

## **The potential of trading activity income to fund Third Sector organisations operating in deprived areas**

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### **Abstract**

In seeking a more sustainable source of funding Third Sector Organisations (TSOs) have been drawn towards income sources associated with trading activities in recent years (Teasdale, 2010). However, many remain reliant on grant funding to support such activities (Chell, 2007). Public sector spending cuts are therefore likely to still have a negative impact, particularly for those organisations based in deprived areas. Using data from the National Survey of Third Sector Organisations (NSTSO), multivariate analysis is used to examine the relationship between location and adoption of trading activities. Trading activities are found to be frequently used in less affluent areas, but these organisations are also more likely to access public sector money. This suggests policy-makers need to consider the impact funding cuts will have on the Third Sector as many TSOs tackling market failure in the most deprived area are unlikely to succeed without continuing support.

**Key Words:** Deprived Communities, Public Sector Support, Grant Support, Third Sector

Organisations

## **1. Introduction**

Under the current and previous government administrations, government contracts and income from trading activities are increasingly being recognised as having the potential to create a more sustainable method of providing social and community services (Dart, 2004). The main appeal of this more market orientated approach lies with the promise that traded income can replace at least some of the funding drawn from other sources, particular public sector obligations (Amin, 2009). With the state's ability and willingness to support Third Sector Organisations (TSOs) in continual decline (Diochon and Anderson, 2009), it is unsurprising to see that both previous and current government administrations have actively promoted a market orientated approach towards the third sector.

Whilst there has been some attempt to explore whether the market orientated approach is appropriate for all TSOs (Weisbrod, 1998; Liao et al., 2001; McBrearty, 2007). One particular question that remains unanswered is whether replacing public sector funding by income from trading activities is possible in the most deprived areas. Given the uneven spread of social deprivation and the need to be closely linked to the communities served, it is reasonable to assume that considerable differences can be found between TSOs serving areas with different levels of deprivation (Amin, 2009). However, although the greater need might make socially orientated trading activities more prevalent in more deprived areas (IFF, 2005), a lack of resources and skills in these areas may make such activities unsustainable in the longer-term (Amin et al., 2002). Therefore, it is unsurprising to find that whilst in general there has been an over reliance on public sector funding amongst all TSOs (Anheier et al., 1997; Chell et al., 2005;

Chell, 2007), such reliance is particularly acute in the most deprived areas (Clifford et al., 2010). However, greater supply of public funds in these locations may also play a role. This means that the current government spending cuts may lead to more TSOs seeking to become more self-sustaining using private funding from trading activities or public sector contracts, but to what extent this is possible in more deprived areas is unclear.

Using data from the National Survey of Third Sector Organisations (NSTSO) conducted in 2008 this paper explores the use of earned income as a source of funding for TSOs and the extent to which this can replace public sector finance in the form of grants and contracts. In particular, the reliance on public sector finance and the use of trading activities as an alternative is explored for those TSOs operating in more deprived areas. A multivariate regression approach is adopted to control for a variety of different local demographic and economic characteristics. This allows the investigation of the extent to which the Third Sector can successfully contribute to public service provision in the face of reduced public sector funding through the use of earned income sources.

The remainder of the paper is structured as follows. The next section examines the literature relating to the use of the Third Sector to provide public services and the funding arrangements associated with this. Particular attention is paid to those studies considering the potential of earned income to act as an alternative to public sector and more traditional sources of funding. Section 3 reviews the literature challenging the market orientated view and that casts doubt on this approach's suitability within certain settings. Section 4 concentrates on the evidence relating to the association between local deprivation and government policies influencing the third sector in a UK context. Section 5 introduces the NSTSO data and methodology used in the study.

Section 6 presents the analysis of the relationship between Third Sector funding and other local economic characteristics, whilst Section 7 summarises and provides policy conclusions.

## **2. Earned Income from Contracts and Trading Activities – the Solution to the Financing of the Third Sector?**

The development of voluntary and community sector organisations is seen as crucial in building social capital and regeneration (HM Treasury, 2006). Within the UK context, the social economy or the ‘third sector’ politically came to the fore under the Labour administration of the late 1990s and early years of the twenty first century (Giddens, 1998; Pearce, 2003; Haugh and Kitson, 2007), which continued into the subsequent Conservative-Liberal Democrat coalition. Authors such as Proulx et al. (2007) and Chartrand (2004) note a similar pattern in other developed countries (Sweden and Canada respectively). Although a variety of reasons have been proposed for Government’s interest in the social economy including those associated with efficiency of provision and potential to access to reach hard to reach groups due to long-standing relationships with the communities that they serve (Wainwright, 2002; HM Treasury, 2007), others have argued that a desire to reduce state obligations by stimulating a “social market” for welfare dominates (Austin et al., 2006; Amin, 2009).

However, with social needs becoming more complex, the challenge of meeting them is exacerbated by decreases in state funding and philanthropic giving, as well as rising costs, increased regulation and accountability (Choi et al., 2005; Morris et al., 2007; Eikenberry, 2009). By applying a business-like approach to achieve social objectives in a more efficient and financially sustainable manner (Dart, 2004), it is hoped that state grant contribution can be substantially reduced (Birch and Whittam, 2006). These cost concerns have intensified with the substantial economic problems faced by the UK economy, with both household confidence and

employment levels remaining low after the deep recession in the late-2000s, both of which could influence state and household support of the Third Sector (Hughes and Luksetich, 2008). With the moral legitimacy of the ideology of the welfare-state diminished considerably (Dart, 2004), it is of no surprise that the Government has vigorously promoted TSOs that rely on earned income as one possible route to achieving economic regeneration of deprived areas through processes of better community engagement and public service delivery (Giddens, 1998; Kerlin, 2006). To achieve this UK administrations have encouraged the Third Sector to work in collaboration with both the public and private sectors, often with funding only available through such arrangements that blur the boundaries of the sectors (Harris, 2010). Given these environmental pressures it is unsurprising to find that the importance of earned income as a revenue stream for TSOs appears to be increasing in recent years (Wilding et al., 2006; Reichart et al., 2008; Teasdale, 2010).

### **3. Problems Associated with the Market Orientated Approach**

The previous section noted how arguments relating to sustainability paint the use of earned income from trading activities in a positive light, but there is no guarantee that these sources of funds cannot be accessed without some compromises.

The growing emphasis on generating revenue may lead to ‘mission drift’ (McBrearty, 2007). It has been argued that the increasing adoption of profit maximising activities, for example, charging users for services that were formally free (Cairns et al., 2006), increases the risk of compromising the principles, values and indeed the very social mission upon which these TSOs are founded (Bull and Crompton, 2006; Kong, 2010; Dees, 2004; Paton, 2003; Pearce, 2003).

This may lead to certain goods and services no longer being supplied. Specifically goods and services with a public good nature, where the entire community benefits regardless of payment, may be passed over for imperfect substitutes, which possess private good characteristics, where only paying individual consumers within the community benefit and others can be excluded from such benefits (Alexander et al., 1999; Dees, 1998; Eikenberry and Kluver, 2003; Weisbrod, 2004).

This difficulty in balancing the double bottom line of social mission delivery and commercialisation may force many TSOs, particularly those serving the most vulnerable and those that emphasise depth rather than breadth of outreach, to shun the traded income route and remained reliant largely on state and philanthropic support (Adamson, 2003; Pharoah et al., 2004; Tracy and Phillips, 2007; Oster et al., 2004). This is evident from the data on Third Sector



funding which shows that despite the third sector's increased use of earned income, it remains dependent on the public sector for support (Leyshon et al., 2003; Amin et al., 2002; Chell et al., 2005; Chell, 2007). Using data from the NSTSO, Clifford et al. (2010) indicate that around one in three of TSOs receive public sector statutory funding, and one in seven state that this is their most important source of finance. The main reason for this continued reliance on public support is that, whilst generating extra income is undoubtedly important, not all TSOs find the traditional market orientated approach appropriate and require a new definition of market orientation that incorporates their obligations to society (Liao et al., 2001). This may be more apparent in areas of high deprivation, where commercialisation is merely addressing the issue of breadth rather than depth, and therefore many vulnerable individuals are left without the provisions of goods and services (Schreiner, 2002). This is discussed in more depth in section 4.

There may be a reverse self-selection problem where TSOs ruled themselves partially or completely out of a more market orientated approach fearing that it may jeopardise their other sources of support (Easterly and Miesing, 2009). Although surplus from commercial activities is free from governmental targets and monitoring, providing greater autonomy to spend on achieving social objectives (Cairns et al., 2006; Kelly, 2007), appearing to be "too successful" may threaten prospective grant assistance (Shaw, 2004; Bird and Aplin, 2007). Studies such as Phillips (2006) have found that TSOs often wish to avoid mainstream business approaches, potentially missing out on private sector partnerships that could help service the communities they support (Adamson, 2003). A further incentive problem occur when the increasingly use of trading activities lead to volunteers, who effectively are the lifeblood of these organisations through their provision of free labour, questioning their involvement (Milligan and Fyfe, 2005).

Given that Apinunmahakul et al. (2009) suggest time and monetary donations may be complements, this could have further ramifications.

Thus the literature clearly indicates that despite the attractiveness and increasing popularity of the market orientated approach, reliance on public support remains strong amongst TSOs. The next section reviews the literature relating to local deprivation and its relationships with the use of traded income and government funding.

#### **4. Regional Deprivation, Traded Income and Government Funding**

The Third Sector can be effective in overcoming both market and government failure within marginalised and deprived areas through the provision of missing services (Byrne et al., 2006). However, not only does the need for Third Sector intervention vary between different areas depending on their levels of deprivation (IFF, 2005), but the type of goods and services provided are also likely to differ greatly (Buckingham et al., 2010). This could influence the potential to use earned income as a revenue source depending on whether the mix of goods and services includes a greater proportion of those with public or private good natures (Fischer et al., 2011). Low income and employment levels in more deprived areas limit the extent that user fees can be used (Seelos and Mair, 2005), with much of the Third Sector income from trading activities in these areas originating from the public sector anyway (McBrearty, 2007). As well as greater demand for public funding support, on the supply side greater availability of such funding in more deprived areas may increase its use (Luksetich, 2008; Clifford et al., 2010), an issue that we consider in this paper. Evidence from the UK suggests that these factors combine in such a way to lead to a greater usage of public sector funding in more deprived areas (Clifford et al., 2010).

As the TSOs in more deprived and remote areas rely more on public support and funding, and suffer from weaker connections to the outside business community (Amin et al., 2002), any cuts in public sector support are likely to affect these areas disproportionately. Where forced to move to a more business-orientated private sector based approach, this may result in a loss of focus on or achievement of social objectives (Bull and Crompton, 2006; Kong, 2010; Thompson and

Williams, forthcoming), which could reduce support for the Third Sector (Milligan and Fyfe, 2005). A counter argument is supplied by, Apinunmahakul et al.'s (2009) and Sokolowski's (forthcoming) findings that government expenditures can crowd out private citizen's donations or cause a flight from certain activities, implying that removing this support may make community initiatives more self-sustaining. Overall the literature suggests that trading activities will play a lesser role and may be relatively rare in more deprived areas given the difficulties that TSOs have in adopting such approaches. Instead, the literature suggests that the third sector will be heavily reliant on public sector funding. However, to what extent a greater use of public sector funding reflects a greater need or availability is uncertain. The following section outlines the details of the analysis to be conducted exploring the relationships between funding choice and location outlined above.

## **5. Data and Methodology**

The data utilised in this study is drawn from the National Survey of Third Sector Organisations (NSTSO), which was first conducted in 2008. The survey takes a relatively broad definition of the Third Sector. A majority of those organisations included had the legal form of charities, but the survey also included Companies Limited by Guarantee, Industrial and Provident Societies and Community Interest Companies (CIC). Appendix 1 provides a brief overview of the differences of these non-charitable legal forms. This provided a sampling frame of approximately 129,000 charities and 40,000 other organisations based in England (Clifford et al., 2010).

The NSTSO captures considerable detail relating to the sources of finance that the organisations have sought and utilised. This allows the geographical patterns of trading activities and reliance on public funding to be examined. In order to split demand and supply, the use of public funds and the perceived availability of public funding is also explored. As sources of finance are likely to be related to the characteristics of the organisations a multivariate approach is most appropriate. The use of public sector finance has been investigated using this dataset previously by Clifford et al. (2010), however, the role of earned income as an alternative funding source was not examined in relation to this public sector reliance.

At the unitary authority or county level the relationships between the proportion of TSOs using these different finance sources and the local prevailing economic characteristics are examined to determine whether there is any evidence of an over-reliance on public funding in less affluent

areas. Relative affluence is represented by a variety of measures including the claimant count rate and average earnings. The study also examines whether there is any evidence at this level of spatial aggregation of differences in the extent that earned income plays a role in such areas. These measures were used in preference to the Index of Multiple Deprivation (IMD) as they are continuous scales, whilst the IMD is an ordinal scale. As such it is more complex and inappropriate to attempt to develop a measure of the average level of deprivation for a local authority area from the disaggregated local values. To control for other factors ordinary least squares regressions are also used taking data from the 150 administrative areas of England.

As well as the local administrative level analysis we also make use of the micro level NSTSO data. This allows the investigation of whether such local economy and community level characteristics still have an influence after controlling for the individual organisation characteristics. To examine these relationships a logit regression approach is adopted to examine the probability that the organisation is able to avoid the use of public sector finance. To provide more clarity as to whether any location based differences in reliance on public funding are demand or supply driven logits are run using dissatisfaction with the range of grants and contracts from local and national public sector organisations as dependent variables. Finally use of earned income as an alternative source of finance is explored.

Both the area level regressions and micro data logits also control for the main users of the TSOs services. Respondents were required to select up to three main groups of users from a long list of potential users. The number of options available and close relationships to one another make it impractical to include variables in the regression representing all possible groups, due to reduced

degrees of freedom and collinearity problems. In order to avoid this principal component analysis (PCA) is used to identify important sets of users to be included in the regression. A varimax rotation is utilised to ensure that the components representing the different groups are not correlated and provide a set of more distinct user groups.

Controls utilised include the community involvement in voluntary activities, drawn from the Place Survey of England conducted in 2008 (Communities and Local Government, 2009). This data was collected in late 2008 by each local authority in England in the form of a postal survey to gather opinion relating to the quality-of-life in the local authority area, and citizens' perspectives of the area within a 15-20 minute walk of home, weighted to ensure population representativeness (Communities and Local Government, 2010). The motivation for controlling for volunteering activity is account for this major form of non-financial donation, which as discussed in section 3 could represent either compliments or substitutes for other sources of support (Milligan and Fyfe, 2005; Billis, 2010; Apinunmahakul et al. 2009).

In the micro level data regressions other organisational controls include: legal form; number of volunteers; number of employees; income level; and geographical scope of activities (local, regional, national or international). All of these measures are likely to influence the resources available to the TSO and its potential to draw in further funding of all types. Although it might be expected that there would be a close association between these measures, the diverse nature, principles and priorities of the Third Sector meant that as with other variables included no evidence of collinearity problems were evident in the variance inflation factors (VIF). As well as these more objective measures two further measures were included, which may influence the

organisations' perceptions of funding availability, their perceptions of their success over the last 12 months in meeting their objectives, and their satisfaction with influencing local policy-makers. With regard to the level of deprivation of the area that the organisation was based within, the micro data provided scope to use the IMD to compare areas of different relative deprivation represented by dummy variables. The area's population density was also included, as it might be imagined that utilising trading activities to provide funding would be more difficult where the market was more dispersed (Senyard et al., 2007). Finally, the proportion of the workforce that was self-employed and employed in the service industry within the local administrative area, as measured in the Annual Population Survey (APS), were included to ascertain if any linkages to environments conducive to wider entrepreneurial activities were present.



## 6. Results and Analysis

The NSTSO data indicates that although the need for goods and services provided by the Third Sector may be higher in areas with weaker economic conditions, this is not necessarily matched by the location of the TSOs. In terms of organisations per 1000 population the TSOs are over twice as prevalent in areas with below average unemployment as those areas with above average unemployment (Table 1). In part this may represent larger charities and social enterprises operating from more central locations to serve a wider area including those local authorities with higher levels of unemployment, and some of the gap disappears when London is excluded. However, it does appear that those living in deprived areas of more prosperous local authorities or counties are more likely to be served by TSOs from nearby. However, a higher percentage of those TSOs based in the more deprived areas themselves do cater for the particular needs of the local community rather than a broader user base. It is clear that many of those TSOs in more deprived areas or less prosperous local authorities/counties are likely to rely on the public sector, with a much smaller percentage of these organisations avoiding having sought public sector funding. However, against expectations the percentage of these organisations using trading activities and contracts as a source of funding is higher. This is also represented in the higher proportion of TSOs in more deprived areas taking non-charity legal forms. What is not clear from the raw data, however, is how the type of organisation and client base influences the sources of finance sought, and with regard to public sector funding the extent that greater usage of public sector funding in more deprived areas reflects the availability of this funding rather than a greater reliance.

[Please insert Table 1 about here]

*i) Area level analysis*

Table 2 presents the Pearson correlation coefficients to represent the strength of relationship between measures of deprivation and three groups of variables. These three groups of variables represent, the use of public funds and trading income as described above, but in addition in order to gauge whether greater demand is met by a greater supply of public funds, dissatisfaction with various sources of public funds are also investigated. The final group of variables included provide an alternative measure of public funding availability as they relate to the number of TSOs attempting to access public funds, but being unsuccessful. Three interesting observations emerge. First, consistent with Clifford et al.'s (2010) findings and the results shown above in Table 1, there is a reduced reliance on local and national funding in more affluent areas, regardless of which measure of prosperity is used.

[Please insert Table 2 about here]

Second, although it was found that TSOs operating in less successful local economies relied on public sector funding to a greater extent, a larger percentage of such organisations are dissatisfied with the range of such funding, either as a grant or contract. Third, there does appear to be a greater demand for public finance in areas with higher percentage of the population out of work, as a larger proportion of TSOs claim to have unsuccessfully attempted to access such funding. The relationships presented in Table 2 indicate that these issues are present regardless

of whether considering local or national sources of public funds. Figure 1 below shows that there may also be a cultural aspect to using public finance as well as an economic one, with lower usage in the South East of England.

[Please insert Figure 1 about here]

The main users of TSOs services could well determine the appropriateness of earned income and trading activities as a delivery and funding mechanism. Table 3 below indicates the factor loadings generated with principal component analysis, which are used to generate the major user groups included in the later regression analysis.

No problems are found with the Bartlett test of sphericity and the Kaiser-Meyer-Olkin test suggests that there is adequate data available to identify the principal components. Three principal groups of main users are identified. These correspond to: the general public categorised by gender or age rather than any specific need or vulnerability; those suffering from physical or mental difficulties; and those belonging to specific vulnerable and potentially marginalised groups.

[Please insert Table 3 about here]

The regressions of the proportion of TSOs using trading activities as a source of income and as their most important source of income explains 21 and 36 percent of the variation respectively (Table 4). The F-tests of all variables being insignificant can also be rejected at the 1 percent

level. It would appear from Table 4 that TSOs who rely on trading as the main source of funding are those who serve the mainstream market, rather than those with a more specialised clientele with potentially more complex requirements. This is not unexpected as these users are likely to have greater discretionary spending power than the other groups of users. However, this raises the question of whether trading income is the panacea for all TSOs (Thompson and Williams, 2008) and particularly those serving the more vulnerable groups.

[Please insert Table 4 about here]

When it comes to the relationship between unemployment rate of an area and the proportion of TSOs using traded income within an area the positive relationship is confirmed. This means that whilst trading activities is widely utilised throughout the country, they are more popular amongst areas of high unemployment. This is likely to be partly a reflection of previous government policies, which have encouraged the use of such practices and made it a more acceptable and legitimate approach (Dart, 2004).

However, the relationship between unemployment rate and the use of traded income amongst TSOs is only significant when considering using trading income as a source of funding, but disappears when the dependent variable restricts inclusion to those firms that use trading income as their main source of funding. This suggests that whilst trading practices appear to be widely adopted by TSOs in regions with high unemployment, other sources of funding such as government grants remain important for them. The results implied a reliance of subsidisation from public sector finance (Senyard et al., 2007). This does not mean that TSOs are not

subsidised in more prosperous areas, but the figures suggest that the public sector is less likely to be the source of this subsidisation. It appears the barriers to trading activities outlined in Section 3 have been overcome by a large minority of TSOs, but as suggested in Section 4 only with subsidisation, particularly in more deprived areas.

#### ii) Micro-level analysis

The area-level analysis above allowed general patterns in the nature of Third Sector provision to be controlled for, but did not control for differences in individual characteristics of TSOs to be accounted for. In order to do this it is necessary to move to micro data that provides information on whether individual TSOs did or did not utilise a particular source of funding. Once again the main users of the organisation are likely to be influential in determining what extent earned income can be used, and whether the organisations can do without public sector funding. The principal components analysis is repeated using the micro-level data as subtly different patterns may be found when examining groups served by individual organisations compared to those served in common in an area. Table 5 below reports the factor loadings of the principal component analysis.

There are no problems with the Bartlett test and the Keiser-Meyer-Olkin test suggests that the data is adequate. Unlike the county/local authority level analysis four principal components are extracted by the analysis. As previously two components represent: the general public; and those with physical or learning difficulties. However, rather than a larger more encompassing component representing the socially excluded, the second component appears to represent those

associated with addiction and crime (both the perpetrators and the victims), whilst the fourth component represents those more likely to belong to ethnic minority groups.

[Please insert Table 5 about here]

Table 6 presents the logit regression for not utilising public sector funding. Although only 13 percent of the deviation can be explained by the regression, the likelihood ratio test indicates that it clearly outperforms the null of a constant probability. The null of a good fit to the data cannot be rejected by the Hosmer-Lemeshow test. Those organisations operating in progressively more deprived areas are significantly more likely to have bid for public sector money. Consistent with previous research there is clearly a dependency on public funding in these areas (Clifford et al., 2010), which remains the case after controlling for other organisational and locational factors. Therefore, even though earned income was found to be utilised across affluent and less prosperous areas alike by the Third Sector, it appears clear that a move away from public funding will disproportionately affect poorer areas.

[Please insert Table 6 about here]

Local support may potentially act as an alternative to public money with the proportion of the community claiming to have provided free assistance to local associations and clubs significantly increasing the probability that public money is not utilised. The main users have the expected influence with only the general public reducing the reliance on public sector funding. TSOs operating in more rural areas are more likely to have tried to access public funds. Given the

traditional image of inner city deprivation this may at first seem counter intuitive, but for policy this is likely to be an important result. Where any potential market is widely spread such as is the case in more isolated communities, trading activities are less likely to be sustainable without public money (Senyard et al., 2007). Therefore there is a danger that poorer rural areas in particular could suffer if government money is reduced, as the Third Sector may be compensating for a market failure initially. Larger organisations, in terms of income and employment, are more likely to have attempted to utilise public sector funds. This may in part reflect the environment created by government policies that have led to those organisations, which wish to access government funding having to do so through contracts, rather than as grants, which requires a more professional larger scaled approach (Senyard et al., 2007; Munõz, 2009).

The relationships with TSO characteristics remain similar in their interpretation for logits using dissatisfaction with public funding sources and trading income as dependent variables. In order to preserve space only the coefficients associated with the IMD are reported (Tables 7 and 8).

[Please insert Table 7 about here]

Even with greater availability of public finance in more deprived areas (Clifford et al., 2010), demand for public finance from the Third Sector appears to be even greater as the organisations in more deprived areas are significantly more likely to indicate dissatisfaction with that public finance which is available. In particular, dissatisfaction with the range of local grants available may represent a desire to retain greater autonomy and avoid hybridisation that may be a

consequence of greater constrictions imposed in contract service agreements (Kelly, 2007; Billis, 2010).

[Please insert Table 8 about here]

As with the county/unitary authority level analysis it is found that earned income is not negatively related to the deprivation of the area (Table 8). However, after controlling for other characteristics of TSOs, including the main users of their services, there was no evidence of the positive relationship between use of earned income and higher levels of deprivation as had been found in the area-level analysis. Organisations operating in more rural areas were significantly more likely to have attempted to utilise public funding sources, they are more likely to use earned income as a source of funding. There is also evidence that in areas where the community is more likely to provide free labour to associations and organisations, the Third Sector appears more likely to use earned income as a funding source, particularly when considering trading activities as the most important source of finance. The results therefore appear to suggest there are complementarities between earned income, public funding and voluntary support. As was suggested in section 2, this is only to be expected where the Third Sector through social entrepreneurship is attempting to alleviate market failures, but such an approach is only likely to survive in the presence of this effective subsidisation.



## 7. Conclusions

This paper has examined the potential for TSOs to use earned income to replace the resources currently provided by the public sector, particularly in the more deprived areas of England. The results have shown that private sector approaches have been widely adopted and embraced by the Third Sector both in more affluent and less successful local economies. However, there is evidence that those TSOs operating in more deprived areas are more likely to have attempted to use public funding either in the form of contracts or grants. It is probable that some of this reflects supply driven influences, regarding their ability to apply for and access a wider range of resources from local and central government. However, the study has shown that even this increased supply does not entirely satisfy demand, with more dissatisfaction with the public sector finance available in these areas. It is also found that voluntary contributions from the public in the form of free labour is positively associated with trading activities.

All of the results indicate that trading activities whilst being widely accepted by the Third Sector are still heavily subsidised. Without these subsidies from either the public sector or the wider community such an approach looks to be largely unsustainable. This could be a particular problem in more rural areas where costs of providing a service may be higher given a thinner more widely distributed market (Senyard et al., 2007), termed as the 'rural premium' (Williams, 2008). The 'big society' appears already to be an important component in the success of TSOs, with greater voluntary action associated with more earned income. However, it is just one part of the 'life support' that the Third Sector needs. Without public sector funding its contribution would need to be even greater. As studies such as McBrearty (2007) have indicated, any need to

move to an even more commercial and professionalised footing is likely to lead to these stakeholders becoming even more disaffected and as such this source of support may also be lost.

Further work would be advised to look in more detail at the combinations of funding utilised by organisations to determine the complementarities between funding sources within the Third Sector. The data collected by the NSTSO although providing a large sample size may not provide the fine detail required to fully understand the proportion of funding accessed from different sources, and the (perceived) availability of sources of funding for individual organisations. It may therefore require more focused primary data collection to understand these interactions. The changing status of TSO's legitimacy with different stakeholder groups is also something that needs further investigation. As the economy has weakened the electorate as a whole has seen priorities alter and TSOs may be less appealing without subsidy. Even more importantly volunteers may turn away from more commercially orientated organisations. It is important that such attitudes are monitored through time. Clearly trading activities offer a valuable source of funding for the Third Sector, but it is clear that the Third Sector cannot rely upon it solely. In affect the attempt to create a 'big society' may in fact cripple that which already exists.

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## **Appendix 1 – Non-charity legal forms**

Companies Limited by Guarantee (CLGs) and Community Interest Companies (CICs) are private limited companies and can borrow against their assets. CLGs can produce a surplus to fund activities, but this cannot be distributed. The CLG form protects trustees of organisations from liability where they are likely to enter into contracts relating to employment or property (BIS, 2011a). CIC is the legal form developed for social enterprises. CICs do not have to be established for charitable purposes, but any lawful purpose as long as they are run clearly for the benefit of a community. They may even pay dividends in some cases, but their primary objective should not be to create wealth for owners and assets cannot be transferred (BIS, 2011a; Regulator of Community Interest Companies, 2010). Industrial and Provident Societies are run by and for the mutual benefit of their members rather than outside investors. Surpluses can be distributed to members, but are usual reinvested in the society (BIS, 2011a; 2011b).

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Table 1 – Characteristics of TSOs in terms of form and funding reliance by level of deprivation

	Index of Multiple Deprivation <sup>a</sup>		Claimant Count Rate <sup>b</sup>	
	Less Deprived	More Deprived	Below Average	Above Average
<u>Funding Sources</u>				
Never bid for local public sector contracts or grants	55.7%	29.3%	59.3%	48.4%
Never bid for national public sector contracts or grants	61.6%	37.9%	66.2%	52.9%
Use income from trading as a funding source	17.9%	28.7%	16.6%	20.7%
Use income from contracts as a funding source	14.2%	32.4%	12.0%	18.8%
<u>Legal Form</u>				
Registered Charities	76.3%	59.7%	80.1%	69.2%
Community Interest Companies	0.7%	2.4%	0.6%	1.0%
Companies Limited by Guarantee	17.6%	27.7%	15.0%	22.3%
Industrial and Provident Societies	5.4%	10.1%	4.3%	7.4%
<u>Area of Activity</u>				
International	6.5%	3.8%	6.5%	6.4%
National	11.5%	5.1%	11.7%	10.9%
Regional	13.3%	17.6%	11.1%	17.0%
Local	68.7%	73.6%	70.7%	65.6%
TSOs per 1000 population	n/a	n/a	5.26	2.67
TSOs per 1000 population (excluding London)	n/a	n/a	3.43	2.23

Notes: a. More deprived areas defined as those with an Index of Multiple Deprivation of more than 65; b. Unemployment measured by the percentage of the local authority/county population claiming job seekers' allowance; c. Data weighted to represent the national population of TSOs.

Table 2 – Pearson correlation coefficients for measures of deprivation with reliance on public funds and levels of dissatisfaction with the availability and range of public sector funding

	Total claimant count 2008	Total claimant count 2008 6 to 12 months	Total claimant count 2008 for 12 months or more	Median hourly earnings	Median weekly wages
<u>Lack of use of public funds</u>					
No local grant funding	-0.635 (0.000)	-0.568 (0.000)	-0.402 (0.000)	0.308 (0.000)	0.644 (0.000)
No local contract funding	-0.707 (0.000)	-0.647 (0.000)	-0.487 (0.000)	0.268 (0.001)	0.562 (0.000)
No national grant funding	-0.736 (0.000)	-0.706 (0.000)	-0.564 (0.000)	0.192 (0.019)	0.374 (0.000)
No national contracts	-0.734 (0.000)	-0.712 (0.000)	-0.570 (0.000)	0.187 (0.022)	0.369 (0.000)
<u>Dissatisfaction with public funds</u>					
Dissatisfied with Range of Local Grants	0.780 (0.000)	0.721 (0.000)	0.525 (0.000)	-0.212 (0.009)	-0.484 (0.000)
Dissatisfied with Range of Local Contracts	0.824 (0.000)	0.820 (0.000)	0.649 (0.000)	-0.105 (0.203)	-0.291 (0.000)
Dissatisfied with Local Funding Available	0.807 (0.000)	0.799 (0.000)	0.662 (0.000)	-0.197 (0.016)	-0.365 (0.000)
Dissatisfied with Range of National Grants	0.697 (0.000)	0.644 (0.000)	0.462 (0.000)	-0.154 (0.061)	-0.397 (0.000)
Dissatisfied with Range of National Contracts	0.791 (0.000)	0.783 (0.000)	0.611 (0.000)	-0.088 (0.287)	-0.250 (0.002)
Dissatisfied with National Funding Available	0.756 (0.000)	0.742 (0.000)	0.554 (0.000)	-0.134 (0.104)	-0.359 (0.000)
<u>Lack of success accessing public funds</u>					
Unsuccessfully Bid for Local Finance	0.737 (0.000)	0.722 (0.000)	0.543 (0.000)	-0.230 (0.005)	-0.399 (0.000)
Unsuccessfully Bid for National Finance	0.779 (0.000)	0.753 (0.000)	0.560 (0.000)	-0.159 (0.052)	-0.386 (0.000)

p-values in parenthesis



Figure 1 – County and unitary authority claimant count rates and avoidance of using local public sector finance

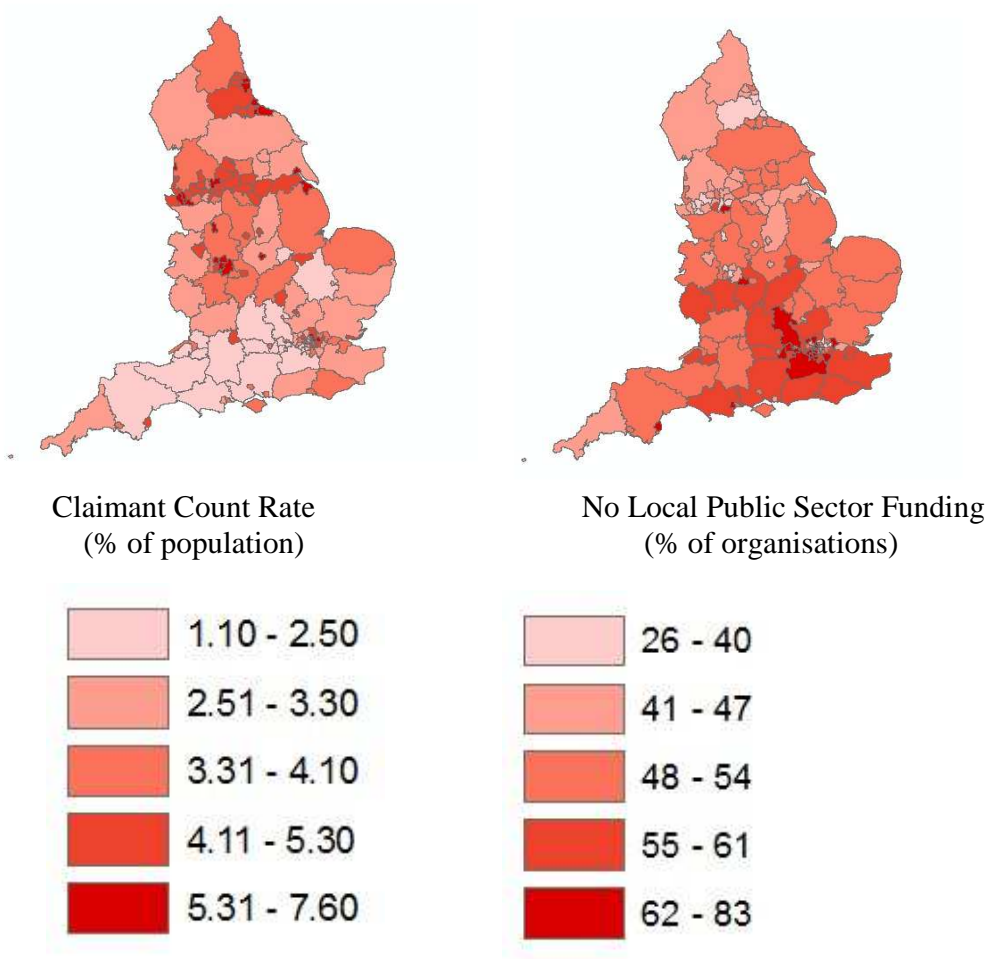


Table 3 – Factor loadings of principal component analysis of main users of TSOs

	1	2	3
Women	0.084	0.920	0.067
Men	0.187	0.881	0.176
Older People	-0.348	0.722	0.080
Those suffering from physical disabilities	0.087	0.163	0.876
Those with specific physical health needs	-0.037	-0.055	0.816
Those suffering from learning difficulties	0.181	0.381	0.690
The Homeless	0.731	0.017	0.023
Those suffering from addiction problems	0.765	0.088	0.150
The socially excluded and vulnerable	0.737	-0.005	0.360
Victims of crime	0.797	0.052	-0.018
Offenders and ex-offenders	0.829	-0.119	-0.095
Bartlett's Test of Sphericity	749.6	[55]	(0.000)
Kaiser-Meyer-Olkin Test	0.728		

Table 4 – Regression analysis of the proportion of TSOs using trading activities as a source of funding

	Trading a Source of Funding	Trading the Main Source of Funding
Local authority unemployment rate	1.645 (0.000)	0.406 (0.140)
Proportion Volunteering	-0.016 (0.888)	-0.062 (0.381)
Main users the general public	0.614 (0.087)	1.600 (0.000)
Main users vulnerable and/or socially excluded	-0.179 (0.671)	0.013 (0.961)
Main users the disabled	0.135 (0.712)	0.015 (0.947)
Constant	14.368 (0.000)	8.142 (0.000)
<i>N</i>	149	149
R <sup>2</sup>	0.208	0.361
F-test	7.524 [5] (0.000)	16.123 [5] (0.000)

p-values in parenthesis

Table 5 – Factor loadings for principal component analysis of the main users of individual TSOs

	1	2	3	4
Women	0.890	0.047	-0.091	0.006
Men	0.889	0.057	-0.055	0.004
Older people	0.487	-0.036	0.153	-0.023
Those with physical disabilities	0.023	-0.003	0.804	-0.019
Those requiring particular physical help	0.047	0.031	0.615	0.033
Those with learning difficulties	-0.019	0.113	0.689	0.002
Members of ethnic minorities	0.057	0.012	0.096	0.779
Asylum seekers and refugees	0.021	0.246	0.063	0.623
Those with addiction problems	0.008	0.689	0.065	0.019
Faith communities	-0.072	-0.009	-0.097	0.515
Victims of crime	0.039	0.651	0.053	0.127
Offenders and ex-offenders	-0.009	0.766	0.019	0.047
Bartlett's Test of Sphericity	67191.4	[66]	(0.000)	
Kaiser-Meyer-Olkin	0.590			

Table 6 – Logit regressions of never having bid for local or national funding

	B	Sig.
Proportion of the local population volunteering	0.016	(0.032)
<b>Groups of Main Users</b>		
Mainstream/General Public	0.049	(0.013)
Those Suffering from Crime and Drug Abuse	-0.089	(0.000)
Those suffering from physical and mental Disabilities	-0.163	(0.000)
Those from Minority Groups	-0.079	(0.000)
<b>Legal Form (b.c Registered Charity)</b>		
Community Interest Company	-0.972	(0.001)
Company Ltd by Guarantee	-0.097	(0.146)
Industrial and Provincial Societies	0.820	(0.000)
<b>Population Density (b.c 21 to 40 people)</b>		
Less than 4 people per hectare	-0.214	(0.001)
4 to 20 people per hectare	-0.155	(0.008)
41 to 70 people per hectare	-0.010	(0.867)
More than 71 people per hectare	-0.046	(0.518)
<b>Number of Volunteers (b.c 1 to 10 volunteers)</b>		
No Volunteers	0.191	(0.113)
11 to 20 Volunteers	-0.109	(0.023)
21 or more Volunteers	-0.062	(0.217)
<b>Income Level (b.c £5001 - £30,000)</b>		
No Income	-0.054	(0.655)
£1 - £5000 Income	0.344	(0.000)
£30,001 - £100,000 Income	-0.168	(0.007)
£100,001 - £1 million Income	-0.278	(0.000)
£1 million +	0.208	(0.185)
<b>Index of Multiple Deprivation (b.c IMD 5 – 10)</b>		
IMD 0.1 - 5	0.201	(0.009)
IMD 10 - 15	-0.149	(0.014)
IMD 15 - 25	-0.283	(0.000)
IMD 25 - 50	-0.483	(0.000)
IMD 50 - 65	-0.880	(0.000)
IMD 65+	-0.890	(0.000)

p-values in parenthesis

Table 6 - continued

	B	Sig.
<b>Number of Employees (b.c 1 to 10 employees)</b>		
No Employees	0.584	(0.000)
11 to 30 Employees	-0.576	(0.000)
31 or more Employees	-0.782	(0.000)
<b>Geographical Scope of Activities (b.c. local)</b>		
International	0.840	(0.000)
National	0.370	(0.000)
Regional	-0.007	(0.915)
Local Self-Employment Rate	-0.003	(0.715)
Proportion of Local Employment in Services	0.025	(0.000)
<b>Success in Meeting Objectives (b.c successful)</b>		
Very Successful	-0.064	(0.125)
Not Very Successful	-0.149	(0.092)
Not Successful at All	-0.028	(0.877)
<b>Satisfaction with Local Influence (b.c neither satisfied nor dissatisfied)</b>		
Very Satisfied	-0.022	(0.867)
Fairly Satisfied	-0.224	(0.000)
Fairly Dissatisfied	-0.249	(0.000)
Very Dissatisfied	-0.182	(0.002)
Constant	-3.237	(0.000)
<i>N</i>		16,549
<i>R</i> <sup>2</sup>		0.130
LR-test v constant probability		1467.8 [41] (0.000)
Hosmer-Lemeshow		11.1 [8] (0.196)

p-values in parenthesis

Table 7 – Dissatisfaction with range of local and national grants and contracts available

	Local Grants	Local Contracts	National Grants	National Contracts
IMD 0.1 - 5	0.091 (0.267)	0.074 (0.538)	0.138 (0.101)	0.013 (0.916)
IMD 10 - 15	0.068 (0.270)	0.102 (0.244)	-0.016 (0.794)	0.022 (0.809)
IMD 15 - 25	0.184 (0.002)	0.061 (0.449)	0.057 (0.334)	-0.011 (0.897)
IMD 25 - 50	0.317 (0.000)	0.324 (0.000)	0.104 (0.086)	0.273 (0.001)
IMD 50 - 65	0.413 (0.000)	0.330 (0.001)	0.089 (0.276)	0.225 (0.027)
IMD 65+	0.524 (0.000)	0.259 (0.057)	0.162 (0.170)	0.181 (0.196)

Notes: p-values in parenthesis; base category IMD 5 - 10

Table 8 – Logit regressions of using trading and earned income as a source of funding

	Trading a Source of Funding	Trading the Main Source of Funding
<b>Index of Multiple Deprivation (b.c IMD 5 – 10)</b>		
IMD 0.1 - 5	-0.127 (0.156)	-0.219 (0.104)
IMD 10 - 15	-0.182 (0.007)	-0.137 (0.161)
IMD 15 - 25	-0.090 (0.155)	-0.089 (0.334)
IMD 25 - 50	-0.046 (0.476)	-0.135 (0.153)
IMD 50 - 65	-0.085 (0.323)	-0.226 (0.077)
IMD 65+	-0.105 (0.386)	-0.171 (0.343)
<b>Population Density (b.c 21 to 40 people)</b>		
Less than 4 people per hectare	0.145 (0.024)	0.165 (0.074)
4 to 20 people per hectare	-0.001 (0.987)	-0.106 (0.211)
41 to 70 people per hectare	-0.083 (0.176)	0.016 (0.857)
More than 71 people per hectare	-0.165 (0.019)	-0.196 (0.068)

Notes: p-values in parenthesis