

The Potential of Trading Activity Income to Fund Third Sector Organisations

Operating in Deprived Areas

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The Potential of Trading Activity Income to Fund Third Sector Organisations Operating in Deprived Areas

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Abstract

In the United Kingdom, as in other countries, Third Sector Organisations (TSOs) have been drawn towards income sources associated with trading activities (Teasdale, 2010), but many remain reliant on grant funding to support such activities (Chell, 2007). Using a multivariate analysis approach and data from the National Survey of Charities and Social Enterprises (NSCSE), it is found that trading activities are used relatively commonly in deprived areas. These organisations are also more likely to attempt to access public sector funds. This suggests policy-makers need to consider the impact of funding cuts on TSOs in the most deprived areas as TSOs are unlikely achieve their objectives without continuing support.

Key Words: Third Sector, Social Enterprise, Deprived Communities, Local Authority
Social Support

1. Introduction

Under the current and previous UK government administrations, a third sector which utilises social enterprise activities that make use of government contracts and income from trading activities is increasingly recognised as having the potential to create a more sustainable method of providing social and community services (Dart, 2004). Social enterprise is defined by Wei-Skillern et al. (2007, page 4) as “innovative, social value-creating activity that can occur within or across the non-profit, business or government sectors’. Frumkin and Keating (2011) highlight the importance of revenue diversification as a component of social enterprise, to avoid over dependence on a single source. 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 within their policies towards the third sector (Sepulveda, 2009; Cabinet Office, 2010; Mohan, 2012). Trading activities, thus have the potential to replace at least some of the funding drawn from other sources, particular public sector obligations (Amin, 2009).

There have been attempts 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 social enterprise in replacing

public sector funding with income from trading activities is sustainable in the most deprived areas over a longer period (Amin et al., 2002). 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 geographical areas with different levels of deprivation (Salomon, 1987; Mohan, 2003; Amin, 2009; Williams et al., 2011; Clifford et al., 2013). However, although the greater need might make socially orientated trading activities more prevalent in more deprived areas (IFF Research, 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; Clifford et al., 2013). However, greater supply of public funds in these locations may also play a role. This means that both the current and future government spending cuts, which are scheduled to last until 2018 (Kane et al., 2013; Clark et al., 2012), 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. As such policy makers at a more local level may need to consider what support need to be provided given local social and economic conditions (Westwood, 2011).

Using data from the National Survey of Charities and Social Enterprises (NSCSE) conducted in 2010, 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 multi-level regression approach is adopted to control for a variety of organisational characteristic differences, whilst allowing for the potential of unobservable area level effects. 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 trading activities as an income source.

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, which 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 NSCSE data and methodology used in the study. Section 6 presents the analysis of the relationship between Third Sector funding and economic

deprivation of the local community within which a TSO operates, 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; Westwood, 2011). 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 Governments’ 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 can also be an important motivating factor (Austin et al., 2006; Amin, 2009; Westwood, 2011; Sellick, 2014).

However, with social needs becoming more complex, the challenge of meeting them is exacerbated by decreases in state funding and philanthropic giving (Charity Commission, 2010), as well as rising costs, increased regulation and accountability (Choi et al., 2005; Morris et al., 2007; Eikenberry, 2009; Muñoz, 2009). Social enterprise in applying a business-like approach to achieve social objectives in a more efficient and financially sustainable manner (Dart, 2004; Sepulveda, 2009; Mswaka and Aluko, 2014), it is hoped that state grant contribution can be substantially reduced (Birch, and Whittam, 2006). This follows a trend of reducing public expenditure to a level comparable with that of the USA (Taylor-Gooby, 2012). In real terms, when accounting for the effects of inflation, the third sector in 2012/2013 has seen its income decrease in comparison to 2006/07 (Kane et al., 2013; Clark et al., 2012). 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). Although, others have questioned the potential for the social economy

and social capital to flourish in areas with limited personal wealth and public investment to support them (Westwood, 2011). To achieve this UK administrations have encouraged the Third Sector to work in collaboration with both the public and private sectors (OTS, 2009; Lyon, 2013), 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 diversification of funding, such as the use of earned income from trading activities, in a positive light and a key aspect of social enterprise (Frumkin and Keating, 2011; Mswaka and Aluko, 2014). There is, however, 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 formerly 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, such as provision of green or community areas. These 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; Tracey and Phillips, 2007; Oster et al., 2004; Mswaka and Aluko, 2014). 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). Using data from the NSCSE's forerunner, the National Survey of Third Sector Organisations (NSTSO), Clifford et al. (2010) indicate that around one in three of English TSOs receive public sector statutory funding, and one in seven state that this is their most important source of finance. Even where social enterprises adopt a primarily market orientated approach some studies have indicated a lack of sustainability without

public sector support (Adamson and Byrne, 2003; Chell et al., 2005; Senyard et al., 2007; Chell, 2007). 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; Mswaka and Aluko, 2014). 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; Westwood, 2011). This is discussed in more depth in section 4.

There may be a 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; Mswaka and Aluko, 2014). 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” or market orientated may threaten prospective grant assistance (Shaw, 2004; Bird and Aplin, 2007; Mswaka and Aluko, 2014). 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 occurs when the increasing use of trading activities leads 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. Deprivation, Trading Income and Government Funding

The Third Sector and social enterprise can be effective in overcoming both market and government failure within marginalised and deprived areas through the provision of missing services combined with economic and entrepreneurial benefits (Byrne et al., 2006; Senyard et al., 2007). However, not only does the need for Third Sector intervention vary between different areas depending on their levels of deprivation (IFF Research, 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. The social capital required to underpin community groups taking over the provision of some previously provided public services may also be lacking in more deprived areas (Sellick, 2014). Even where strong community bodies are present Sellick (2014) show the importance of public sector finance and practical support in passing responsibility for the running of services such as park and swimming facilities to community bodies. 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). However, the coalition has revealed financial plans to reduce funding to those social deprived local authority areas by 26 per cent over the next four years (Berman, and Keep, 2011). An alternative perspective is that an increase in the number of organisations providing services due to a favourable funding and political climate can lead to competition in obtaining future funding (Kerlin, and Pollak, 2011).

As the TSOs in more deprived and remote areas are likely to 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, 2014), 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 (2013) 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 2010 National Survey of Charities and Social Enterprises (NSCSE), which was first conducted in 2008 under the title of the National Survey of Third Sector Organisations (NSTSO). 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. 112,796 TSOs were approached to complete the survey in September 2010, with 44,109 responses, a response rate of 41 per cent (Ipsos MORI, 2013).

The NSCSE 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 attempted use of public funds and the perceived availability of public funding of the appropriate form 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 earlier waves of the NSCSE by Clifford et al. (2010, 2013), however, the role of earned income as an alternative funding source was not examined in relation to this public sector reliance.

The analysis undertaken here makes use of the micro level NSCSE data. As well as TSO characteristics, a variety of other social and economic factors associated with the wider local authority community within which the TSO is based may also have an influence. Capturing all these unobserved influences may be difficult and in some cases not possible. To examine the influence of community deprivation on funding a multilevel mixed-effects binary logistic regression approach is adopted (Guo and Zhao, 2000). This allows the relationship between local community deprivation and funding choices to be examined, whilst controlling for both organisation characteristics and unobserved social, economic and political influences at the wider local authority level. These regressions account for area (local authority) effects by treating the intercept term as a random coefficient, whilst TSOs' characteristics are treated as fixed effects that are invariant between TSOs operating in different local authorities.

A number of dependent variables are utilised to examine the relationship between deprivation, public funding and trading activities as an alternative source of income. The number of respondents to these items within the NSCSE that also provide full information with regard to the other organisational controls (see below) varies. In particular, the number of respondents providing information on satisfaction with the range of contracts and grants is relatively low, which is likely to reflect a lack of awareness of what funding is available. In order, to provide the most accurate estimates of the relationships of interest all observations available were retained rather than

utilising a common subsample of those TSOs responding to all questions relating to funding sources. Initially the attempted use of public funding from local, national and all sources is examined ($N = 21,942$). To provide more clarity as to whether any location based differences in attempted use of public funds due to community deprivation are demand or supply driven, regressions are run using dissatisfaction with the range of grants and contracts from local and national public sector providers as dependent variables ($N = 7711$). Finally use of earned income as an alternative source of finance is explored ($N = 23,780$).

The level of deprivation present within the local community within which the TSO is based is captured by the English Indices of Multiple Deprivation (IMD) (McLennan et al., 2011). The English IMD were originally released in 2004, and updated in 2007 and 2010. These capture deprivation in terms of seven domains: income; employment; health; education, skills and training; barriers to housing and services; crime; and the living environment. A single overall measure of deprivation is generated based on these seven domains, and a score produced for areas at the Lower Layer Super Output Area (LSOA) geographical scale. LSOAs are generated from groups of Output Areas used to capture UK Census data. The Output Areas themselves are clusters of unit postcodes designed to be similar in population size and as socially homogeneous as possible, based on housing tenure and dwelling type. This results in the LSOAs having a minimum population of 1000 and a maximum of 3000 and although

not representing any administrative units, they are as representative as possible of the local communities within which the population resides whilst retaining statistically usable population sizes. The IMD itself is not a linear scale. The 10 per cent of most deprived areas within each domain are allocated a score of 50 to 100, with the remaining 90 per cent of areas allocated score between 0 and 50. This makes it inappropriate to include the IMD within regressions as a continuous variable. Instead a set of dummies are included to capture those TSOs operating out of communities within differing ranges of deprivation.

Given the differing potential to utilise social enterprise approaches in delivering some goods and services (Weisbrod, 1998; Liao et al., 2001; McBrearty, 2007), the regressions 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. The scores for each TSO are generated using the Anderson-Rubin approach as is

appropriate given the need for non-correlated factor scores (Tabachnick and Fidell, 2007).

Other organisational controls include: legal form; number of volunteers; 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 their ability to influence local policy-makers.

6. Results and Analysis

Initially it is worth considering the basic patterns of reliance on public sector funding by deprivation of the local community (Table 1). The proportion of TSOs that have never bid for public sector funding falls on a monotonic basis as the deprivation of the local community within which they are based increases. This is the case regardless of whether

local, national or all public sector funding is considered. For example, nearly half of the TSOs based in the least deprived areas have not bid for public funds, whilst only one in five of those in the most deprived areas have not sought to access public funds. Given the size of the differences in the proportions avoiding the use of public sector funds between local communities of differing levels of deprivation it is no surprise that the chi-square tests indicate a significant relationship for all three measures.

INSERT TABLE 1 ABOUT HERE

As noted above the much smaller proportion of TSOs that do not seek funding in the most deprived local communities in England is not necessarily only a reflection of the need for public support to enable social enterprise to flourish in areas where the need for their output is greatest (Amin et al., 2002; Adamson and Byrne, 2003), but could also reflect the availability of such funding (Luksetich, 2008). In order to examine whether the differences in the proportion of TSOs not applying for public funds found in Table 1 above, are purely a reflection of the supply of funds, Table 2 below reports the percentage of TSOs indicating dissatisfaction with the range of grants and contracts available by local community deprivation. Were the lower proportion of TSOs not using public funds in more deprived local areas purely a reflection of supply differences, it would be expected that fewer TSOs in deprived communities would be dissatisfied with the range of funding available.

INSERT TABLE 2 ABOUT HERE

Rather than TSOs in more deprived areas being less likely to be dissatisfied with the public funding available, nearly two in three respondents (59.1 per cent) indicate dissatisfaction with the range of local grants available, compared to under half of those TSOs operating out of less deprived communities (41.3 per cent in areas with IMD of less than 5, and 48.6 per cent of TSOs in areas with IMD scores of 5 to 10). A very similar pattern of dissatisfaction with the local contracts available is also evident. The variation in dissatisfaction with national grants and contracts by local community deprivation is also significant, but the difference in proportions is smaller.

The government's desire for TSOs to become more sustainable and reduced their reliance on public funds in a period of austerity, has seen social enterprise, and trading activities in particular, as one potential solution (Austin et al., 2006; Birch, and Whittam, 2006; Amin, 2009). As a key component of social enterprise it is of great interest to observe the extent that TSOs operating within more deprived areas have been able to diversify their funding sources through the use of income from trading activities (Frumkin, and Keating, 2011). The figures in Table 3 suggest that only around one in five TSOs use trading activities as a source of income (20.8 per cent). This drops to less than one in ten when considered as the main source of funding (8.2 per cent).

INSERT TABLE 3 ABOUT HERE

What is interesting is that the deprivation of the local community within which a TSO is based appears to be no further barrier to use of trading activities, as nearly twice the

proportion of TSOs in the most deprived areas within the sample incorporate trading activities into their operations (38.5 per cent) as found for the whole sample. Similarly even though only around one in six TSOs in the most deprived areas use trading activities as their main source of funding, this is still three times the proportion in the least deprived areas (5.3 per cent).

These descriptive results whilst providing an indication of the funding patterns relating to those TSOs operating in the most deprived areas of England, may not provide the full picture. The characteristics of the TSOs may understandably vary between the most and least deprived areas and influence the extent that they are able to avoid public sector funding. In order to account for these organisational influences a multivariate approach must be adopted. However, as noted in the preceding section it is first necessary to identify the main groups of users of the TSOs using Principal Components Analysis. There are no problems with the Bartlett test and the Keiser-Meyer-Olkin test suggests that although exceeding the minimum of 0.5 (Kaiser, 1974) that the data is mediocre with a result of 0.664 (Hutcheson and Sofroniou, 1999). The number of factors to be extracted was determined using Cattell's (1966) approach based on the inflection point of the scree plot of eigenvalues in preference to Kaiser's (1960) criterion of retain all factors with eigenvalues greater than 1. This is because two additional factors had eigenvalues just over 1, but items cross loaded on these factors and others. This led to four principal components being extracted by the analysis. The

components captured the following groups of users: minority groups and those affected by crime, as perpetrators or victims; the general public as a whole; those with physical or mental difficulties; children, younger people and their carers (Table 4).

INSERT TABLE 4 ABOUT HERE

Table 5 presents the multilevel logistic regression results estimating the decision not to use public sector funding. The Wald-tests of joint significance suggest that the null of no relationship between the TSO characteristics and the probability of bidding for public funding can be rejected for all three equations, as is the case for all estimations that follow. As outlined in the preceding section the choice of the multi-level logistic regression allows for unobserved social, economic and political differences in the local authority environment to be accounted for. The Likelihood Ratio tests comparing the multilevel regressions to standard logistic regressions all indicate that the null can be rejected, suggesting that unobserved environmental influences at the local authority level do play a significant role in determining the likelihood of not bidding for public funding sources.

INSERT TABLE 5 ABOUT HERE

Confirming the descriptive results above, after controlling for TSO characteristics 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). This

suggests that although income from trading activities was found to be utilised across both affluent and less prosperous areas alike by the Third Sector, it appears that a move away from public funding will disproportionately affect poorer areas. This is consistent with those studies that have highlighted the difficulties of communities in more deprived areas taking over the roles played by the public sector as social capital cannot be created from the outside (Westwood, 2011), and practical skills need knowledge need to be developed through partnership with the public sector (Sellick, 2014).

As expected it is found that the main users of the TSOs' outputs have a significant influence on the probability of not attempting to access public funding. Where the groups concerned require more specialist services or are harder to reach the probability of avoiding public funding is reduced. The relationship between size and public funding appears to be non-linear. While smaller TSOs in terms of volunteer numbers (no volunteers) and income (£1 to £5000) are more likely to have never tried to access public funds, larger organisations in terms of having an international scope also appear to be less likely to have bid for public funding. The lack of attempted use of public funding by smaller TSOs may reflect the increasing complexity of the process of bidding for and administering public funding sources (Senyard et al., 2007; Muñoz, 2009).

For national funding sources in particular, TSOs which are both successful and unsuccessful in meeting their objectives appear to be less likely to have sought funding.

Potentially this could reflect a lack of need from those that are more successful. A lack of knowledge of what is available might be the reason for those which are less successful not bidding and perhaps they would benefit from additional resources. A result, which may influence the next set of results relating to dissatisfaction with the range of grants and contracts available, is that those who are dissatisfied with their influence on policy makers are less likely to have avoided trying to use public funds. Again this highlights the value of partnerships and exchange between the third and public sector at the local level (Sellick, 2014).

Table 6 indicates that with the exception of dissatisfaction with national contracts there is little evidence of local authority environmental factors having a significant impact on the probability that TSOs are dissatisfied with the public sources of funding available. For local grants and contracts this is a particularly interesting result as it might have been expected that variations in the outsourcing of particular services might have generated a significant likelihood ratio test result for dissatisfaction with local contracts available at the very least. It is perhaps suggestive of strong communication between local authorities with regard to best practices and experiences of outsourcing activities, alongside directives from central government.

INSERT TABLE 6 ABOUT HERE

The results suggest that for TSOs operating in more deprived local communities the reduced likelihood of being able to avoid public sector funding found in Table 5 is not a

supply driven effect. Even though more funding may be available for TSOs operating in these areas (Clifford et al., 2010), the dissatisfaction with the range of grants and contracts available is significantly higher for TSOs in these areas. The results indicate this effect is particularly strong for those TSOs operating from the most deprived areas (IMD 65+). The result is apparent for both local and national sources, and present regardless of whether grants or contracts are being considered. This implies that not only are these organisations more likely to have attempted to access public funds, and would therefore be most likely to be affected by their withdrawal, what is currently available still does not necessarily fit with their needs (Westwood, 2011). In general this dissatisfaction also increases for larger more complex TSOs. From the perspective of the TSOs, it also seems that where objectives have not been met fully, dissatisfaction with the resources available from the public sector are also greater.

The potential to use trading activities to move towards a more social enterprise orientated approach to Third Sector funding does appear to vary across local authorities (Table 7), implying that factors such as economic conditions, cultural attitudes and the political regime in place affect the practicality of such an approach. As found with the descriptive results in Tables 1 to 3 above, after controlling for TSO characteristics the slightly contrary result of greater trading income usage in more deprived local communities, remains. This means that although TSOs in more deprived areas are less likely to have avoided bidding for public funding, and imply an on-going need for

further alternative sources of public funds, they are also embracing trading activities as an alternative source of income.

INSERT TABLE 7 ABOUT HERE

The results taken in combination imply that there is no lack of willingness to utilise social enterprise approaches within the Third Sector, particularly in those areas with the greatest need for their services. However, the potential to continue to move towards this model of the third sector is limited, as the reliance on public funds and requirement for alternative sources of public funding in order to achieve their objectives, mean that trading activities are just one part of the model adopted by TSOs in deprived areas. This is often reflected in the findings of other studies where TSOs are unwilling to appear too market orientated (Mswaka and Aluko, 2014). Another key plank as found in prior studies, such as Adamson and Byrne (2003), appears to remain the support of public funding.

7. Conclusions

This paper has examined the potential for TSOs to adopt a more social enterprise orientated approach including the use of earned income from trading activities 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. This is an issue which is likely to intensify if social funding for deprived areas is further cut (Berman and Keep, 2011).

All of the results indicate that trading activities whilst being widely accepted by the Third Sector are still likely to require heavy subsidisation particularly in the most deprived areas of England. Without these subsidies from either the public sector or the wider community such an approach looks to be largely unsustainable (Westwood, 2011). In particular, those serving harder to reach groups appear to be both more dissatisfied with the public funding that is presently available and are also more likely to have tried to access such funding. This suggests that were public funding to be reduced further to meet the needs of reducing central government spending, it is vital that what funding is retained is specifically targeted at these organisations, as it is unlikely that other sources of funding, such as social enterprise and trading activities, can take over. Other studies have found TSOs may avoid taking more market orientated

approaches for fear of limiting access to public support (Mswaka and Aluko, 2014), which suggests local policymakers need to adjust their funding approaches to accommodate the new forms of hybrid TSOs coming to the fore. Support for more market orientated TSOs needs to be communicated. At the same time the community cannot be expected to take over public services without adequate practical support (Sellick, 2014) and an acceptance that social capital which may support TSO activities is not created overnight, but needs nurturing through public support and investment (Westwood, 2011). In terms of local community based social enterprise there is some evidence that these smaller operations can avoid the need to utilise public funds, but they may lack the capacity in terms of skills and resources required to fully meet the needs of those living in more deprived local communities (Amin et al., 2002; Chell et al., 2005; Chell, 2007).

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 NSCSE 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.

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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 usually reinvested in the society (BIS, 2011a, 2011b).

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Table 1 – Proportion of TSOs never bidding or applying for public funds by deprivation of the local area as measured by the Index of Multiple Deprivation (IMD)

	Local Funds	National Funds	All Funds	<i>N</i>
0 to 5 IMD	48.3%	64.5%	42.5%	1,618
5 to 10 IMD	45.5%	61.8%	40.6%	4,116
10 to 15 IMD	42.9%	56.6%	37.3%	4,098
15 to 25 IMD	39.4%	51.0%	33.6%	4,883
25 to 50 IMD	30.5%	39.7%	24.8%	5,598
50 to 65 IMD	23.3%	32.0%	18.5%	1,179
65+ IMD	17.3%	28.2%	13.6%	450
All	38.3%	50.7%	32.8%	21,942
Chi-square	540.9	911.6	568.7	
[d.f.]	[6]	[6]	[6]	
(p-value)	(0.000)	(0.000)	(0.000)	

Table 2 – Dissatisfaction with Range of Local and National Public Funding Available by deprivation of the local area as measured by the Index of Multiple Deprivation (IMD)

	Local Grants	National Grants	Local Contracts	National Contracts	<i>N</i>
0 to 5 IMD	41.3%	48.3%	43.2%	48.6%	329
5 to 10 IMD	48.6%	49.3%	49.7%	49.8%	903
10 to 15 IMD	50.7%	54.0%	51.8%	55.8%	1,088
15 to 25 IMD	52.8%	51.7%	54.2%	55.6%	1,634
25 to 50 IMD	54.6%	55.1%	59.5%	59.4%	2,751
50 to 65 IMD	52.9%	54.3%	57.6%	56.7%	698
65+ IMD	59.1%	57.8%	62.7%	61.0%	308
All	52.4%	53.3%	55.4%	56.3%	7,711
Chi-square	33.4	17.5	65.4	37.3	
[d.f]	[6]	[6]	[6]	[6]	
(p-value)	(0.000)	(0.008)	(0.000)	(0.000)	

Table 3 – Trading Activities as a Source of Income by deprivation of the local area as measured by the Index of Multiple Deprivation (IMD)

	Source of Income	Main Source of Income	<i>N</i>
0 to 5 IMD	12.0%	5.3%	1,744
5 to 10 IMD	13.5%	5.5%	4,444
10 to 15 IMD	16.6%	6.3%	4,440
15 to 25 IMD	19.9%	7.4%	5,309
25 to 50 IMD	27.8%	11.1%	6,074
50 to 65 IMD	36.2%	14.3%	1,283
65+ IMD	38.5%	16.5%	486
All	20.8%	8.2%	23,780
Chi-square	731.4	265.7	
[d.f.]	[6]	[6]	
(p-value)	(0.000)	(0.000)	

Table 4 – Factor loadings for principal component analysis of the main users of individual TSOs

	1	2	3	4
General Public/Everyone (Reversed)	-0.020	-0.005	0.196	0.477
Women	0.066	0.889	-0.051	0.015
Men	0.071	0.894	-0.039	0.018
Older people	0.020	0.498	0.159	-0.024
Children (Under 16 Years of Age)	-0.027	-0.057	-0.086	0.833
Young People (Aged 16 to 24 Years)	0.133	0.086	-0.129	0.695
Those with physical disabilities	-0.009	0.032	0.737	0.098
Those requiring particular physical help	0.081	0.076	0.572	-0.030
Those with learning difficulties	0.092	-0.015	0.670	0.102
Those with mental health needs	0.286	0.037	0.493	-0.049
Members of ethnic minorities	0.397	0.095	0.064	0.108
People with a particular financial need	0.334	0.013	0.082	-0.002
Asylum seekers and refugees	0.481	0.026	0.010	0.036
Homeless people	0.531	-0.044	-0.037	-0.042
Those with addiction problems	0.594	-0.024	0.034	-0.047
Lesbian, gay, bisexual or transgender	0.448	0.102	0.122	0.034
Socially excluded and vulnerable people	0.499	-0.022	0.126	0.041
Victims of crime	0.514	0.070	0.067	0.030
Offenders and ex-offenders	0.588	-0.005	-0.002	0.012
Carers and parents	0.056	-0.030	0.274	0.361
Bartlett's Test of Sphericity	103,771	[180]	(0.000)	
Kaiser-Meyer-Olkin	0.664			

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 5 – Logit regressions of never having bid for local or national funding

	Never Bid for Local Funds	Never Bid for National Funds	Never Bid for Local or National Funds
<u>Index of Multiple Deprivation (IMD)</u>			
<u>[base category IMD 5 to 10]</u>			
IMD 0.1 to 5	0.1343 (0.030)	0.1146 (0.072)	0.0860 (0.170)
IMD 10 to 15	-0.1251 (0.008)	-0.1846 (0.000)	-0.1456 (0.002)
IMD 15 to 25	-0.2339 (0.000)	-0.3266 (0.000)	-0.2529 (0.000)
IMD 25 to 50	-0.5500 (0.000)	-0.6377 (0.000)	-0.5772 (0.000)
IMD 50 to 65	-0.7480 (0.000)	-0.8467 (0.000)	-0.7968 (0.000)
IMD 65+	-1.0381 (0.000)	-0.9727 (0.000)	-1.0876 (0.000)
<u>Main Users of TSO's goods/services</u>			
Minority Groups	-0.2021 (0.000)	-0.1883 (0.000)	-0.2329 (0.000)
General Public	0.0445 (0.003)	0.0255 (0.078)	0.0381 (0.013)
Mental or Physical Disabilities	-0.1774 (0.000)	-0.1109 (0.000)	-0.1948 (0.000)
Young People or Carers	-0.2037 (0.000)	-0.1555 (0.000)	-0.2174 (0.000)
<u>Volunteers</u>			
<u>[base category 1 to 10 Volunteers]</u>			
No Volunteers	0.3164 (0.001)	0.5466 (0.000)	0.4336 (0.000)
11 to 20 Volunteers	-0.1227 (0.001)	-0.1001 (0.006)	-0.1378 (0.000)
21 or more Volunteers	-0.0029 (0.938)	-0.0538 (0.136)	-0.0288 (0.450)

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 5 – continued

	Never Bid for Local Funds	Never Bid for National Funds	Never Bid for Local or National Funds
<u>Geographical Scope [base category</u>			
<u>Local]</u>			
International	1.3334 (0.000)	0.4712 (0.000)	0.9418 (0.000)
National	0.7465 (0.000)	-0.0189 (0.735)	0.5048 (0.000)
Regional	0.1410 (0.002)	-0.2083 (0.000)	0.0890 (0.060)
<u>Income [base category £5001 to</u>			
<u>£30,000]</u>			
No Income	-0.1954 (0.033)	-0.2756 (0.002)	-0.1800 (0.055)
£1 to £5000 Income	0.1814 (0.000)	0.2291 (0.000)	0.2061 (0.000)
£30,001 to £100,000 Income	-0.3379 (0.000)	-0.2394 (0.000)	-0.3654 (0.000)
£100,001 to £1 million Income	-0.4513 (0.000)	-0.5499 (0.000)	-0.5234 (0.000)
£1 million + Income	-0.7466 (0.000)	-0.8747 (0.000)	-0.8584 (0.000)
Charity	-0.0485 (0.252)	0.0396 (0.334)	-0.0401 (0.361)
<u>Success in Meeting Objectives [base</u>			
<u>category successful]</u>			
Very Successful	-0.1749 (0.000)	-0.1272 (0.000)	-0.2072 (0.000)
Not Very Successful	-0.1172 (0.116)	-0.2079 (0.004)	-0.0784 (0.302)
Not Successful at All	-0.1681 (0.305)	-0.2969 (0.062)	-0.2003 (0.233)

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 5 – continued

	Never Bid for Local Funds	Never Bid for National Funds	Never Bid for Local or National Funds
<u>Satisfaction with Local Influence</u>			
<u>[base category neither satisfied or</u>			
<u>dissatisfied]</u>			
Very Satisfied	-0.1298 (0.131)	-0.0846 (0.317)	-0.0579 (0.510)
Fairly Satisfied	-0.2787 (0.000)	-0.2938 (0.000)	-0.2504 (0.000)
Fairly Dissatisfied	-0.4304 (0.000)	-0.4551 (0.000)	-0.4535 (0.000)
Very Dissatisfied	-0.3119 (0.000)	-0.4282 (0.000)	-0.3076 (0.000)
Constant	0.2323 (0.000)	0.9165 (0.000)	0.0542 (0.427)
<i>N</i>	21,942	21,942	21,942
Wald Test of joint Significance	1683.1 [29] (0.000)	1697.7 [29] (0.000)	1624.9 [29] (0.000)
Likelihood Ratio test of Area Effects	84.5 (0.000)	87.52 (0.000)	82.8 (0.000)

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 6 – Logit regressions of dissatisfaction with range of public funding

	Local Grants	National Grants	Local Contracts	National Contracts
<u>Index of Multiple Deprivation (IMD)</u>				
<u>[base category IMD 5 to 10]</u>				
IMD 0.1 to 5	-0.3398 (0.016)	-0.0321 (0.817)	-0.2997 (0.034)	-0.0501 (0.722)
IMD 10 to 15	0.0451 (0.645)	0.1619 (0.095)	0.0369 (0.708)	0.2105 (0.033)
IMD 15 to 25	0.1400 (0.123)	0.0633 (0.482)	0.1341 (0.142)	0.1857 (0.043)
IMD 25 to 50	0.2059 (0.015)	0.2082 (0.014)	0.3593 (0.000)	0.3371 (0.000)
IMD 50 to 65	0.1098 (0.325)	0.1504 (0.176)	0.2272 (0.045)	0.1631 (0.153)
IMD 65+	0.4342 (0.003)	0.3346 (0.022)	0.5155 (0.001)	0.4172 (0.006)
<u>Main Users of TSO's goods/services</u>				
Minority Groups	0.0429 (0.015)	0.0470 (0.008)	0.0895 (0.000)	0.1005 (0.000)
General Public	-0.0222 (0.386)	-0.0114 (0.653)	-0.0330 (0.203)	-0.0340 (0.190)
Mental or Physical Disabilities	0.0224 (0.249)	0.0214 (0.265)	0.0525 (0.008)	0.0837 (0.000)
Young People or Carers	-0.0274 (0.244)	-0.0804 (0.001)	-0.0090 (0.704)	-0.0279 (0.240)
<u>Volunteers</u>				
<u>[base category 1 to 10 Volunteers]</u>				
No Volunteers	-0.3429 (0.042)	-0.1071 (0.517)	-0.2743 (0.107)	-0.2782 (0.102)
11 to 20 Volunteers	0.0859 (0.183)	0.0924 (0.148)	0.1235 (0.058)	0.0123 (0.850)
21 or more Volunteers	0.2494 (0.000)	0.2492 (0.000)	0.1681 (0.007)	0.1846 (0.003)

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 6 – continued

	Local Grants	National Grants	Local Contracts	National Contracts
<u>Geographical Scope [base category Local]</u>				
International	0.4087 (0.017)	0.3756 (0.026)	0.1664 (0.331)	0.1521 (0.376)
National	0.1858 (0.043)	0.1524 (0.096)	0.1555 (0.096)	0.2044 (0.030)
Regional	0.1633 (0.016)	0.0495 (0.461)	0.1891 (0.006)	0.1391 (0.044)
<u>Income [base category £5001 to £30,000]</u>				
No Income	0.3299 (0.055)	0.0748 (0.655)	0.3353 (0.058)	0.2266 (0.194)
£1 to £5000 Income	-0.0704 (0.473)	-0.0389 (0.688)	-0.1173 (0.234)	0.0049 (0.961)
£30,001 to £100,000 Income	0.1634 (0.049)	0.0786 (0.338)	0.1384 (0.098)	0.0927 (0.269)
£100,001 to £1 million Income	0.1419 (0.055)	0.0742 (0.312)	0.1381 (0.065)	0.1769 (0.018)
£1 million + Income	-0.1627 (0.090)	-0.1636 (0.085)	-0.2346 (0.015)	-0.0992 (0.305)
Charity	-0.0969 (0.140)	-0.1139 (0.079)	-0.1651 (0.013)	-0.2778 (0.000)
<u>Success in Meeting Objectives [base category successful]</u>				
Very Successful	-0.1450 (0.005)	-0.1095 (0.033)	-0.1822 (0.000)	-0.1289 (0.014)
Not Very Successful	0.1617 (0.206)	0.0517 (0.681)	0.4275 (0.001)	0.3636 (0.007)
Not Successful at All	1.2540 (0.001)	0.4167 (0.168)	1.5893 (0.000)	0.5813 (0.084)

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 6 – continued

	Local Grants	National Grants	Local Contracts	National Contracts
<u>Satisfaction with Local Influence [base category neither satisfied or dissatisfied]</u>				
Very Satisfied	-0.5523 (0.001)	-0.3492 (0.025)	-0.4651 (0.003)	-0.3851 (0.013)
Fairly Satisfied	-0.1765 (0.010)	-0.1028 (0.126)	-0.1494 (0.027)	-0.0511 (0.446)
Fairly Dissatisfied	1.1467 (0.000)	1.1384 (0.000)	1.1481 (0.000)	1.2110 (0.000)
Very Dissatisfied	2.0031 (0.000)	1.8225 (0.000)	1.9935 (0.000)	2.0870 (0.000)
Constant	-0.6976 (0.000)	-0.5958 (0.000)	-0.5506 (0.000)	-0.5260 (0.000)
<i>N</i>	7,711	7,711	7,711	7,711
Wald Test of joint Significance	1064.7 [29] (0.000)	920.5 [29] (0.000)	1054.4 [29] (0.000)	1036.9 [29] (0.000)
Likelihood Ratio test of Area Effects	0 (1.000)	1.28 (0.129)	0.92 (0.169)	4.26 (0.020)

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 7 – Logit regressions of trading activities as a source of income

	Source of Income	Main Source of Income
<u>Index of Multiple Deprivation (IMD)</u>		
<u>[base category IMD 5 to 10]</u>		
IMD 0.1 to 5	-0.1566 (0.089)	-0.0382 (0.771)
IMD 10 to 15	0.1722 (0.008)	0.0459 (0.628)
IMD 15 to 25	0.3071 (0.000)	0.1231 (0.167)
IMD 25 to 50	0.5046 (0.000)	0.3347 (0.000)
IMD 50 to 65	0.7791 (0.000)	0.4699 (0.000)
IMD 65+	0.7985 (0.000)	0.5826 (0.000)
<u>Main Users of TSO's goods/services</u>		
Minority Groups	0.0877 (0.000)	0.0865 (0.000)
General Public	-0.1183 (0.000)	-0.0918 (0.000)
Mental or Physical Disabilities	0.1578 (0.000)	0.1881 (0.000)
Young People or Carers	0.0276 (0.105)	0.0112 (0.644)
<u>Volunteers</u>		
<u>[base category 1 to 10 Volunteers]</u>		
No Volunteers	0.0600 (0.577)	0.3739 (0.002)
11 to 20 Volunteers	-0.2943 (0.000)	-0.5609 (0.000)
21 or more Volunteers	-0.2629 (0.000)	-0.8508 (0.000)

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 7 – continued

	Source of Income	Main Source of Income
<u>Geographical Scope [base category Local]</u>		
International	-0.6476 (0.000)	-0.8147 (0.000)
National	0.0847 (0.186)	-0.1353 (0.143)
Regional	0.3929 (0.000)	0.3424 (0.000)
<u>Income [base category £5001 to £30,000]</u>		
No Income	-0.3118 (0.036)	-0.6344 (0.007)
£1 to £5000 Income	-0.1454 (0.044)	-0.4174 (0.000)
£30,001 to £100,000 Income	0.6926 (0.000)	0.3776 (0.000)
£100,001 to £1 million Income	1.5737 (0.000)	1.1399 (0.000)
£1 million + Income	2.3184 (0.000)	2.0257 (0.000)
Charity	-0.3984 (0.000)	-0.5344 (0.000)
<u>Success in Meeting Objectives [base category successful]</u>		
Very Successful	0.0931 (0.011)	0.0415 (0.424)
Not Very Successful	-0.1656 (0.102)	-0.1060 (0.452)
Not Successful at All	-0.7470 (0.008)	-1.2547 (0.015)

Notes: degrees of freedom in squared brackets; p-values in parentheses

Table 7 – continued

	Source of Income	Main Source of Income
<u>Satisfaction with Local Influence</u> <u>[base category neither satisfied or</u> <u>dissatisfied]</u>		
Very Satisfied	0.1412 (0.177)	-0.0230 (0.881)
Fairly Satisfied	0.0903 (0.063)	-0.0784 (0.266)
Fairly Dissatisfied	0.2821 (0.000)	0.1763 (0.006)
Very Dissatisfied	0.0945 (0.099)	0.1596 (0.042)
Constant	-2.2728 (0.000)	-2.5976 (0.000)
<i>N</i>	23,780	23,780
Wald Test of joint Significance	3040.3 [29] (0.000)	1538.0 [29] (0.000)
Likelihood Ratio test of Area Effects	22.31 (0.000)	8.4 (0.002)

Notes: degrees of freedom in squared brackets; p-values in parentheses