Encouraging volunteering to fill the jobs gap**

Rising unemployment could both be a potential problem and an opportunity under scenario two. The newly unemployed would not necessarily turn to voluntary activity, if more concerned with self interest. However, there was the opportunity to provide adequate support and encouragement to draw them into volunteering and community engagement. Increased numbers of university graduates (a result of Government education policy) would provide a pool of well-qualified young people likely to find working in the voluntary sector attractive, as jobs in the private and public sectors become more scarce. Raising awareness and enthusiasm for voluntary activity amongst the young was seen as crucial in this scenario. There was wide support for the need for more work to be done in schools as part of citizenship education to encourage involvement in the community and in the VCS.

Regulator Challenges:

- **Regulators working together**

Other regulators might get more involved in the business of regulating charitable activity. It was suggested that the Inland Revenue might have a role to play in helping to regulate smaller charities and that there might also be a role for the small business service in monitoring the activities of social enterprises.

- **Focus on meeting user needs but protecting public benefit**

The Commission itself could be streamlined and reduced in size under this scenario. This new, slimmed down Commission could have targets that were linked more tightly to promoting public benefit and meeting user needs. However, this would need to recognise that there is sometimes a tension between meeting user needs and protecting and promoting wider public benefit.

- **Championing the sector**

As in the first scenario, many participants felt that there was an important role for the Charity Commission in regulating and championing smaller charities in particular. The new conditions brought about under this scenario might also provide opportunity and impetus to explore more flexible forms of registration – with organisations being freer to explore a range of possible organisational and legal forms as they developed, before following any one particular route.

Common themes and issues across both scenarios

Despite some clear differences between these scenarios, participants identified a number of common challenges that would need to be addressed in both possible futures.

Differentiation and diversification

Increasing differentiation of an already diverse sector is a likely outcome under both scenarios. Larger organisations that are well equipped to respond to the needs of the market in public services would continue to thrive and grow – often through merger with other similar organisations. Many medium sized organisations could be squeezed out unless they could develop a niche.

As the aspirations, interests, and trajectories of larger service delivery organisations came to differ radically from those of smaller, grass roots organisations, participants identified increased risks of fragmentation within the sector.

Improving effectiveness

The need to diversify income streams in order to ensure financial stability and independence was therefore regarded as an important issue across both scenarios. Social enterprise (as an activity, rather than an organisational form) was regarded as key to building financial security for the sector over the longer term. The need to look to other sectors and learn from their experience and expertise was suggested.

The sector needs to develop ways of measuring the ‘added value’ that it brings to its work through the use of volunteers and its close relationship with users and clients. Voluntary sector representatives acknowledged that they had a key role to play in demonstrating that their services are effective and value for money. They also felt that work was required to educate purchasers to consider the broader benefits that the sector may bring to service delivery.

Media coverage

The danger of negative media coverage was highlighted in discussions of both scenarios. At a time of declining confidence in politicians, other public figures, and some professional groups, public confidence in charities was seen as a precious resource that needs to be promoted and protected. Participants suggested that voluntary and community organisations needed to work harder to engage with the public, donors and volunteers to explain their work and communicate successes. They also suggested that the sector could benefit from media training and advice on how to handle negative coverage.

Public benefit

The issue of how to define public benefit came up in discussions of both scenarios. Whilst accepting that definitions would inevitably evolve over time, the majority of participants appeared to agree that this was an important area that needed to be explored in more detail. A number of participants argued that the sector and regulators should find ways to involve the public in these debates – e.g. through Citizen’s Juries or some other similar mechanism.

The role of infrastructure bodies

Infrastructure bodies were seen to have a key role in helping charities to interpret and navigate their way through the changing environments outlined in both scenarios. High quality infrastructure support for smaller organisations and those active in rural areas was identified as particularly important. As diversification of the sector continued apace, some participants argued that attempts on the part of infrastructure bodies to represent the whole sector might become increasingly untenable. Some felt that a number of slimmed down infrastructure bodies focusing on key sub sections of the sector might be better placed to meet the varied needs of the voluntary and community sector.

The role of regulation

Whilst many participants voiced concerns about the increasing burden of regulation in scenario one, it was pointed out that the voluntary sector was still not subject to all-encompassing organisational regulation of the kind local authorities were subject to under CPA. Self-regulation was raised by a number of participants and there was a call to explore and clarify the boundaries where self-regulation ends and external regulation begins to make both more effective. There was general agreement that regulation must reflect the very different circumstances, capacity, needs and resources of smaller and larger organisations and that effort should be made to ensure that reporting was made more meaningful to users and the wider public. With the blurring of sector boundaries, groups also identified the need for regulation to be more joined up across sectors.

The Charity Commission

Reflecting the debate about infrastructure bodies, some groups felt that the Charity Commission could be slimmed down in the future. However, there was general agreement that the regulator has a vitally important role to play in safeguarding public trust in charities and therefore needs to have ‘teeth’. There was recognition that the Commission already has considerable powers to take action when things go wrong – e.g. to remove charity trustees and freeze accounts. However, it was felt that a broader range of regulatory tools might be required to address the full spectrum of complex challenges set out in both of these future scenarios.

Appendix 1 – List of Participants

Sophie Ahmad	Office for Public Management
Simon Hebditch	Charities Aid Foundation
Debra Allcock Tyler	Directory of Social Change
Kevin Ashby	Big Lottery Fund
Jonathan Bland	Social Enterprise Coalition
Margaret Bolton	Independent Consultant
Lindsay Boswell	Institute of Fundraising
Andrew Brown	BTCV
Hilary Brown	Department of Trade and Industry
Rosie Chapman	Charity Commission for England and Wales
Tina Chimombo	Association of Medical Research Charities
Deborah Clarke	Action with Communities in Rural England
Caroline Cooke	Charity Commission for England and Wales
Kevin Curley	NACVS
Nicholas Deakin CBE	Independent Observer
Steve Dewar	King's Fund
Scott Dickinson	Office for Public Management
Mary Doyle	Development Trusts Association
Lindsay Driscoll	Charity Commission for England and Wales
Bob Dyke	Charity Bank
David Emerson	Association of Charitable Foundations
Tim Finch	Refugee Council
Mary Foley	ACEVO
Paul Fredericks	Charity Commission for England and Wales
Sam Freedman	Independent Schools Council
Sue Goss	Office for Public Management
Megan Griffith	National Council for Voluntary Organisations
Fazilet Hadi	Royal National Institute for the Blind
Barbara Harrison	The Girls Day School Trust
Andrew Hind	Charity Commission for England and Wales
Margaret Hyde	Esmee Fairbairn Foundation
Veronica Karrington	Community Matters
Ruth Kosmin	Barnados
Linda Laurance	Charity Trustee Networks
John Low	RNID
Farooq Malik	Office for Public Management
Andrew Milner	Centris
Grace Money	Charity Commission for England and Wales
Jonathan Moore	Suffolk Association of Voluntary Organisations

Simon Morys	Prime Minister's Office
Mike Parkinson	Oxfam
Geraldine Peacock CBE	Charity Commission for England and Wales
Bob Reitemeier	The Children's Society
Campbell Robb	National Council for Voluntary Organisations
Shirley Scott	Charity Finance Director's Group
Alan Sharpe	Royal Society for the Protection of Birds
John Stewart	Wellcome Trust
Tony Suckling	Royal Society for the Prevention of Cruelty to Animals
Phil Swann	Tavistock Institute
David Taylor	Charity Commission for England and Wales
David Tyler	Community Matters
Sanjiv Vedi	Welsh Assembly Government
Matthew Warburton	Local Government Association
Richard Weatherill	Home Office
Peter Wheeler	FutureBuilders England
Karl Wilding	National Council for Voluntary Organisations
Zoe Willems	Charity Commission for England and Wales
Ben Wittenberg	Directory of Social Change
Bruce Wood	London Rebuilding Society