

**Paper presented at the Eleventh International Research
Symposium on Public Management (IRSPM XI)**

2 – 4 April 2007, Potsdam University, Germany

**“That’s their problem isn’t it?” Challenges for local authorities and third-sector
organisations in the delivery of European Union funded urban regeneration
initiatives**

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Abstract

This paper presents the findings from the German part of a cross-national doctoral study on the benefits and challenges encountered by third sector organisations using URBAN II funding to deliver urban regeneration projects. The findings identify challenges around securing funding, managing organisational change, and joint working between third sector and public agencies. These challenges are then discussed with regard to the organisational capacity of third sector organisations, collaboration and the administration of European Union funding. The paper concludes with initial implications arising from the study findings for the implementation of European policy.

1. Introduction

Third-sector organisations (TSOs) make an important contribution to the regeneration of deprived neighbourhoods of European cities: TSOs have been found to engage with the most marginalised citizens, to help individuals or small groups to have a voice in decision making processes, and to provide often highly specialised and targeted services to the most needy. There are many definitions and approaches towards conceptualising the ‘not-for-profit’, ‘voluntary’ or ‘third’ sectors in Europe (Brandsen et al., 2005). However, regardless of whether TSOs are informal groups at the grass roots neighbourhoods (Smith, 2000), work as formal organisations with charitable status (Salamon and Anheier, 1997) or operate as social enterprises aiming to combine social with commercial objectives (Defourny and Nyssens, 2006), public agencies charged with the regeneration of urban neighbourhoods seek their involvement and co-operation (Geddes and Benington, 2001).

TSOs have long played an important role in European policy concerned with urban issues (Commission of the European Communities, 1999), and this is likely to increase as urban actions assume a higher profile within European cohesion policy (Commission of the European Communities, 2006b). An important example of how such policies might be implemented in future is the URBAN Community Initiative which was launched in 1997, and is specifically targeted at strengthening the involvement of TSOs in urban regeneration (Commission of the European Communities, 2000; 2002a). Since then the European Commission has invested €1.65 billion in URBAN I and II and created URBACT, a trans-national European network to exchange experience and develop good practice of integrated, community led urban regeneration (Commission of the European Communities, 2002b). Learning from this experience is important because it is likely that the approaches pioneered in URBAN I and II will be continued through the URBACT initiative into the 2007 – 2013 programming period of the Structural Funds (Commission of the European Communities, 2006a; URBACT, 2006).

2. European Funding and Third Sector Organisations

The substantial growth in European funding intended for TSOs is perceived by many practitioners and policy makers as a welcome boost for TSOs operating in neighbourhoods where access to funding and other resources is very limited. However, there is a significant body of research and some consensus about the impact

that public sector funding can have on TSOs. In a review of the interplay between social policy and TSOs in Britain by Harris and Rochester (2001), a number of organisational challenges resulting from public investment in TSOs were identified, including:

- Loss of informality, flexibility and responsiveness
- Replacement of volunteers by paid staff
- Changes in governance and mission preferences
- Marginalisation of the preferences of citizens and users
- Tensions between maintaining independence and accepting government funding (Harris, 2001b, p.215-220); and
- Large amounts of funding changes the ways in which organisations identify themselves or are identified by their stakeholders (McKinney and Kahn, 2004).

Small TSOs in particular have been found to struggle with these challenges (Rochester, 1999; Schlappa, 2002) and, in addition, partnership structures through which most urban regeneration initiatives are delivered pose further challenges for many TSOs, regardless of their size (Mayo and Taylor, 2001).

This literature, then, would lead us to expect that funding distributed by the European Commission might have similar impacts on TSOs, both in the UK and in other European countries. If that were the case public administrations investing European funding in TSOs would need to be aware of the potential challenges that could arise from this. However, a review of the relevant literature suggests that research undertaken to explore the effects of European funding on TSOs is limited, and that little is known specifically about how European funding affects the TSOs who contribute to the regeneration of urban neighbourhoods (Schlappa, 2005). This paper aims to make a contribution towards filling this gap in knowledge.

3. The study

The findings reported here are based on a doctoral cross-national study aimed at exploring the benefits and challenges resulting from the use of European Union funding for TSOs which deliver urban regeneration projects. The study compares URBAN II funded projects delivered in cities in England, Northern Ireland and Germany.

This paper reports on the findings from the German part of the study, which was based on case studies of three TSOs delivering URBAN II funded projects in a large German city. The two tier administrative structure consists of a city council and 12 borough councils. At the time of the study the city administration was struggling with a large budgetary deficit, was in the midst of a public service reform programme, and had recently gone through a substantial re-organisation of the borough council structure.

The city council invited a number of borough councils to put forward strategies and project proposals for inclusion in a submission to the European Commission to secure URBAN II funding. Once the URBAN II proposal was approved by the European Commission programme management structures were put in place collectively by the

city and borough councils. These included the appointment of a private sector contractor to manage the delivery of the programme; the establishment of a steering committee to govern the programme consisting of public sector representatives and three resident representatives; a sub-committee consisting of public sector representatives to scrutinise and recommend projects for approval or otherwise to the steering committee; and three working groups undertaking technical appraisals of project proposals which fed into the sub-committee.

The fieldwork was undertaken between May and October 2005. Data were collected through 11 in-depth interviews with staff and members of governing bodies of three TSOs, and four in-depth interviews with local authority staff and the company appointed to manage the implementation of URBAN II. Interviews were conducted in German and translated by the author. Contextual information was collected through a review of relevant programme and project documents, meetings with users, observation of meetings and site visits to the projects and the wider URBAN II area.

A purposive sample was chosen from a small number of TSOs actively involved in the delivery of the URBAN II programme at the time with the intention to study TSOs which varied in terms of organisational purpose, size and structure. The TSOs studied were:

- Organisation (A) is a recently established sub-project of a large non-for-profit sector umbrella body (Freier Träger) with a turnover of €2 million and 22 staff who provide a combined vocational training and youth work programme targeted at young people in the URBAN II area. The URBAN II grant of €500,000 supported the refurbishment and conversion of a local authority owned building into a combined vocational training centre and youth club.
- Organisation (B) grew out of youth work supported by the local church. It was established in 1990 as a registered charity (Eingetragener Verein) to provide support for young people in the borough. The organisation has a turnover of €5 million and employs 130 staff who provide childcare, housing, vocational training and leisure facilities for young people. The URBAN II grant of €200,000 supported the purchase and refurbishment of a derelict building by Organisation (B) into a youth and neighbourhood centre.
- Organisation (C) was established 1989 as a socially responsible enterprise (gGmbH) and is a subsidiary company of a medical association representing the interests of doctors and clinical staff in the city. Organisation C has a turnover of €6 million and employs 40 staff who provide services for young people, the homeless, the elderly and the environment. The URBAN II grant of €546,000 supported the refurbishment of a local authority owned building to provide a health care and day centre for homeless people, and staff to manage the centre and its services.

4. Findings

The study findings are presented anonymously and unattributed quotations are presented in italics throughout. For additional clarity a distinction is drawn between interviewees working for TSOs, referred to as ‘TSO interviewee’, and study participants who worked for public agencies, including the contractor appointed to manage the implementation of the URBAN II programme, who are referred to as ‘public agency’ or ‘PA interviewee’.

4.1 Benefits derived from URBAN II funding

The data suggest that URBAN II funding provided a range of benefits to public and voluntary agencies. Local authority staff reported that URBAN II created opportunities to address pressing and well documented social, economic and environmental problems. Although the resources available through URBAN II were not on the scale required to have a major impact, they provided an important impetus to pool public resources and to jointly prioritise action on the most pressing problems. In addition, URBAN II was seen to have contributed to better cross-departmental work within and between the two local authorities in whose administrative area the programme was located:

“The URBAN II application was made at a time when there was little cross departmental co-operation in the borough. With regard to that my expectations were exceeded significantly. The internal co-ordination on how the resources were to be divided between the thematic priorities was an important process. We sat down at the table and negotiated an agreement about the sums.” (PA interviewee)

All three TSOs studied reported benefits arising from having access to additional or improved premises primarily because these supported an expansion of the services they provided. Two TSOs, Organisation (A) and (C), used the URBAN II funding to refurbish local authority owned premises. Organisation B used the URBAN II funding to supplement their own and other resources to purchase a derelict building with the aim of refurbishing it through their in-house youth training programme in order to provide new premises for existing and new services. In addition, the experience of bidding for regeneration funding was considered useful because TSOs felt better equipped to secure funding from similar sources in future. Furthermore, TSO staff reported that having access to significant amounts of funding that were not directly controlled by the local authority had considerable advantages:

“The EU occasionally fund an innovative and creative project.” (TSO interviewee)

“The EU fund a project because they like it or not – they don’t hold any prejudices against us.” (TSO interviewee)

4.2 Challenges encountered

Study participants identified a range of challenges encountered in the development and delivery of their URBAN II project. The data is presented under themes that emerged from the analysis of the data:

- Securing URBAN II funding
- Managing organisational change
- Working with public agencies

4.2 1 Securing URBAN II funding

The work associated with applying for and securing URBAN II funding caused significant challenges for the TSOs studied. Funding proposals required extensive and complex analysis of substantial financial and technical data and each TSO had to re-submit and re-draft their proposal several times prior to receiving approval from the URBAN II steering committee:

“We began to have serious reservations about this. Our proposal was rejected three times and had to be re-written and re-submitted. In the end it took two people three months to do this.” (TSO interviewee)

“We prepared 12 business plans before we got approval! Our finance director began to ask for whom we were doing all this. This work does not get paid. We have to use our own financial reserves for this.” (TSO interviewee)

Interviewees also raised concerns over the project approval process. One issue was that TSOs had to secure approval for their project idea even though it had been included by the local authority in the successful programme proposal. For example, Organisation (A) had to compete with other providers for URBAN II resources to deliver its own project idea that had been used by the local authority in its programme proposal. While staff from Organisation (A) felt aggrieved and exploited, local authority staff considered the decision making process effective in selecting the ‘best’ projects and ‘most suitable’ providers:

“Some TSOs thought that they would sail through the application process because we had used their ideas in our proposal. That was not the case. They had to go through a competitive bidding process to secure the funding for their project idea. That was good. This process avoids that you just follow a nice idea, instead you try to get the best deal. It’s this process that makes the final decision.” (PA interviewee)

Another concern raised by TSOs was that the project selection and approval process was biased towards the interests of public agencies and that ‘local authorities know best’. Despite repeated declarations by public agencies that the programme was designed to respond to local ideas and that there was a genuine desire amongst public agencies to work with local residents, many interviewees felt that the resource allocation process excluded them and local residents:

“The opportunities for the local community to participate in decision making are poorly developed. That exists on paper but not in reality.” (TSO interviewee)

There was also suspicion that public agencies used their control of the approval process to secure resource for their own benefit. An example was Organisation (B) which struggled to secure sufficient funding to acquire a derelict property and to refurbish this into a community centre, despite strong support from residents. In the end Organisation (B) received URBAN II funding at of 15% total project cost, while Organisation (A) was supported with 75% and Organisation (C) with 47% from URBAN II. There was suspicion that authorities gave preference to their own projects, for example by allocating better funding ratios where a local authority owned building was to be refurbished:

“The URBAN Steering Committee gave preference to projects put forward by public agencies. ... They really funded many projects which public agencies either should have done or had an obligation to do. And that way they tried to implement their urban renewal strategies. Very few third sector organisations were given a chance.” (TSO interviewee)

4.2.2 Managing organisational change

All three TSOs encountered substantial organisational change at the time of the study which can be either directly or indirectly attributed to the impact of the URBAN II funding they received. Direct impacts included that the contractual reporting and

evidencing requirements exceeded the administrative capacity of the three organisations studied:

“I think that the amount of effort required to draw down the URBAN II funding is crazy” (TSO interviewee)

“That really is a challenge. We have done construction projects before, but this thing is something else. ... The reports for URBAN II really are a particular challenge.” (TSO interviewee)

The small proportion of the URBAN II grant received for administrative costs was insufficient to cover actual costs and did not allow for the employment of additional staff. Instead existing staff had to carry additional workloads, acquire new skills and organisational process had to be adjusted and formalised, particularly where a range of funding streams had to be managed to provide match funding for the URBAN II grant:

“Of course we could employ a finance specialist to handle all the claiming and invoicing. But he needs to get paid. We don’t get that sort of money through our contracts with public agencies.” (TSO interviewee)

“Everybody wants the original invoice, everybody wants to have all the information at the same time! How shall I manage that? I am facing a huge problem and don’t know how to solve it!” (TSO interviewee)

“If you are dealing with this huge amount of bureaucracy and you don’t get any help there comes the point where you ask yourself: Whom am I doing this for?” (TSO interviewee)

For Organisation (B) the URBAN II project added to an already rapid growth fueled by public sector service delivery contracts, while in Organisation (A) the participation in the URBAN II programme resulted in dramatic organisational change. The grant for the refurbishment of the council owned property was tied to the establishment of a vocational youth training programme which was integrated with a youth work project. The youth work and youth training initiatives were independent prior to URBAN II and were brought together into a new organisational structure. In addition to challenges arising from the creation of a new project structure, changes in government employment policy resulted in profound changes to the way training programmes for unemployed people could be funded. This meant that Organisation (A) struggled to secure the revenue required to run the planned youth training programme:

“The URBAN II grant has almost completely gone into the refurbishment of this building. The rent and running costs have to be financed through other means. ... We have to submit an increasing number of tenders and grant applications to secure the finance for our youth training programme.” (TSO interviewee)

One of reasons why Organisation (A) found itself under financial pressure was that the local authority demanded a rent for the property being refurbished which was considered ‘astronomic’ and unaffordable. As far as local authority staff were concerned however, they were following the rules and procedures of public service and did not feel that they should or could help:

“The building is public property and so the property department established what the appropriate local rent for the proposed use should be. When the project heard about

this they fell over backwards and began to argue. But that does not work with a public administration, I had to learn that as well. You just can't negotiate! We have our guidelines and have to act accordingly." (PA interviewee)

4.2.3 Working with public agencies

Despite of the rigorous project assessment and selection process many TSO interviewees felt that they had to deal with unprecedented and unanticipated challenges resulting from the contractual obligations associated with the URBAN II funding they had secured. Local authorities tended to be described as unsympathetic towards the problems encountered by TSOs:

"Staff in the local authority or the programme managers have no idea what we are going through." (TSO interviewee)

"Not once did we get support from staff in the local authority." (TSO interviewee)

Public agencies on the other hand did simply not consider it to be their responsibility to help TSOs in tackling the problems they faced. The data suggest that local authorities expected TSO to deliver on their commitments once the funding agreement was signed:

"I don't know in detail what their problem is. I can't get involved in all the URBAN projects. The question is, if they do have substantial problems what are they going to do about it? That's their problem, isn't it?" (PA interviewee)

This study suggests that local authorities and TSOs had a purchaser-provider relationship in which the local authority had the upper hand, specifying services and expecting TSOs to deliver these according to the budgets made available. One of the main issues raised by TSOs was that they felt local authorities were primarily interested in cutting costs, and passing the budgetary pressures they encountered over to the third sector. In addition, our data suggest that civil servants might consider TSOs as 'second best' in the provision of services and would prefer to work with private sector partners:

"It really is terrible. That is the complete opposite to what we are trying to do. For them [civil servants] it is not the human being that matters but the wallet." (TSO interviewee)

"When I get some real money, that means a project that is financed from local authority mainstream budgets, then I put this out to tender and work with a private sector company." (TSO interviewee)

Some TSOs struggled to combine advocacy with the service providing role because this was seen to undermine the development of more collaborative relationships with local authorities:

"I am glad when they [civil servants] don't get involved in our work. That always creates problems. We develop solutions not with public agencies, but with residents." (TSO interviewee)

"We are servants of local residents, the interest of public agencies come second; this enrages public agencies." (TSO interviewee)

Overall there was a sense that neither the local authorities nor the programme managers were really interested in the problems TSOs encountered and how they tried to tackle these, provided contracted outputs and milestone were achieved:

“I would have wished that the URBAN II office [Programme Manager] had shown more interest in our work and put less emphasis on control. One could do the work of the project manager differently, asking ‘how do you actually do this? How do you manage? And could we be of help?’ For example by helping to secure additional funding and support the long term future of this project. I would also expect that from a local authority actually.”

5. Discussion

The analysis of the data shows that the TSOs studied did not encounter some of the potential challenges identified in the literature related to volunteering, governance, or the way in which TSOs identify themselves or are identified by their stakeholders. However, this study does suggest that TSOs delivering URBAN II funded projects can encounter significant challenges in accessing URBAN II funding, fulfilling contractual obligations and in working with public agencies. In addition, the engagement of TSOs in the delivery of European funded regeneration programmes poses challenges for the way in which these funds are administered. These challenges are discussed under three headings:

- Challenges of organisational capacity
- Challenges of collaboration between public and voluntary agencies
- Challenges of administering European Union funding

5.1 Challenges of organisational capacity

This study shows that TSOs can encounter substantial challenges resulting from onerous grant allocation and reporting procedures associated with URBAN II funding. Even TSOs employing in excess of 100 staff and with a turnover of €6 million reported that URBAN II made them consider the employment of accountants to satisfy evidencing and reporting requirements. Furthermore, securing URBAN II funding was dependent on significant technical skills and the capacity to invest substantial amounts of staff time. Once secured, substantial expertise, systems and staff were required to administer the URBAN II grant, leading to organisational change processes which had to be managed. Previous research has shown that such organisational change can be dramatic and substantial, affecting mission, purpose, structure and the viability of TSOs (see for example: Alcock et al., 1999; Billis, 1993; Harris, 2001a; Lewis, 1996; Scott et al., 2000).

The findings also reflect earlier research (Schlappa, 2001; Taylor, 2002) which suggests that smaller TSOs, or those without access to professional staff, are unlikely to have the capacity required to secure funding or deliver projects to the specifications set by public sector agencies leading urban regeneration programmes. Furthermore, those TSOs who possess the required organisational capacity are expected to invest their own time and money in the development of project proposals without being able to recover these costs. This study suggests that TSOs are unable to recover the investment they had made during the project development and application phase; neither are they able to cover the expense of administering the URBAN II grant during the implementation phase. In the long term this is likely to undermine the willingness and ability of TSOs to participate in similar initiatives and, perhaps more

importantly, threatens the viability of the TSOs involved. The need for full cost recovery and helping TSOs acquire assets with funding from public sources is now widely recognised as an essential part of the sustainable regeneration of deprived neighbourhoods (Department for Communities and Local Government, 2006), as is the requirement for a diverse third sector connecting residents and public agencies (Schubert and Spiekermann, 2002; Taylor, 2000; Walther, 2002).

5.2 Challenges of collaboration between public and voluntary agencies

The findings from this study suggest that public agencies, including the programme managers, have a hierarchical relationship with TSOs in which formal communication related to binding agreements dominate the dialogue and where there is a lack of appreciation of the diverse features of TSOs in relation to their way of working, their mission and values. TSOs, it seems, are primarily seen as contractors who provide services which are funded and specified by public agencies. Thus the structures used to deliver the URBAN II programme reported here lack the essential attributes of mutual support and respect which are required for the collaborative delivery of cross-cutting regeneration programmes which require the contribution from a range of actors (Sullivan and Skelcher, 2002).

Furthermore, the findings reflect concerns raised by Evers and Laville (2004) who argue that public sector agencies are in danger of over simplifying the role and purpose of social enterprises by focusing mainly on their commercial attributes. An argument which is supported in the current definition of social enterprises in Europe which shows that the 'social' element of social enterprises is not optional, but an essential feature of such organisations:

“Social enterprises have been defined ... as organisations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits.” (Defourny and Nyssens, 2006, p. 5)

This study further suggests that public agencies had to invest substantial energies on internal challenges of their own, such as overcoming lack of cross-departmental collaboration, dealing with budgetary pressures and responding to the public sector reform agenda of government. This, it could be argued, might be one of the explanations why local authorities did not offer support to TSOs who found themselves facing difficulties. However, the findings suggest that public agencies may have tried to pass some of the pressures they faced onto TSOs, rather than wanting to offer support. This would not be unusual in the current contract culture, and which is characterised by an emphasis on audit, compliance and a managerialist discourse about measurement, outputs and benchmarks:

“The present changes in the contracts between public authorities ... on the one hand and not-for-profit providers on the other are predominantly articulated in terms of managerial concerns with efficiency, getting value for money and avoiding the shortcomings of traditional corporatist arrangements. They mirror as well a widespread lack of willingness and/or capability for good governance of the public authorities in dealing with their respective problems,...[instead they are] passing them over to third sector organisations.” (Evers and Strünck, 2002, p.167)

Overall the relationship between public agencies as providers of funding and TSOs as providers of services has been found to be dominated by a desire of public agencies to control TSOs and is one in which social relations between funder and providers are

poorly developed. Shaw and Allen (2006) found that such relationships are ineffective in supporting the achievement of urban regeneration goals, undermining the mission of TSOs and stifling innovation, learning and change. The authors stress the importance of developing confident relationships to tackle complex problems of urban renewal collaboratively:

“A confident funding relationship is one in which there is a carefully struck balance between trust and control.” (Shaw and Allen, 2006, p.214)

5.3 Challenges of administering European Union funding

The data implies that the tensions between public agencies and TSOs were in part a result of the perception that public agencies were unfairly taking disproportionate amounts of funding to solve their own problems. Similar issues were identified in cases where TSOs control substantial public funding; here smaller TSOs are suspicious that the TSO controlling the funding might retain more than their fair share for their own benefit (Harris and Schlappa, forthcoming). It is likely, therefore, that closer attention needs to be paid to the mechanisms through which European funding is transferred to TSOs which deliver regeneration projects in their community. It seems that ensuring transparency and accountability to all stakeholders, and ethically responsible behaviour are key ingredients to the development of effective and ‘confident’ relationships between those who control funding and those who need it.

6. Implications for the implementation of European policy

URBAN II is an important example of how some of the core European policy goals might be implemented in urban areas. Although this study is based on a small number of interviews and is just one example of over 50 URBAN II programmes in Europe, we are able to draw some tentative conclusions with regard to the implementation of European policy. Given that there is no distinct ‘urban’ policy within the European policy streams, reference is made to some of the core policy goals set out in the Framework for Sustainable Urban Development (Commission of the European Communities, 1999) and the Third Report on Economic and Social Cohesion (Commission of the European Communities, 2006b). These include:

- The empowerment of citizens
- Sustainable development, and
- Exchange of good practice

6.1 The empowerment of citizens

This study shows that public agencies need to draw more effectively on the bonds and roots that TSOs have with their local communities. A hierarchical and managerial approach does not enable TSOs to include and empower residents and more collaborative ways of working between public and third sector organisations might need to be developed. While this study does not infer that residents were not ‘empowered’ to contribute to the regeneration of their neighbourhood through URBAN II, the evidence suggests that the resources and connections of TSOs could have been used more effectively by public agencies to engage with local residents.

6.2 Sustainable development

Two out of three TSOs studied used their own time and money to secure URBAN II resources so that local authority owned property could be refurbished. In these cases URBAN II did not contribute to the development of an asset base for TSOs, which is

an effective way of supporting their sustainable development. Instead TSOs will have to pay market rents to local authorities once the negotiated rent-free period, given in return for the TSO undertaking the refurbishment, has elapsed. Such a 'business' approach is likely to undermine the sustainability of TSOs who are struggling to make ends meet in some of the poorest neighbourhoods of European cities.

A further issue is that the URBAN II investment did little to develop third sector infrastructure in the neighbourhoods. This would have included building the capacity of TSOs to support the development of other, smaller organisations and groups, or enabling TSOs develop networks through which marginalised citizens could be drawn into an ongoing civil, economic and physical renewal process. Instead URBAN II drew on the reserves of time and money TSOs possessed, which reduced their capacity to create new networks and thus undermined the development of a sustainable, community led regeneration process in these deprived neighbourhoods.

6.3 Exchange of good practice

The final point to be made here is that in contrast to arguments which suggest that European funding leads to a fruitful exchange between European cities and thus to the 'Europeanisation' of good practice in urban renewal (Marshall, 2005), this study suggests that such exchanges may not include the 'local' actors who are actually delivering European Union funded projects. This is because the exchange of good practice within and across European countries is likely to take place at programme level, thus being focused on the perspectives of public agencies. While any exchange of good practice must be considered of benefit, it is important to recognise that, as this study shows, TSOs tend to be poorly understood by public agencies, and that there is a tendency to over-simplify their diverse features and approaches to their work. Hence it would be important to give TSOs more influence, or an independent space, in future European programmes, such as URBACT II, to contribute to the exchange of good practice at national and European levels.

Word count: 5,300

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