



Third Sector Trends in North East England 2020

‘A tale of three sectors’

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We are living in extraordinary times

The Third Sector Trends study was completed by over 4,000 organisations between June and December 2019.

As the analysis began, it was clear that there was a lot of optimism in the air even though the uncertainties surrounding a General Election and Brexit lay ahead.

But nobody anticipated Covid-19 and the social and economic chaos it would create from Spring 2020.

What can we possibly say, if our study is already 'out of date'? A lot!

That's because it is a longitudinal study that covered previous crises and watched how the sector reacted.

And as we'll be back in 2022 to continue the study of continuity and change – we'll know what the real impact has been.

Some details on the study's reliability

Working estimates on TSO population and response rates	NCVO estimates on general charities (2016/17)	TST baseline estimates on all TSOs (2008/9)	TST current estimates of TSOs 2019	TST sample 2019 (general charities only)	% response rate of general charities by NCVO estimates	TST sample 2019 (all TSOs)	% response rate by TST estimates
Northumberland	901	1,256	1,300	190	21.1	265	20.4
County Durham	974	1,519	1,550	154	15.8	225	14.5
Tyne and Wear	1,364	2,563	2,800	274	20.1	390	13.9
Tees Valley	839	1,286	1,350	156	18.6	214	15.9
North East England	4,450	6,624	7,200	774	17.4	1,094	15.1
Yorkshire and Humber	10,377	14,218	14,900	586	5.6	852	5.7
North West England	13,304	19,684	20,350	586	4.4	1,212	6.0
North of England	25,741	40,526	42,250	2,156	8.4	3,158	7.5
Rest of England & Wales sub-sample				925	Less than 1% response rate		

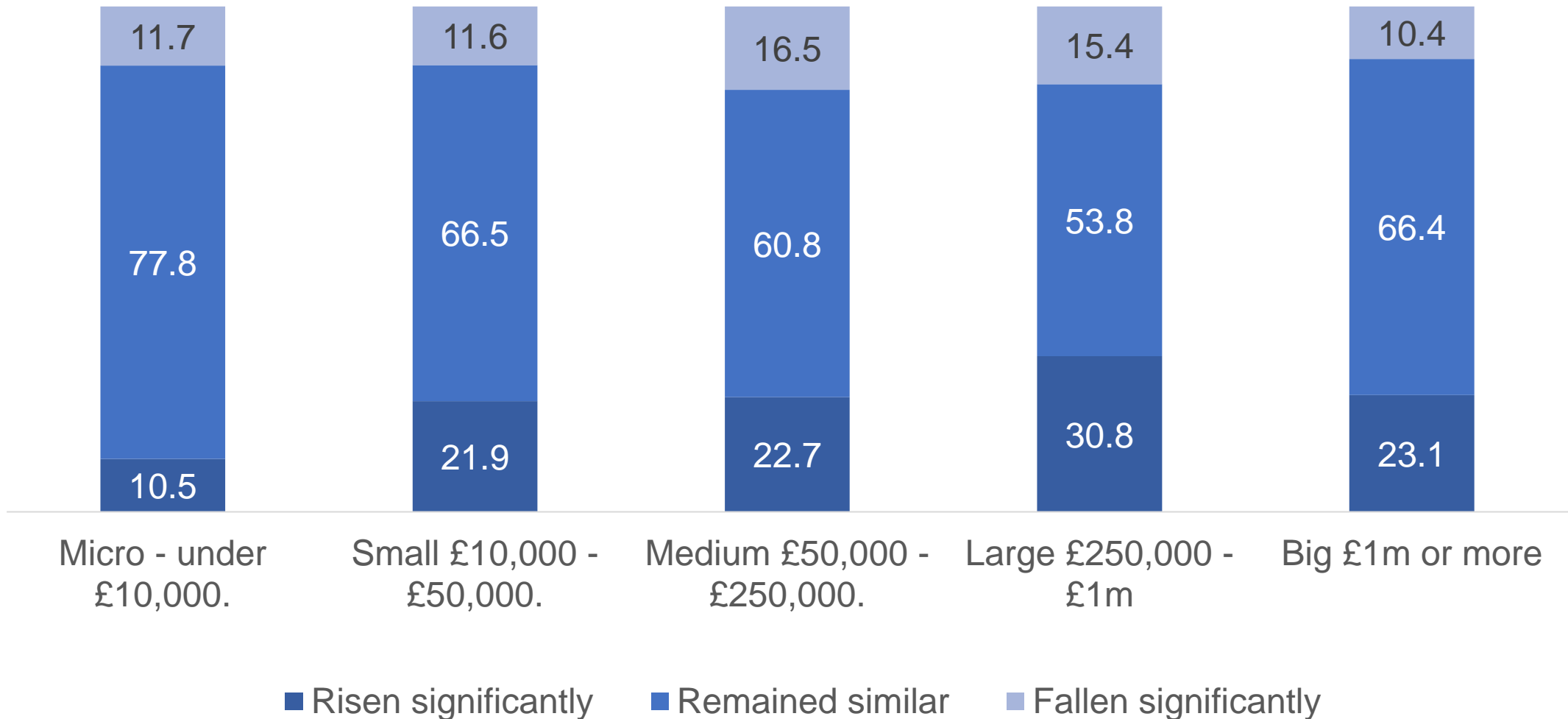
Basic statistics on how things looked in in 2019: people resources

Employment estimates for each region in the North of England (2019)

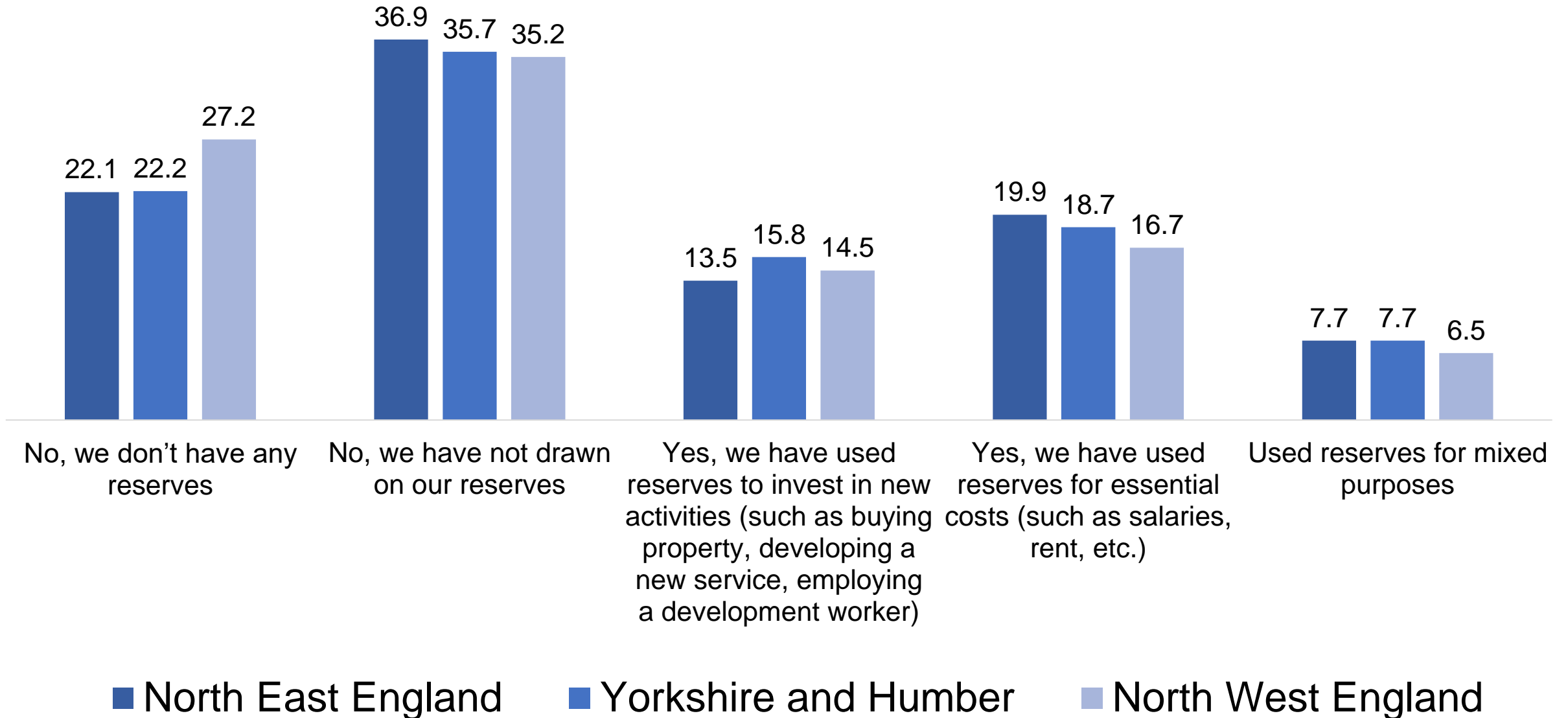
	Estimated number of TSOs	Estimated full-time equivalent employees	Percentage of regional employment	Value of employee wages at median regional wage	Value of employee wages at 80% of median regional wage
North East England	7,200	38,250	3.1	£1,056,159,000	£844,927,200
Yorkshire and Humber	14,900	87,500	3.2	£2,457,000,000	£1,965,600,000
North West England	20,350	115,000	3.0	£3,324,880,000	£2,659,904,000
North of England	42.250	240,750	3.1	£6,789,471,000	£5,431,576,800

Estimates of volunteer numbers and replacement values (North of England, 2019)	Estimated number of volunteers (2016 estimates in parentheses)	Estimate of hours worked (000s) (2016 estimates in parentheses)	Nominal financial replacement cost at National Minimum Wage	Nominal financial replacement cost at 80% average regional wage
North East England	154,000 (149,900)	11,088 (10,793)	£91,033,000	£148,442,000
Yorkshire and Humber	350,500 (340,700)	25.236 (24,530)	£207,188,000	£343,577,000
North West England	450,500 (440,400)	32,436 (31,709)	£266,300,000	£454,686,000
North of England	955,000 (931,000)	68,760 (67,032)	£564,520,000	£940,178,000

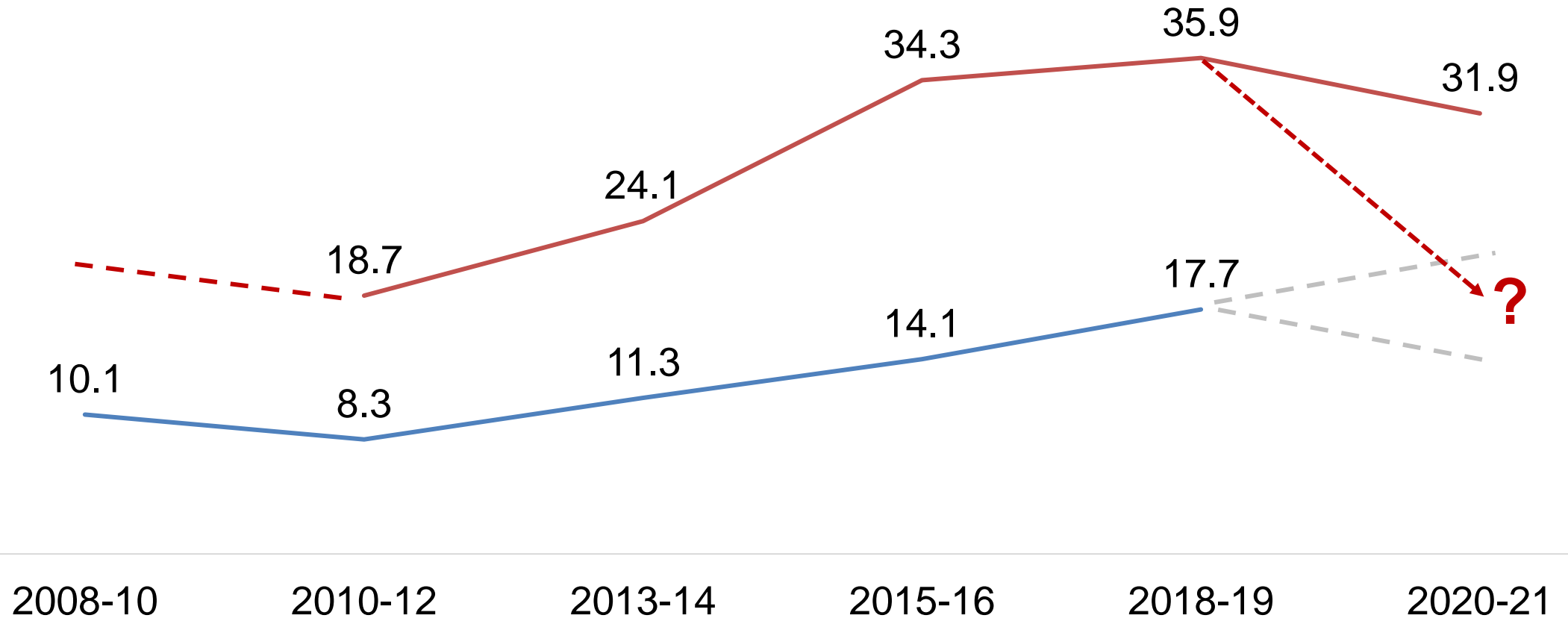
Extent to which income has changed in last 2 years



Financial wellbeing: use of reserves



Mismatch between expectations and reality on rising income in North East England 2008-2021

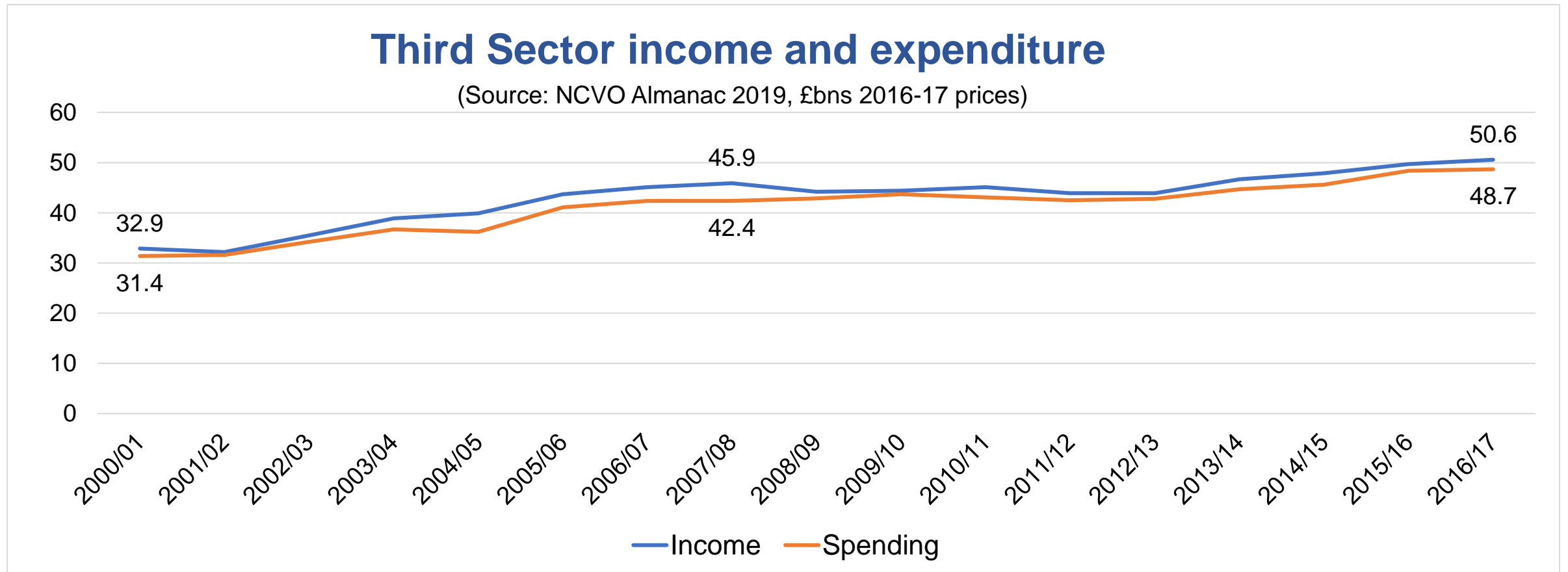


— Actual % of TSOs with rising income

— % of TSOs expecting income to rise

Are there no grounds for optimism?

The sector has limited reserves and assets, but neither does it have significant debt. TSOs are generally quite good at living within their means – even though they face continual financial turbulence – they are flexible in outlook and agile in practice.



We don't know what will happen next

- There have been a lot of recent surveys with very small numbers of respondents – asking what the impact of Covid-19 will be.
- Apart from NCVO, most think tanks and sector representative bodies are prophesying a calamitous decline for the sector as a whole.
- The reports we are seeing portray the Third Sector as an homogeneous entity (**it isn't**) where all organisations are facing a threat to their existence (**they're not**).
- An impression is being given that the sector lacks resilience and that the whole sector is completely dependant on money to survive – this is not true either.
- We need to take a step back, think carefully and decide what needs to be done for different parts of the sector – and in so doing – respect the different contributions they make and invest in them accordingly.

A tale of three sectors?

Third Sector Trends data tells us a great deal about the ambitions, resources, activities and impact of TSOs of different sizes.

Small, medium and large TSOs think about their role in the world in different ways – and they are often quite critical of each other.

Outsiders are critical too – and are continually trying to impose their views on what TSOs ‘should’ be like.

If we don't get to grips with understanding the differing ambitions, needs and potential of TSOs of different sizes to do good things for society, then how can we be sure that the available resources to help them out of this crisis will go in the right directions?

Bigger is better?

‘Larger’ organisations have income above £250,000 – about 12% of the sector (~835 TSOs). Only 3.5% have income above £1m (245 TSOs).

They are more ‘formal’ than other TSOs, tend to be business-like, professionalised and hierarchical.

In the NE they rely on regular support from about 34,000 volunteers who deliver 2.5m hours of work which is valued at £20m at National Minimum Wage level. This represents 3% of added value to their financial income of around £704m.

But they need employees to plan and do most of their work – so money is very important to them.

About 60% do contracts for the public sector – but this does not usually constitute all of their work (and 40% do not do contracts).

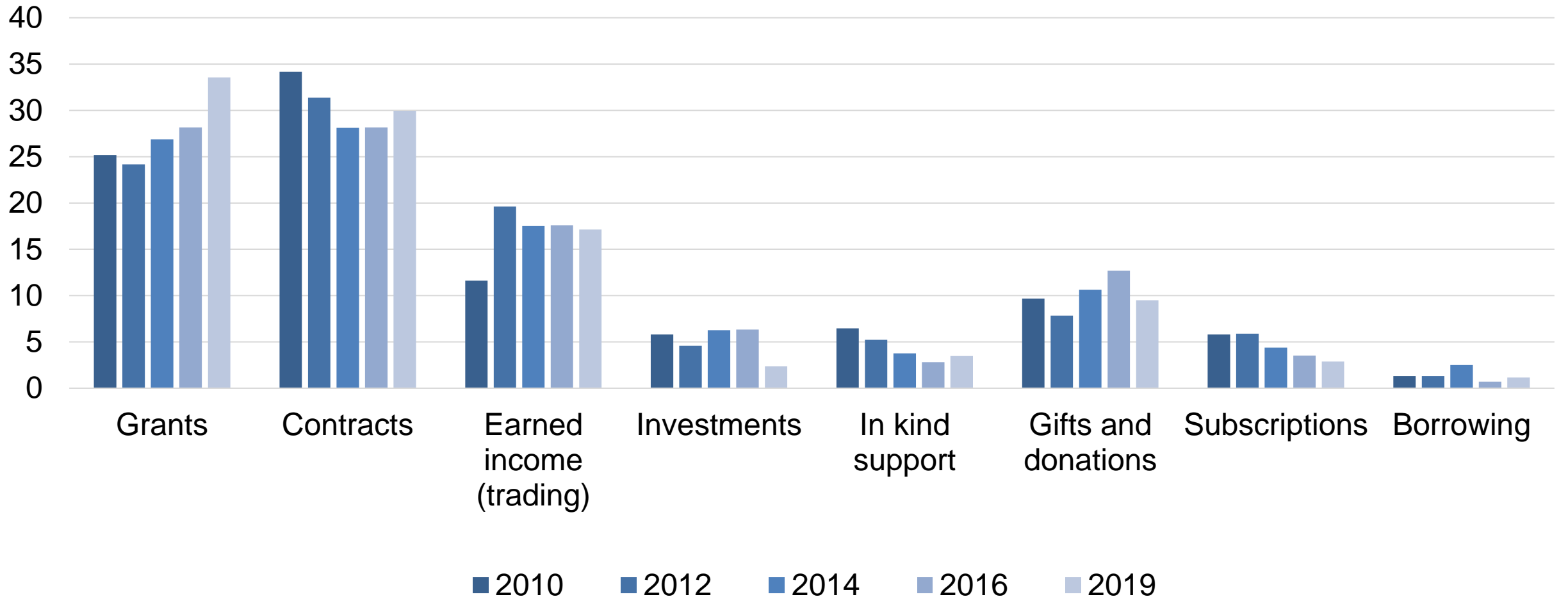
Reliance on volunteers: percentage 'strongly agree' or 'agree'

(2019, North of England, excludes TSOs which do not work with volunteers)

	<u>Micro</u> (income below £10,000)	Small (income £10,000- £49,999)	Medium (income £50,000- £249,000)	Large (income £250,000 - £999,999)	Big (income above £1,000,000)
We rely mainly on volunteers who commit time on a very regular basis	90.0	86.3	75.6	68.3	61.6
We rely mainly on volunteers who can work unsupervised	85.9	79.1	65.9	46.9	42.5
Many of our volunteers are our service users/ beneficiaries	76.0	67.5	65.3	63.4	56.2
We could not keep going as an organisation or group without volunteers	93.5	90.3	76.7	65.5	51.9
N=	692	636	704	366	232

Relative levels of reliance on income sources

(larger TSOs income above £250,000, North East England and Cumbria)



Other TSOs quite often criticise bigger organisations

They say that big organisations (and especially ‘big nationals’) steal their thunder. But this is rarely true... they work on activities that most other TSOs do not want to get involved with.

Bigger TSOs are often criticised for being ‘just like businesses’ – doing the work of the state and not really in the voluntary sector at all.

But actually many do not work this way. Most were established to meet the needs of beneficiaries that had been unrecognised, neglected or ignored by the state or private sector. And they remain rooted in civil society.

Many will face serious financial problems and redundancies are inevitable – but few of these TSOs have all their eggs in one basket. Many have to scale down activity in the medium term, but most will adapt to new circumstances and will survive.

Small is beautiful?

Small TSOs have income below £50,000. They rarely employ staff, are relatively informal and usually work locally. They are fuelled by voluntarily given time, not money.

In the NE there are over 3,500 micro organisations with income below £10,000 comprising 48% of the whole sector. They are run almost entirely by volunteers, numbering about 61,000, who deliver over 4.4m hours of work a year.

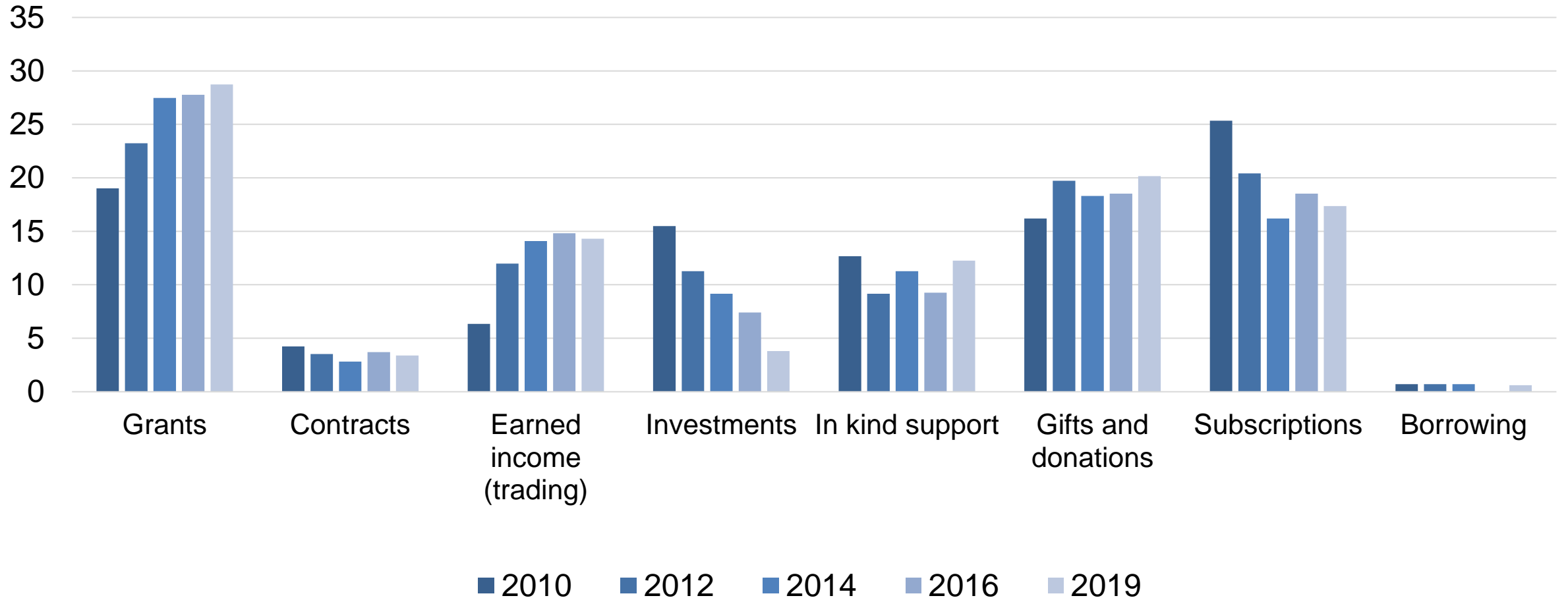
About 1,800 small TSOs, with income between £10,000 - £50,000 have about 36,000 volunteers producing 2.6m hours of work each year.

Taken together, the proxy value of the voluntary work these 5,300 TSOs produce, even when valued at the National Minimum Wage is nearly £58m

Their collective financial income is ~£53m. Pound for pound, this part of the Third Sector produces more value than it consumes – and especially so amongst micro organisations and groups where the ratio is 3.5 to 1.

Relative levels of reliance on income sources

(smaller TSOs with income below £50,000, North East England and Cumbria)



So we don't need to worry about them, then?

We do! Small TSOs cannot run on empty, in financial terms. They sometimes need grants to facilitate aspects of their work – and this is worthwhile because they produce a very strong return on investment.

The trouble is that this is virtually impossible to measure because the good things they do are hard to pin down – such as tackling isolation and loneliness, improving health and wellbeing, building confidence, raising pride in the community, and so on.

A village hall or urban community group can and do achieve all of these things in hundreds of ways.

Luckily, most grant makers are quite comfortable with this and 'trust' small organisations to use their resources wisely and effectively. It is very important not to divert these resources away from small organisations just now – their contribution to the social glue is vital.

Of the 'middling' sort?

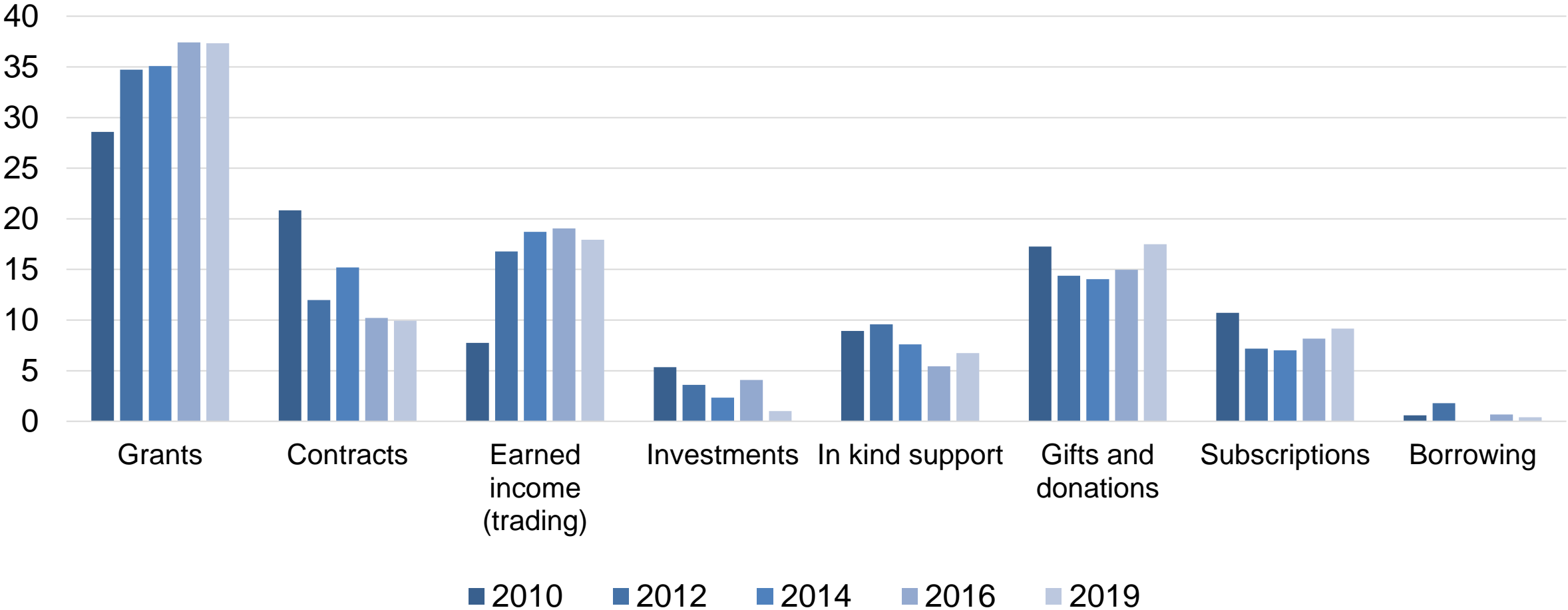
Being stuck in the middle, does not mean that these TSOs do not have a clear identity and purpose of their own. They do.

Medium sized TSOs have been on the end of a barrage of criticism for years for 'failing to scale up their activity', being 'grant dependent', not being ready to take on contracts, being disinterested in social investment, not becoming more efficient, being unwilling to work in close partnership with other TSOs, and so on.

These comments are unfair – most medium sized organisations do not want to grow because their focus is local. Most want to have flat structures (often their leaders have 'escaped' from formal organisations), and they maintain a tricky balance of employing some staff but also relying heavily on volunteers.

Relative levels of reliance on income sources

(medium TSOs income £50,000 - £249,000, North East England and Cumbria)



The middle ground is precarious

It is important to value medium sized TSOs for what they are, not what they 'should be'. They need grants to do what they believe in, and to do things their own way.

But TSO leaders' commitment to mission, to colleagues, to beneficiaries and to the places where they work does not always serve them well when it comes to bringing in the money to keep going.

Organisations can have a run of bad luck. These can be brought about by factors beyond their control – such as change in government policy, shifts in priorities of foundations, or economic turmoil brought about by Covid-19 (as was the case in the 2008 financial crash).

They are resilient, but within limits, so they need support to keep going in difficult times if they perform roles nobody else will in their communities,

Weighing up the pros and cons of supporting organisations in a crisis

Cries that the third sector faces imminent collapse do not help anyone. It is not facing collapse... civil society will endure. If anything, Covid-19 and its aftermath will make people all the more determined.

Many organisations, though, will face very significant challenges which will lead to hard decisions about the scale of their work and produce a likelihood of redundancies.

Unlike private businesses, TSOs have more scope to be flexible and adapt. But it is up to them to say how to do this, rather to be told what to do.

It is premature to call for 'sector reform' or proposals for 'innovation funds' – because we simply do not know yet how this is all going to pan out.

Following the financial crash of 2008, it took two years for the impact to be felt by most TSOs – by which time they had come to terms with the need to rethink how to adapt.

Money is always a problem in the third sector

- Money is rarely easy to get hold of. And the ground is always shifting in terms of income sources.
- The sector is competitive when it comes to issues surrounding money – and can be very agile when money is on the table.
- Some will position themselves well, other's may not be so quick of the mark.
- The big question is how funders decide where need is the greatest. There's lots of talk about 'small-but-vital' TSOs, but who, precisely, are they? This is a movable feast in definitional terms.
- Should the focus be on immediate organisational needs, or immediate beneficiary needs – probably a bit of both.

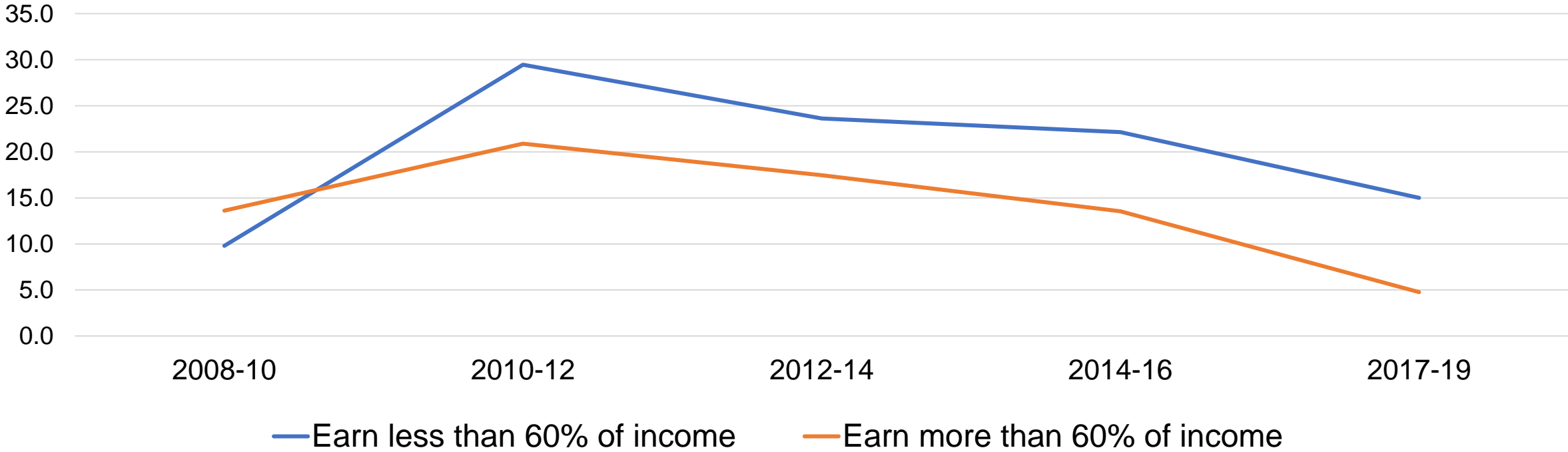
Worries about cash flow

Maybe we need to look back in time to the 2008 financial crisis to help us out (the wonders of longitudinal data!)

- A lot of TSOs, of all sizes have got more interested in 'earning income' in the last 10 years.
- In the middle ground this tends to be 'self generated' income from trading rather than contracts which is the domain of bigger TSOs.
- There are significant risks that cash-flow could dry up in the short term for many medium sized organisations.
- Should the emphasis be on 'bridging the gap', in that case, until things get better?

This graph shows the percentage of TSOs which had significantly falling income in the last two years at each point of the study. After 2008, there was a delay before problems really hit the sector. These problems may come more quickly this time for TSOs due to cash flow problems amongst those which rely on self generated income (mainly on the blue line). Bigger organisations (mainly on the orange line) were hit less hard because contracts continued to be let.

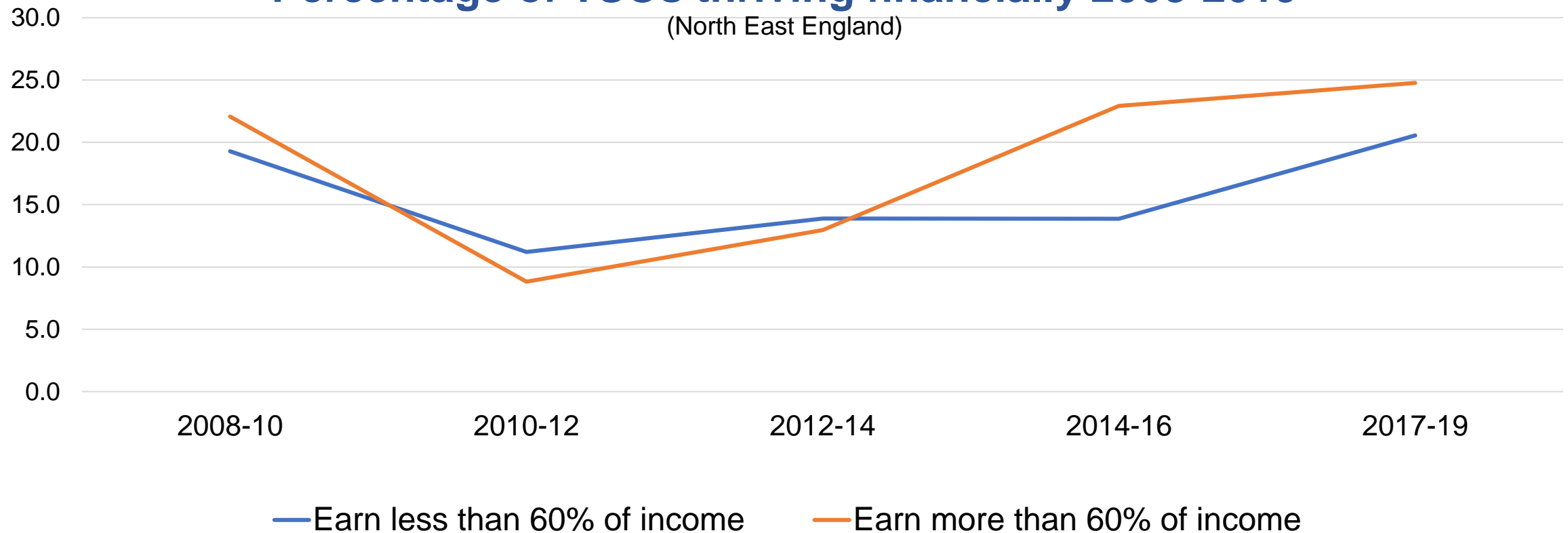
Percentage of TSOs facing financial problems 2008-2019 (North East England)



This graph shows the percentage of TSOs which had significantly rising income in the previous two years at each point of the study. By 2010 there was a rapid decline in the percentage of thriving TSOs. The bigger TSOs which earn more from contracts (orange line) were hit hardest sooner, but recovered faster. The smaller TSOs which do self-generated trading recovered too (blue line) but more slowly – without cashflow from their cafes, shops, selling services etc. they will have more limited scope to keep going. Contracts are contracts – so they won't dry up suddenly – problems will come later for bigger TSOs – giving them time to adapt.

Percentage of TSOs thriving financially 2008-2019

(North East England)



Short-term measures, medium-term adaptation and retrenchment, longer-term stability?

- Parts of the sector face immediate and urgent needs and require help right now. These are the TSOs in the middle ground with serious cash-flow problems.
- Some parts of the sector, which do not need much in the way of money, can hibernate to some extent for a while until they can get going again – or they can do things in new ways for a while – there's plenty of anecdotal evidence of this happening.
- Larger organisations tend to have stronger reserves and assets and many will have contracts in place for a while. They will have longer to plan before they bring staff out from furlough – but they will face tough decisions now on their future scale.

The third sector is not going to go away

- The situation facing the sector is alarming for all kinds of reasons. Reports are coming out almost daily which whip up a sense of panic.
- We have to take a breath and recognise that money problems are not ‘universally’ shared – and that money itself is not always the problem.
- We should not be ‘alarmist’ in how we look at the situation – otherwise we will make mistakes as TSO leaders, policy makers, funders, infrastructure support organisations or academics.
- Look to the past before making decisions about the future – look at how the landscape has changed and think about what that means for different types of TSOs.
- The sector is populated with determined people who don’t give up easily - agility is a sector strength. In two years time we’ll know how they did this – but for now, we just need to get through it as calmly as we can.



The full report will be published on 27th
May 2020 at this address
<https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/>

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