



Third Sector Research Centre  
Scoping Report

**SCOPING REPORT: BIG as a Policy Actor:  
Exploring BIG's impact on third sector policy and  
practice**

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## Abstract

Funding from the BIG Lottery Fund is important for the third sector. Achieving outcomes for the sector itself has rarely been an explicit aim of BIG's; yet it is likely to have had considerable outcomes and impacts on sector policy and practice. TSRC has been working in collaboration with BIG to explore these issues. This scoping report provides a foundation from which the main stage research can develop. It is based upon findings from a review of literature and interviews (5) with BIG staff.

The research will explore BIG's approach to and relationship with the third sector. The scoping report provides an outline of the context in which this relationship has developed. It considers the organisational (BIG), practice (third sector) and policy (government) contexts and how these have developed during BIG's life time. Within this context, the report explores how the relationship between BIG and the third sector has developed, identifying three different stages and introducing some of the factors which have shaped the journey. The scoping report tells the story from BIG's perspective – future stages of the research will test this out with other stakeholders.

This scoping report begins to map out some of the potential areas of impact, including: changing funding practices and principles; capacity building; partnership development; and user involvement. The existing evidence to substantiate these is weak. The report outlines how the research will proceed, with the aim of strengthening the evidence base and influencing future directions.

### Keywords

Third sector, BIG Lottery Fund, funding, impact, outcomes, relationship.

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## Section one: Introduction

### **1.1 Background**

In 2010 the Funding Commission reported that, although only representing 1.5 per cent of charities' overall income, funding from the Lottery was a 'very important element' of third sector funding. Apart from central and local government, Lottery funding has been the largest single investment in the sector over the past decade or so. BIG is the most significant Lottery distributor for the third sector. Between June 2004 and June 2009 it made awards of over £1.6bn to the voluntary and community sector (Big Lottery Fund, 2009b). In addition to distributing Lottery money, BIG has begun to administer several government third sector funding programmes.

At a time of considerable cuts in public expenditure, the role of independent funding in supporting the third sector is likely to be critical to the future of sector policy and practice. BIG's importance, therefore, looks set to increase. This is despite a reduction in its lottery funding, as the proportion of 'good causes' funding BIG receives is cut. BIG's support for the sector, however, extends beyond direct financing, through for example, capacity and partnership building activities.

Despite this support, achieving outcomes for the third sector itself has rarely been an explicit aim of BIG's. Its focus is on achieving outcomes for communities and the lives of people most in need, with an understanding that third sector organisations are often well placed to deliver these. As such, while evaluations of BIG funding programmes and reviews of its strategy have explored its effect on the third sector as part of a broader range of concerns, none have focused on this explicitly. Given the symbolic and financial importance of BIG, it is likely to have had considerable, albeit unanticipated, outcomes and impacts on sector policy and practice.

### **1.2 Research aims**

This project will explore these issues, viewing BIG as a 'policy actor' in order to assess its intended and unintended impact on the strategic development and operation of the third sector. The project will also explore how and why BIG's approach to the third sector has developed over time and the implications of this.

The project will address three key themes:

- the development of BIG's approach to and relationship with the third sector;
- the perceived impact of BIG on the strategic development of the third sector and third sector organisations;
- future priorities and directions for BIG's role in the third sector.

Critical understanding of the strategic impact of BIG's past and present approach to the third sector will inform future practice within BIG while also informing a wider debate about the role of different actors in shaping third sector policy and practice.

### **1.3 Research approach and progress**

The research will be conducted in two phases – scoping and main stage. It will be a mixed methods project, utilising both qualitative and quantitative research methods. This report focuses on the

findings of the scoping study, which has involved two main elements: a review of documentary evidence and semi-structured interviews.

Five main types of literature have been reviewed:

- BIG strategy documents: past and present annual reports and strategy documents have been reviewed in order to understand BIG's development.
- Evaluations of BIG funding programmes: a sample of evaluation reports were selected for review, with a focus on exploring the extent to which programme evaluations have identified outcomes for the third sector.
- BIG research: a sample of BIG's cross cutting research reports were reviewed in order to draw out findings relevant to the third sector.
- Policy documents: third sector public policy documents were included in the review, in order to understand the policy context in which BIG has developed its relationship with the third sector.
- Academic literature: wider academic literature on third sector policy and practice development has been reviewed.
- The documentary review will be an ongoing activity, continued throughout the research project.

Five semi-structured, face to face interviews have been conducted with senior staff members from within BIG. The interviews have each lasted between one and two hours. Each was recorded and transcribed for analysis.

Section five outlines the methodology for the remainder of the project.

#### ***1.4 This report***

This report analyses the data collected in the scoping phase. It provides an introduction to the issues which the main study will focus on. In particular, it begins to chart the development of the relationship between BIG and the third sector. It does so, however, solely from BIG's own, internal perspective. It does not seek to provide answers to the research questions, but to provide a basis on which the questions can be refined and the ways to address them clarified – a foundation from which the main stage research can develop and the emerging narrative be explored and tested from a range of different perspectives.

## Section two: Describing the terrain

Before beginning to explore BIG's relationship with the third sector and its impact on third sector policy and practice, it is important to understand the context within which these relationships are grounded. We need to consider the organisational (BIG), practice (third sector), and policy (government) context and how these have developed during BIG's, and its predecessors', life time.<sup>1</sup>

### **2.1 BIG introduction**

The Big Lottery Fund (BIG) came into being as an administrative body on the 1 June 2004, and was established as a legal entity on 1 December 2006. It is a non-departmental public body (NDPB), sponsored, until now, by the Department for Culture, Media and Sports (DCMS). In 2011, BIG will move from DCMS and become the responsibility of the Office for Civil Society (OCS) within the Cabinet Office.

BIG was formed through the amalgamation of two organisations: the National Lottery Charities Board, created in 1993 to provide funding for charities as one of five good causes to benefit from lottery money, and trading as the Community Fund, and the New Opportunities Fund (NOF), created in 1998, to fund a new, sixth good cause – health, education and environment.<sup>2</sup> The Community Fund solely funded charitable organisations. NOF funded the public sector, the voluntary and community sector and the private sector. In 2006 BIG also inherited responsibility for the residual activities of the Millennium Commission.

BIG is governed by the National Lottery etc. Act 1993, as amended in 1998 and 2006. It receives policy directions (matters to take into account when deciding how to spend money), finance directions (how to manage lottery money) and account directions (how to account for the use of lottery money) from Westminster. Each devolved administration subsequent sets more specific policy directions for each country. A new set of policy directions are currently being drafted by BIG's new sponsor body – OCS – which will be subject to consultation over the coming months. A management statement is drawn up by joint agreement to define the relationship between BIG and its sponsor body.

BIG's board is appointed by the State. A new chair is currently being recruited. Its five committees (see below) are subsequently appointed by the board, with state approval. Through its board and committee structure, BIG has extensive non-executive involvement.

A majority of the funding which BIG distributes is lottery money. Until recently it has received 50 per cent of the 'good causes' money raised through lottery ticket sales. In 2009-2010 this amounted to £740 million (£625m in 2008/9). As of April 2011, however, the proportion of 'good causes' money flowing into BIG was reduced to 46 per cent; as of the 1 April 2012 it will be further reduced to 40 per cent. As well as losing a proportion of good causes money BIG receives, between February 2009 and

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<sup>1</sup> Future stages of the research will also consider changes in third sector funding practices as part of the context within which BIG has developed its relationship with the third sector.

<sup>2</sup> The legacy of BIG's predecessor organisations in terms of shaping its relationship with the third sector will be explored in future stages of the research.

August 2012, £638 million of BIG's lottery funding was transferred to the Olympic Lottery Distribution Board.

Beyond lottery money, BIG has recently begun administering additional funding programmes on behalf of government. For example, it is administering the government's (£100m) Transition Fund for the third sector in England on behalf of OCS; it has also had responsibility for managing the (£30m) Community Assets programme on behalf of OCS; it is managing the (£270m) Myplace programme for the Department for Education; and it has been nominated as the body to distribute money from dormant bank accounts through the Big Society Bank. This diversification of funding that BIG administers has potential implications for its relationship with the third sector.

BIG is fairly unique in the funding world. Its scale and reach – both financial and geographical – is unusual. In the region of 26,000 organisations, for example, currently hold a grant from BIG. It is a NDPB distributing public funds, so it is not strictly a government funder, yet it is not a foundation or family funder either – it sits between two worlds and two sets of expectations (Big Lottery Fund, 2005). Indeed, BIG has recognised its position as 'straddling' the foundation world and that of statutory grant makers, while seeking to align itself with trusts and foundations to a greater extent than its legal status may suggest:

'And we have consciously sought to build ourselves into the family of trusts and foundations and to be respected and supported as part of that family, which is by no means automatic.' (BIG staff member)

In terms of what it does with this funding, BIG's mission is to 'bring real improvements to communities and the lives of people most in need'. It has adopted three key themes to its work, as confirmed by parliament within its policy directions:

- supporting community learning and creating opportunity;
- promoting community cohesion and safety;
- promoting well-being.

As of 2009/10, this mission and themes have been operationalised through five funding portfolios: one for the UK and one for each of the four home countries. Each portfolio has its own committee and associated directorate. The creation of a UK and an England committee in 2009/10 reflected a desire to be more strategic in the management of UK-programmes and more coherent in the approach to England. Prior to this time while there were separate committees for Northern Ireland, Scotland and Wales there was not one for England.

A further reflection of a desire to be increasingly strategic has been the identification and evolution of a three-way funding framework: open (demand-led), strategic (targeted and solicited) and community (place-based). Within this framework are numerous individual programmes, varying from country to country.<sup>3</sup> England alone had 33 programmes in grant management in 2010 (Big Lottery Fund, 2010a).

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<sup>3</sup> Differences between countries will be explored in future stages of the research.

**Table 1: England funding framework 2010/11**

Type	Key aspects	Current example programmes
Open	<p>Demand-led</p> <p>Enables organisations to set the agenda and decide what is needed</p> <p>Dominated by the voluntary and community sector (VCS)</p> <p>Was dominant type of funding within the Community Fund</p>	Awards for All; Reaching Communities
Strategic	<p>Targeted at specific problems/sectors</p> <p>May involve solicitation</p> <p>For all sectors</p> <p>Was dominant type of funding within NOF</p>	<p>UK: Heroes Return; Forces in Mind; Jubilee People's Millions; Improving Futures; International; Replication and Innovation – Social Impact Bond; Replication and Innovation – the Knowledge Portal;</p> <p>ENGLAND: Improving Financial Confidence; Youth in Focus; Parks for People; Older People (focus to be determined)</p>
Community	<p>Place-based</p> <p>Long term funding</p> <p>Devolving decision making to local level</p> <p>Led by the VCS</p>	Big Local

This apparently rational model, however, hides a great deal of complexity. Indeed, its development was to some extent an attempt to 'make sense' of all the different funding programmes and activities that BIG was operating, particularly in England. Alternative versions of this model also exist – with individual programmes fitted into different funding types, or with six types of funding identified rather than three. These models will be further developed, tested and refined through future stages of the research. Describing BIG as an 'octopus', one respondent commented:

'So in England it's this kind of enormous beast with fingers in all sorts of pies, and one of the things that over time we've been trying to do is to make more sense of that strategically in terms of, what does all that activity mean strategically' (BIG staff member)

Thinking more strategically about its funding framework reflects a wider shift within BIG's approach to its work over the past two or three years: reconceptualising itself from 'cash machine to intelligent funder' (and perhaps moving now to 'co-producer' – see below). There are six themes within BIG's Intelligent Funding approach:

- outcomes funder: focused on results not just activities;
- building capacity: strengthening funded organisations and learning from past experience;
- engagement: supporting organisations and becoming more efficient, effective and 'customer' focused;



- working together: encouraging and facilitating partnerships and networking;
- encouraging innovation: looking for new solutions and evaluating innovation;
- lasting impact: results to have sustainable rather than temporary impact.

In terms of where BIG's money ends up, a majority goes to the third sector – 78 per cent in 2006/7 rising to 92 per cent in 2009/10. Indeed, BIG has a commitment to distribute at least 80 per cent of its funding to third sector organisations – a target which has been increased from an initial 60-70 per cent in 2004, and which is currently being exceeded. This targeted commitment to the third sector has historically been enshrined within BIG's policy directions. In England, a new policy direction has been set which states that funding decisions will be influenced by a need to 'ensure that, in England, money is distributed to projects that benefit people and local communities served by the voluntary and community sector'. The target reflects a wider view of the third sector as a major delivery partner, in a unique position to help deliver BIG's intended outcomes:

The voluntary and community sector's ability to reach those most in need, and work with communities who are often most poorly served by mainstream provision, makes them the natural and primary partner. (Big Lottery Fund, 2009b)

Recent (and indeed recurring) pressure for BIG to channel all of its funding via the voluntary and community sector has, however, been resisted, with the belief that some problems are best or only solved through partnership working across sectors.

As BIG has moved from being a distributor of funds to an intelligent funder and in doing so changed the way in which it engages with the third sector, the wider environment within which it and the sector operates has also developed. Reflecting the themes of this study, here we consider the development of the third sector policy and practice. We could also consider economic, social, and technological change, but we restrict ourselves to the core focus of this study. Future stages of the research will also consider wider changes in funding practices within the third sector.

## **2.2 Third sector overview**

BIG's development, and that of its predecessors, has taken place against a wider backdrop of an evolving voluntary and community sector. Indeed, even the preferred title and definition of the sector is evolving. Back in 1996 Kendall and Knapp described the sector as a 'loose and baggy monster' and the issue of defining and describing the sector continues (see for example Alcock, 2010; Clark et al., 2010). Popular categorisations include: the voluntary and community sector (VCS), the third sector, and civil society - within which the VCS is one sub-sector. For the purpose of this research, and in line with TSRC's general approach, we are taking a broad definition of the sector, to include all organisations operating outside the formal state of public sphere that are not trading commercially for a profit in the market. Included within this definition of the third sector are charities and voluntary organisations, community groups, social enterprises, cooperatives and mutuals.

Different definitions of the sector and different sources of data mean that there is some variation in the published figures on the sector's size and scope. There is little doubt, however, that the sector, by any definition, has seen significant expansion over the past decade or so. Here we give a very brief introduction to the third sector and how it has developed over recent years.

In common with other countries around the world, the third sector in the UK is large, and is growing. The number of charitable organisations, for example, has seen a steady increase from around 140,000 in the 1990s to around 170,000 in the mid-noughties (Clark et al., 2010). The sector's income has also increased – from £15 billion in 1990/1 (Kane et al., 2009) through to £35.5 Billion in 2007/8 (Clark et al., 2010).

The third sector is diverse, in terms of both organisational form and function. In terms of size, for example, in 2007/8 the majority of the UK's voluntary organisations (53 per cent) had an annual income of less than £10,000 (what the National Council for Voluntary Organisations (NCVO) calls 'micro' organisations). The next size up, with an income of less than £100,000 ('small') accounted for 32 per cent of the sector's organisations. However, together micro and small organisations (i.e. 85 per cent of the sectors organisations) accounted for only six per cent of the sector's total income. In contrast, the largest voluntary organisations, with incomes above £10 million (defined as 'major') account for 44 per cent of all charitable income, but constitute only 0.3 per cent of the sector's organisations. Whether or not these 'major' organisations have been increasing in size over recent years has been the subject of speculation (Backus and Clifford, 2010; Clark et al., 2010; Clifford and Backus, 2010). This skewing of the sector – with the majority of organisations being very small – is exacerbated by an additional group of organisations which fall below the Charity Commission threshold for registering and which are defined as 'below-the-radar' with estimates suggesting that there could be as many as 600,000 of these (Clark et al., 2010).

The third sector generates income from a number of different sources. In 2007/8, for example, the largest proportion - £17 billion - of charities' income came from earned income; over £14 billion came from voluntary sources; while over £3 billion came from investments. Of the voluntary income, £2.2 billion came from grants from charitable trusts and foundations including around £500 million from lottery distributors constituting 1.5 per cent of the sector's total income. Lottery funding was most important to medium sized organisations, who received 2.7 per cent of their total income from this source, compared to large organisations for which lottery funding accounted for 1.8 per cent of total income (Clark et al., 2010). The relative importance of different sources of funding has changed over time. Statutory funding of the sector, for example, has increased considerably over the past decade or so – rising from £8.4 billion in 2000/1 to £12 billion in 2006/7; although it is worth noting that only about one-quarter of general charities (in 2006/7) receive statutory funding (Macmillan, 2010).

The third sector is a major employer; indeed, its workforce has expanded considerably over the past couple of decades. The number of overall paid staff within the sector, for example, grew by 300,000 between 1993 and 2009, reaching 750,000 in June 2009 (Moro and McKay, undated). This translated to an increase in the percentage of the overall workforce from 1.4 per cent to 2.6 per cent in the same time period (Moro and McKay, undated). Thousands, or even millions, more are of course involved in the third sector as volunteers.

All these statistics hint at a number of much broader changes in the way in which the sector operates. Key developments include, for example:

- a growing involvement in public service provision, with associated move from grant funding to contracts;
- the growth of partnership working and collaboration ;
- the growing dominance of market principles;
- the introduction of new public management principles and practices, with associated professionalisation and managerialism;
- hybridisation, with a blurring of boundaries between voluntary, public and private sectors;
- an expansion of third sector infrastructure.

These developments, which will be considered in greater detail in the future project reports, have been heavily influenced by the wider policy environment and it is that policy context which we now go on to consider.

### **2.3 Policy review**

Alongside significant growth within the third sector and changes in its practice, third sector policy has also proliferated since BIG (or at least its predecessor organisations) began operating. The policy environment in which the UK third sector operates has a long history, and has seen several changes in focus and emphasis from government policy makers and from sector leaders (see Lewis, 1999 and Kendall 2009a for historical overviews). Since 1997, and the election of the recent Labour governments, however, the development of policy has picked up a pace – as Kendall (2009a) concludes, this policy environment moved to one of ‘hyperactive mainstreaming’. By this he means that government became concerned to engage more directly with the sector and to bring it more closely into the policy arena, and that to achieve this there was a massive expansion of support from government both financial and organisational. This increased involvement can be viewed in a more or less positive light. Carmel and Harlock (2008), for example, talk about it as the establishment of the sector as a ‘governable terrain’. This period is also largely that in which Lottery funded support for the sector has been developed and delivered. Until 2010 at least therefore, BIG’s approach to and impact on the sector should be seen in the context of a policy environment of ‘hyperactive mainstreaming’.

The development of a closer engagement between the government and the third sector is usually traced back to the recommendations contained in the Deakin Commission (1996), an independent report commissioned by NCVO, which was largely taken up and implemented by the incoming Labour government. Deakin recommended that relations between government and the sector should be put on a more formalised footing through the development of what he called a ‘concordat’ to specify what might be expected of each. This was implemented by the new government in 1998 in the form of the national (English) *Compact* (Home Office, 1998), which was also rolled out in the devolved administrations in Scotland, Wales and Northern Ireland, and was accompanied by local compacts in most local authority areas. The Compact was not an enforceable document, but it set out a range of commitments from government to the sector, including in particular improved terms for contracts from public bodies to third sector agencies for the delivery of public services. It has also been retained by the Coalition government since 2010, but in a much simplified form.

Accompanying the Compact was an enhanced role, and budget, for the Active Communities Unit in the Home Office to co-ordinate relations with the sector. This was followed by a 'cross cutting review' of the role of the sector in public service delivery initiated by HM Treasury (2002) as part of the Comprehensive Spending Review of that year. This led to significant new investment in programmes of support for the sector, in particular *Futurebuilders* and *Change-up*, which eventually provided programmes of grant and loan funding for organisational change and infrastructure support of £215m and £150m respectively. Kendall (2003) has referred to these as 'horizontal' support – available across the sector for investment in capacity building. These can be contrasted with 'vertical' support for organisations within particular policy fields or areas of activity – such as support for advice agencies through Citizen's Advice and legal aid. Vertical support had been around for much longer than the horizontal support developed under Labour. However, over the first decade of the new century both expanded significantly – and are the main reason for the increased levels of public funding for third sector organisations over this period.

The mainstreaming of third sector policy came to a high point in 2006 with the creation of a new focus for policy engagement with, and practical support for, the sector in the Office of the Third Sector (OTS), located at the heart of government in the Cabinet Office; and with this the appointment of a Minister for the Third Sector – first occupied by Ed Miliband (now Labour Party Leader). The creation of OTS (which included a transfer of the Active Communities Unit from the Home Office) provided a central focus for policy development within government and a central point of engagement with the sector. OTS established an Advisory Board with key sector participants and developed a programme of strategic partnership with leading sector agencies, who also received direct funding through the Cabinet Office. The appointment of Campbell Robb, from NCVO, to head up OTS also seemed to confirm a new commitment to working with the sector and to collaboration and co-operation between the two.

The policy environment for the third sector under Labour was thus one of unprecedented engagement between government and (especially leading) sector representatives – the sector was offered a place round the policy table. New spaces were opened up for a greater range of actors to be involved in policy development (Craig et al., 2004). It was also characterised by high levels of financial investment, in particular in broad support for capacity building across all third sector organisations (see Alcock, 2010). Alcock and Kendall (2010) comment that this created in effect a new, and distinct, era of 'decontested' policy terrain. This was tested by the impact of the economic recession in 2008/09, when sector representatives met with government to seek additional funding to cope with financial pressures, and the government responded with a package of support.

It is important to bear in mind that much of the above describes the development of the policy environment in England. Since the devolution of large sections of policy making to the separate administrations in Scotland, Wales and Northern Ireland, there has been separate policy development in these other countries, with distinct new government agencies and programmes of support. However, the broader policy of greater engagement, indeed hyperactive mainstreaming, has been common across all four countries, in large part because Labour has been in power for much of the

time in all (see Alcock 2010). Thus far therefore, the UK dimension of policy has largely reflected that developed in England.

Analysis of the aims and effects of Lottery funding for third sector activity needs to be seen therefore in the context of a policy environment in which there has been a step change in engagement with and support for the sector from government.

Policy environments, even decontested ones, are never static, however. Since May 2010 the UK has had a new Coalition government, led by the Conservatives. The new government moved quickly to distance themselves from much of the policy and practice of the previous administration, at least in appearance. OTS became the Office for Civil Society (OCS), and following the autumn 2010 spending review its programmes of financial support for the third sector were largely abandoned. At the centre of the new government's policy for the sector is their *Big Society* agenda, based in principle at least, on the expectation that government will no longer seek to influence and shape the sector, but rather will seek to replace such 'top-down' state support with 'bottom-up' citizen led organisation. Accompanying the Big Society rhetoric, however, is a new programme of activity and support for the sector, led by OCS, albeit with a changed emphasis in places and a reduced scale of financial commitment. Some features of these new programmes have been transferred to BIG to implement, for instance, the Transition Fund for organisations losing public funding. New actors may be introduced into this emerging policy environment therefore.

The Big Society thus provides a changed policy environment for engagement between the government and the third sector; but the policy environment is still there, and expectations of a developing role for the sector remain. Governments do not give up easily their desire to shape policy and practice. Strategic policy action by other major players needs to be seen in the context of this changing, but continuing, engagement with government. This becomes particularly important where these agencies may themselves be asked to play a greater role in government policy delivery. BIG itself has been shaped by this changing policy environment – and may in the future be expected, or indeed desire, to play a greater role in shaping it too.

## Section three: BIG and the third sector

The above section outlines the context within which BIG has developed its approach to and relationship with the third sector. We move now to consider in more detail how that relationship has evolved and what it adds up to. We focus here on the emerging story from BIG's perspective – future stages of the research will test out this story both within BIG and to consider whether the sector reports a similar narrative. We focus here on the time period from BIG's creation, in 2004, to the present time – future stages of the research will give a longer term view in order to understand the legacy of predecessor organisations in shaping BIG's relationship with the sector.

Overall, BIG's relationship with the sector was described as 'engaged', and also as 'connected', 'established', 'healthy', 'open', 'robust' and 'varied'. It claims to channel a majority of its funding through the third sector; to consult widely with sector bodies, through a range of mechanisms and to different levels of intensity; to recognise the diversity of the sector and attempt to reach out 'across that spectrum'; to build capacity through support activities which range from support contracts for specific programmes through to the demands of the application process itself. Future stages of the research will examine each of these mechanisms and their effectiveness for third sector engagement and development. Below we discuss how BIG staff perceive that the relationship developed and some of the factors that influenced it, and we begin to explore what impact BIG has had on the sector.

### **3.1 The journey**

There is a clear sense of a journey within BIG's relationship with the sector. It is something that has been 'considered' and 'worked at'. Although yet to be tested, we pick up here on a suggestion that three phases to the relationship can be identified:

'So there's that initial phase of wooing and showing that we were generally a listening organisation. And then I guess there's a sort of mature phase where relationships are good and solid, and you can have the disagreements, and at the same time there's a sense of having built up a reputation and a way of working which the sector values. And then I think a phase now which is a very complex phase [... where] our role becomes slightly different in relation to the sector'. (BIG staff member)

#### **3.1.1 Courtship (2004-2006)**

From the beginning it was clear that the relationship with the third sector was vital for BIG:

The VCS is frequently in the best position to make our funding work for communities and people most in need. The VCS's unique role in communities, and its ability to articulate their needs, makes our relationship with it pivotal to our success (Big Lottery Fund, 2010a: 7)

The creation of BIG, through the merger of the Community Fund and NOF, however, brought with it a legacy of concern and distrust. Neither organisation was without controversy. The perception within BIG was that the third sector was fearful that 'their' Community Fund would be swamped by the 'government's' NOF.

With this as its starting point, there was recognition within the new organisation of the need to develop BIG's reputation as an organisation that could be trusted by the third sector – as a funder that was 'engaged', 'responsive' and 'listening' and also one with a clear commitment to 'additionality'. Indeed, there was a sense that BIG needed to 'woo' the sector – to get it on side and this is something that was consciously worked at, to 'put a lot of work into'.

There is evidence that BIG was listening and responding to the sector through, for example, adjusting funding processes, moving towards longer term funding with the introduction of five-year funding as standard practice, and the introduction of full cost recovery. In addition, a number of specific initiatives exemplify this first phase in the relationship. In 2004, for example, the board agreed to the undertaking that 60-70 per cent of funding for new programmes would go to the voluntary and community sector – a statement that was endorsed by ministers. The target became one of only a handful of performance indicators within BIG, and is reported on annually. This could be interpreted as a largely symbolic move – it was a target that was easy to meet (and has generally been exceeded) – a public statement to reassure and 'win over' the sector. It is a target which stands out as somewhat contrary to other BIG objectives, in that it is not outcomes focused.

The development of the BASIS - Building and Sustaining Infrastructure Services - programme can also be seen as indicative of this phase. Launched in 2006, the £157million programme had the aim of ensuring that the voluntary and community sector across England had access to high quality support to become effective. The programme can be seen as significant for a number of reasons, not least because of its relative rarity within BIG funding as a programme that was designed to have outcomes for the sector itself rather than for communities and individuals. It was suggested that the programme emerged in part because evidence suggested that in areas where applications to BIG were weak support services were also weak, in part because the Community Fund and NOF had previously been funding infrastructure so for BIG to stop doing so would be a 'statement in itself', but also in part as a very visible demonstration that BIG was serious about the VCS.

This first phase then was characterised by public statements of BIG's commitment to the third sector, backed up by a general willingness to consult and to adapt ways of working in response to demands from the sector. In terms of its deeper approach to funding, this phase also coincides with BIG operating more along the lines of 'cash machine', with a focus more on outputs (the distribution of grants) than outcomes (the difference made).

### ***3.1.2 Honeymoon period (2007-11)***

It would appear that the courtship was successful. BIG had built its reputation as an organisation that could be trusted within the third sector, and so the relationship matured and became more stable. This stability within the relationship between BIG and the third sector was developing within the context of a relatively stable policy context – the same government had been in power for a while and did not look likely to change in the short term future and the relationship with BIG's sponsor department was comfortable and stable, characterised as one of 'benign neglect'. At the same time, BIG was developing internally, particularly in terms of its approach to funding with an increasing emphasis on 'intelligent funding' principles.

Within this context, relationships developed in two directions, with third sector organisations recognised as both strategic partners and as ‘customers’. BIG tightened its strategic relationship with key national third sector organisations – both umbrella/membership organisations and key players in specific policy areas being targeted through BIG’s programmes. In part this was to involve the sector in the development and delivery of strategic interventions; in part it was an exercise in ‘reputation management’ with an acknowledgement that it was important to have certain sector bodies on side (‘it matters what they say’). At the same time, BIG was developing a broader relationship with the sector as its ‘customer’, both through the funding process and through mass consultation exercises. In 2009, for example, Big Thinking engaged over 3,400 respondents, 70 per cent of whom were from the VCS. Here ‘the market’ is segmented to ensure that BIG reaches small, medium and large; national and local; and different ‘vertical’ sub-sectors – BIG is considering the diversity of the third sector and how it engages with different parts of it.<sup>4</sup>

‘So I think our engagement with the sector, strong at the national level, strong down particular channels where there’s policies that are of particular interest to our mission, and intense in some of these geographical areas ....’ (BIG staff member)

This stability and new level of trust also enabled BIG to work with the sector in new ways that were more in line with its emerging intelligent funding approach, to move the relationship on. As one respondent put it:

‘it provided a level of confidence in the sector that it was being listened to for the first time in a particular way ... it crafted a different relationship as a strategic partner in delivering change as opposed to being a cash machine that’s accessed for a bit of funding to keep the sector going.’ (BIG staff member)

Evidence of the mutuality of the relationship is offered within BIG by way of a letter drafted by the sector to government in support of BIG:

‘And there’s a famous letter that we wheel out, given half a chance, which NCVO, ACEVO, NAVCA and ACF wrote shortly before the last election, which says don’t do silly things to the Big Lottery Fund because they’re a highly admired and effective funder that make a real difference to the sector.’ (BIG staff member)

### **3.1.3 Mature relationship (2011-)**

There is an emerging view, however, that after a period of intensity and mutual support things are beginning to change – that BIG’s relationship with the third sector is moving into a new, third, phase. There is a sense that while the relationship is and will remain strong, other stakeholders will become increasingly important, and that BIG may not be able to maintain the intensity of focus it has had to date on its relationship with the third sector.

This change is being driven in part by a continuation of intelligent funding principles which emphasise outcomes and not the type of organisation delivering the outcome:

‘I think as an organisation, whilst recognising we’re primarily a funder of the voluntary sector we need to balance the requirement to fund intelligently and to fund where need is greatest, and if in order to achieve outcomes where need is greatest, that means that we

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<sup>4</sup> This will be an important theme for future stages of the research.



don't necessarily always fund directly through the voluntary sector, we need to accept that, and if the sector is mature enough it should also recognise that what we're doing is achieving the outcomes'. (BIG staff member)

Indeed, there is a suggestion that BIG may be moving to a new, third, phase in its approach to funding – taking intelligent funding principles further to the point of co-production.

It is also being driven by internal changes such as the creation of the England and UK committees, the subsequent appointment of a new Director for England, and the current process of refreshing the organisation's strategic framework. Indeed, one respondent noted that the organisation constantly goes through cycles of being more or less internally/externally focused depending on the stage it is at in terms of programme development, with implications for the intensity of the relationship with the third sector at any one time.

The recent change in government, with associated policy shifts and funding cuts, however, is a significant factor in driving change. A new government, and one that has particular ideas about third/civil society, and a new sponsor department (OCS), it was suggested, mean that BIG needs to reposition itself and to refocus some of its attention away from the third sector towards government, to strengthen its relationship with the new government.

New policy directions are currently being drafted which also have the potential to affect BIG's relationship with the third sector. The policy directions are high level statements of intent that, it was suggested, have to date been '*enabling*' and '*permissive*', setting a broad framework within which BIG has the discretion to decide how and what to fund. The current '*take account of*' policy directions were held up in contrast to those of the New Opportunities Fund which had been very detailed and '*tight*', providing a blue print within which there was little flexibility. It is unclear at present what the new policy directions will look like.

The rapidly changing external environment and BIG's internal developments suggest that other stakeholders may increase in importance and that both BIG and the third sector need to be aware of the implications for the changing dynamic within their relationship and the likely introduction of new ways of working. The changing relationship with the third sector in this new era was discussed in a number of different ways:

- A move from mass consultation to co-production – with more strategic engagement and 'agile' dialogue with key stakeholders from the third sector and beyond, focused on solving particular problems and at all stages of programme development and delivery. Examples given of this included the development of the Improving Futures programme and the recent Big Insight events in which stakeholders have been working together to find new solutions to entrenched problems.
- A move from facilitator of change to a leader of change<sup>5</sup> – with the development of new models of funding, in particular, and the continuing push towards intelligent funding there was some recognition that BIG may be moving to new ways of working and as a result to new relationships with the third sector, which may lead it to '*pull*' the sector in new directions.

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<sup>5</sup> The appropriateness of BIG, or indeed any funder, seeking to shape the sector will be explored in future stages of the research.

- From funder to competitor – as BIG moves to take on additional funding streams, such as MyPlace and Community Assets, it was noted that there was a potential for it to become a competitor with third sector organisations for the delivery of those funds. As one respondent put it – when BIG come into competition with the third sector, attitudes and relationships may be tested.

### **3.2 Shifting dynamics**

Whether these stages of development within BIG's approach to and relationship with the third sector stand up to scrutiny will be tested within future stages of the research, so too will the factors that have shaped that journey. Some suggestions have however begun to emerge, focusing in particular on the changing dynamics of stakeholder influence. Referring back to its 'straddling position' – being an NDPB distributing public funds but in a manner closer to that of foundations than statutory grant makers – BIG has multiple stakeholders and is subject to multiple expectations and influences. Indeed, BIG is subject to a greater range and greater intensity of stakeholder pressure than other funders – from central to local government, the VCS, other lottery distributors, funders and grant makers, and the general public (Big Lottery Fund, 2005). The relative influence of those stakeholders changes over time:

'Obviously when BIG was set up, we were in a situation where there'd been one party in government for a long time and [...] there wasn't going to be another one. So there was stability on that side, and a stability of policy context as well [...] and there it was a case of [focusing on] the sector side and really getting those established was where all the energy would go. As that sector relationship matured, and as the political situation became more volatile, there was more of a need to understand a different policy context, a different policy language, different set of priorities, [...] and building those new relationships across the organisation became more important' (BIG staff member)

There are also dynamics within the third sector itself – the relative strength and importance of different parts of the sector and individual organisations therein, for example – which affect which organisations BIG engages with and which voices get heard.

And relationships are interconnected; each set of relationships affects the other – for example, BIG's relationship with government will influence its relationship with the third sector; equally the third sector's relationship with government will influence its relationship with BIG. The relationships with other stakeholders, such as other funders, for example will also shape that of BIG and the third sector.

## Section four: The destination: impacts and outcomes

BIG's approach to and relationship with the third sector is clearly significant to both parties, has been subject to scrutiny from a number of stakeholders, and has changed and developed over time. There is less clarity over the outcomes of this relationship. Overall, there is a sense that individual funded projects are often very successful, but there is a lack of certainty about the sum of the parts – about the strategic impact of BIG in general - and even less certainty about its largely unintended impacts on the sector itself. Indeed, this lack of clarity is one of the main drivers behind BIG's co-funding of this research. Below we draw on findings from the documentary review and the interviews to begin to map some of the suggested ways in which BIG has impacted on the strategic development of the third sector, which will be explored and tested out in future stages of the research.

- Outcomes – the growing focus on, and understanding of, outcomes, both the shift to outcomes funding per se and the measurement of outcomes, particularly through self-evaluation, was identified as a potential impact of BIG on the third sector. It was felt that BIG had not only influenced the sector through adopting an outcomes approach within its own programmes and activities but also by influencing the wider funding world and thereby multiplying the effect. As one person put it, BIG had been '*market shaping*' in this area; another suggested that BIG had been '*putting its weight*' behind an outcomes approach (which, they went on to say, had not been without a struggle).
- Leading change within third sector funding practices: BIG's introduction of full cost recovery across its programmes and its commitment to longer term (five year) funding was identified as a key outcome for the third sector. Beyond changing its own practice, a significant factor was again felt to be BIG's influence on other funders – multiplying the potential effect and changing other funders' relationship with the sector, as well as its own.
- Capacity building: capacity building activities take place in different ways – from the grant application process itself, through to specific capacity building/support contracts associated with different programmes. Programme evaluations and BIG research, alongside anecdotal evidence from staff, suggest that skills and confidence have been developed amongst third sector staff and volunteers as a result of BIG's interventions.
- Partnerships – another theme emerging from interviews and evaluations (see for example Big Lottery Fund, 2007a; Leat and Kumar, 2006) is the development of partnerships and the more general facilitation of networking across the third sector and between the third and public sector bodies. One example given was of the environment sector, within which it was suggested that BIG has been instrumental in getting the sector to work together and to develop a more cohesive voice. Other examples were given of funding and support from BIG enabling third sector organisations to build relationships with local authorities; indeed, in some programmes local authorities had been required to work with the local VCS in order to access funding. It was

acknowledged that partnership working had not always been easy for the VCS, but evidence suggested it was beneficial.

- User involvement – user involvement has been a feature of BIG programmes, particularly those focused on young people, and it was felt that this has led to a change in third sector practice that represented an important development.
- Professionalisation: it was suggested that both the capacity building activities and the grant-making processes, including quality standards for delivery, developed by BIG have contributed to a professionalisation of the sector:
- Influencing vertical policy development – examples were identified where BIG programmes have influenced public policy, and this has represented a significant outcome for those third sector organisations engaged in that policy area. Examples included out of school hours child care (Big Lottery Fund, 2007a).

The existing evidence to substantiate these claims is relatively weak. There are also questions of what the changes will have actually meant for the third sector. For example, if there has been a move to great user-involvement, how has that actually impacted on the sector (either at individual organisational level, or beyond)? What difference has the adoption of an outcomes approach to funding actually made to third sector organisations? Further, issues of sustainability – both of funding sources and of outcomes – were identified as a challenge for the third sector which may undermine some of the outcomes suggested above. Future stages of the research will explore all these issues, collecting evidence of outcomes and impact (positive and negative, intended and unintended) and casting light on the validity of these claims.

## Section five: Charting the unknown

The scoping phase suggests an outline of a journey taken by BIG and the third sector over the past seven years; of a relationship developing from an uncertain start, to one of trust and mutual respect. The journey has not been left to chance – BIG has paid attention to and worked at the relationship, putting in place a range of symbolic and significant mechanisms to court and mature it. There is then a reasonably clear narrative emerging within BIG about its approach to and relationship with the third sector and how this has developed and gone through different stages over time.

Underlying and shaping the development of this relationship is the evolution of BIG's approach to funding – from cash machine to intelligent funder (perhaps extending now to co-producer). Also significant is BIG's 'straddling' position and the shifting dynamics that this creates, with the relative strength of different stakeholder influences changing over time with implications for the development of the relationship.

There is less clarity over the outcomes and impact of this relationship. There is a belief that BIG has facilitated change within the sector, such as increasing levels of understanding of outcomes, enhancing user involvement, increasing partnership working, and improving skills and confidence; but with an acknowledgement that evidence is lacking. There is also an emerging view that in the coming years BIG may play a greater role in 'leading' change and actively shaping the sector.

This is of course only a very first glance at the issues. We have only heard from a handful of BIG staff. We have yet to hear how the sector (and different parts of the sector) perceives its relationship with BIG and how it thinks BIG has influenced its policy and practice. We are also yet to hear from other stakeholders, such as government or other funders. There are questions yet to be asked about the legacy of the Community Fund and the New Opportunities Fund. We have yet to explore how the story differs in each of the countries across the UK and across different parts of the sector. Some of the factors which have shaped the relationship have been identified, but need expansion and further exploration.

We have only touched upon BIG's potential influence on the strategic direction of the third sector - the outcomes suggested to date may or may not stand up to scrutiny; we may discover additional or different areas of influence and impact. We have yet to explore the relative effectiveness and impact of different funding paradigms and interventions. What is the relative benefit to the sector, for example, of BIG's intelligent funder approach as opposed to the previous cash machine model, and what appetite is there for a further shift to co-production? Do the different elements of the funding framework – open, strategic and community – lead to different or more/less significant outcomes? What difference have explicit and implicit capacity building activities made to the sector? Do the different approaches have different costs as well as outcomes?

The research is taking place during a time of relatively rapid change. By the time we report in February 2012, BIG will have a new chair, new policy directions, and a refreshed strategic framework. The third sector is also likely to look quite different. What would an appropriate approach to and

relationship with the third sector for BIG be in that context, and what outcomes should it aspire to have on the sector?

Below we set out the framework for the main stage of this research project – the questions it will address and the approach it will adopt in doing so. The main stage of the research will focus on England and the time period from 2004 to present, although it will explore in brief the legacy of BIG's predecessor organisations as they affect current relationships and it will also explore in brief how BIG's approach to the third sector has varied in each UK country.

## **5.1 The research questions**

### **1. What is BIG's approach to and relationship with the third sector, and how has this developed over time?**

- a. What mechanisms and interventions has BIG developed for working with the third sector? How can these be classified?
- b. How has BIG's (and its predecessors') approach to working with the third sector developed over time: what have been the key steps in the journey?
- c. Why has BIG's approach to and relationship with the third sector developed as it has? What has been the relative influence of evidence of need, evaluation of previous programmes, wider government policy, sector stakeholders, and other factors?
- d. Has BIG's approach to the third sector differed in each of the four UK nations, reflecting the devolution of third sector policy?
- e. Has BIG's approach to the third sector differed from other significant non-government funders? If so, how?
- f. Has BIG's approach to and relationship with 'the third sector' been differentiated across the sector – e.g. does it relate differently to infrastructure bodies and front line delivery organisations; to small and large organisations; and to organisations working in different policy areas?

### **2. What do different stakeholders perceive BIG's impact to have been on the strategic development of the third sector and third sector organisations?**

- a. How have BIG's investments and funding approaches affected the formation, sustainability or viability of third sector organisations? (e.g. strategic focus; processes; capacity; outcomes; evaluation practices; sustainability)
- b. What direct and indirect impact is BIG perceived by key stakeholders to have had on policy and practice at the sector-wide level?

- c. What has been the relative effect of different funding paradigms, models, programmes and support mechanisms?
- d. Has BIG's strategic impact been felt differently by different parts of the third sector?

**3. What should BIG's future priorities and directions be in terms of its approach to the third sector?**

- a. What are the implications of recent changes in the government's third sector policy agenda for BIG's role as a policy actor?
- b. How might cuts in public spending, including the amount available to BIG, impact on BIG's relationship with the sector in the future?
- c. To what extent do key stakeholders perceive that BIG can and should ensure that future funding supports the needs of the sector itself?
- d. To what extent should BIG differentiate its future approach across the third sector?

## **5.2 The research approach**

The research will involve five key elements (subject to discussion and approval by the project steering group). Below we outline each method, with the table at the end summarising which method addresses each question.

- 1. Key informant interviews (~20):** Semi-structured interviews will be conducted, either face to face or over the phone, with key informants drawn from five stakeholder groups:
  - Devolved administrations (~9): The director from each country will be interviewed along with one key third sector and one government stakeholder<sup>6</sup> in order to explore differences in approach and outcomes across the home countries;
  - BIG board members (~2): The present and past (or future) chair will be interviewed in order to incorporate the perspective of BIG's non-executive leadership;
  - Third sector leaders (~4): Key players from third sector umbrella and infrastructure bodies, including for example, NCVO, ACEVO, NAVCA and the Social Enterprise Collation will be interviewed in order to explore the sector's view of its relationship with BIG;
  - Policy makers (~2): Senior civil servants in both DCMS and OCS will be interviewed in order to explore government's perception of BIG's relationship with the third sector and its role in shaping that relationship;
  - Funders (~3): Other key third sector funders will be interviewed in order to compare different approaches to supporting and relating to the third sector.

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<sup>6</sup> In Scotland the stakeholder interviews will be replaced with a stakeholder focus group.

The interviews will focus on exploring different perceptions of BIG's approach to and relationship with the third sector, including how this has varied across the UK and across different parts of the sector. The interviews will consider the key factors which have influenced the development of the relationship and how it has changed over time. They will also begin to explore perceptions of BIG's impact on the third sector.

The interviews will last for approximately one hour and each will be recorded and later transcribed ready for analysis using Nvivo software.

2. **Administrative data:** BIG's administrative data, as recorded within its Merlin database, will be analysed in order to explore the range of third sector organisations in receipt of funding (e.g. size, location). This element is subject to the limitation of the database.
3. **Focus groups:** in order to identify key categories of impact that BIG has had on the third sector a series of five focus groups will be convened. These will bring together groups of stakeholders, enabling different perspectives to be explored:
  - a. BIG staff: including grants officers;
  - b. infrastructure: national and local;
  - c. large nationals: key national (England) third sector organisations focusing on key vertical policy areas in which BIG is currently working;
  - d. medium-sized organisations (including successful and unsuccessful applicants);
  - e. small organisations (including successful and unsuccessful applicants).

The focus groups will be recorded, transcribed and subsequently analysed using Nvivo software. The findings of the workshops will be used to inform the online survey.

- 3b. **Exemplars: individual interviews (~6) will be conducted with focus group** participants identified as coming from organisations that have a particularly illustrative example of impact or outcome (positive or negative). These will provide detailed organisational vignettes.
4. **Online survey:** an online survey will be conducted with third sector organisations funded by BIG since 2004 and based in England. The sample will be drawn from the Merlin database. Merlin has over 60,000 entries within this category, but many organisations will be double or triple counted as entries are by grant rather than by organisation. In anticipation of a low response rate, the whole population will be surveyed. The survey will explore BIG's impacts on the sector, using indicators identified in the focus group.
5. **Participatory workshop:** towards the end of the research and analysis period an invitation-only participatory workshop will be organised for BIG staff and key stakeholders in order to feedback initial findings and engage participants in the analysis process. In particular this will provide a forum for discussion of the implications for the findings for both BIG and the sector in the future.



**Table 2: Summary of research questions and approach**

<b>Question</b>	<b>Method</b>
What is BIG's approach to and relationship with the third sector, and how has this developed over time?	Key informant interviews
	Analysis of administrative data
What do different stakeholders perceive BIG's impact to have been on the strategic development of the third sector and third sector organisations?	Key informant interviews
	Focus groups
	Exemplars
	Online survey
What should BIG's future priorities and directions be in terms of its approach to the third sector?	Key informant interviews
	Participatory workshop

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## About the Third Sector Research Centre

The third sector provides support and services to millions of people. Whether providing front-line services, making policy or campaigning for change, good quality research is vital for organisations to achieve the best possible impact. The Third Sector Research Centre exists to develop the evidence base on, for and with the third sector in the UK. Working closely with practitioners, policy-makers and other academics, TSRC is undertaking and reviewing research, and making this research widely available. The Centre works in collaboration with the third sector, ensuring its research reflects the realities of those working within it, and helping to build the sector's capacity to use and conduct research. This research, co-funded by the Big Lottery Fund, is part of our Theory and Policy strand.

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## About the Big Lottery Fund



The Big Lottery Fund (BIG) is the largest funder of the voluntary and community sector after government, currently responsible for delivering 46% of all funds raised for good causes by the National Lottery. It funds a diverse range of programmes and projects in the fields of health, education, the environment and charitable purposes. Its focus is on delivering improvements to communities and the lives of those most in need across the UK. This research study, co-funded with the Third Sector Research Centre, is part of BIG's research and learning programme, contributing to a better understanding of its role and impact as a funder. To find out more about our work, please visit: [www.biglotteryfund.org.uk](http://www.biglotteryfund.org.uk).

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