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NORTH

THIRD SECTOR TRENDS IN THE NORTH OF ENGLAND

A SUMMARY OF KEY FINDINGS

REPORT



Tony Chapman
and Jack Hunter

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Institute for Public Policy Research

THE FUTURE OF CIVIL SOCIETY IN THE NORTH

This report is part of a three-year programme of work by IPPR North on the state of civil society and the voluntary sector in the North of England.

ABOUT THE THIRD SECTOR TRENDS STUDY

The Third Sector Trends study is the only large-scale longitudinal survey of the third sector running in the UK. The study was conceived and originally commissioned by Northern Rock Foundation with research conducted by the Universities of Southampton, Teesside and Durham. The Community Foundation Tyne & Wear and Northumberland was a co-funder of the research, and is now responsible for its legacy. The Community Foundation is now collaborating with partners including St Chad's College at Durham University, the Joseph Rowntree Foundation, and IPPR North to expand and continue the research across the whole of the north of England.

Funding from the Community Foundation was in partnership with Esmée Fairbairn and Garfield Weston Foundations

ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With its head office in Manchester and representatives in Newcastle, IPPR North's research, together with our stimulating and varied events programme, seeks to produce innovative policy ideas for fair, democratic and sustainable communities across the North of England.

IPPR's purpose is to conduct and promote research into, and the education of the public in, the economic, social and political sciences, science and technology, the voluntary sector and social enterprise, public services, and industry and commerce.

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INTRODUCTION

The north of England has a rich and vibrant civil society. In the past, that strong civil society produced radical solutions to tackle social problems, including the establishment of co-operatives, mutual societies and trade unions. More recently, as the welfare state has found itself unable to tackle social issues alone, civil society has been strengthened by its voluntary and community organisations and social enterprises – which, taken together, are commonly referred to as the ‘third sector’. Reliance on the third sector to find and deliver social solutions is stronger than ever as the North is undergoing considerable change, in response to – and as part of – longstanding economic and cultural trends.

IPPR North is currently leading a programme of research on the future of civil society in the North. This will initiate and assemble a coherent evidence base to help inform and shape local, regional and national policymaking regarding the role of civil society in the north of England. As part of that programme of work, this report presents groundbreaking new evidence on the state of the third sector in the north of England in 2017.

ABOUT THE DATASET¹

Data was collected in 2016 by St Chad’s College, Durham University using online questionnaires across the north of England.² **A total of 3,594 responses were received, including 1,462 from the North West, 1,083 from Yorkshire and the Humber, and 1,012 from the North East. This represents a response rate of 12.7 per cent across the North.**³

This data will be analysed in depth, and a series of reports exploring key trends and relationships in detail will be published from the early summer of 2017. This report presents initial headline findings from the study from across the whole of the north of England, and explores three key areas of analysis.

The size and strength of the third sector in northern England, including:

- the contribution of the sector to the northern economy
- the range and diversity of third sector activity in the North
- the strength of relationships within the third sector, and with the public sector and business.

¹ See the inside cover for more about the Third Sector Trends survey.

² In the North East and Cumbria, 5,455 paper questionnaires were also distributed to ensure that a large sample was garnered from an area with a smaller population of TSOs.

³ In addition to the subtotals for each sub-region, 37 other responses were received from organisations working in the North but based in other areas which are included in the dataset. Full details of the methodological approach and assessment of the representativeness of the survey sample will be published in the early summer of 2017 in each of three region reports for the North East, North West and Yorkshire and the Humber.

The financial situation of the sector, including:

- how the sector is resourced and financed
- how the financial situations of third sector organisations (TSOs) – with different characteristics and working in different areas – vary.

An examination of third sector organisations (TSOs’) expectations about and preparations for the future.

THE SIZE AND STRENGTH OF THE THIRD SECTOR IN THE NORTH OF ENGLAND

KEY FINDING 1: THE THIRD SECTOR IS A SIGNIFICANT PART OF THE NORTHERN ECONOMY

Although it is often referred to as the voluntary and community sector because it relies on unpaid trustees to govern organisations and volunteers to provide support, the third sector is a significant employer. It is estimated that there are 110,000 full-time equivalent employees in the North West,⁴ 85,000 in Yorkshire and the Humber, and 37,500 in the North East, meaning that across the North in 2016 there were 233,000 full-time equivalent employees.

This means that the third sector is a larger employer than the financial and insurance industry, for example, which employs 187,000 people across the North.⁵ The economic value, by salaries, of third sector employees is estimated at £4.75 billion across the North. This breaks down as £2.2 billion in the North West, £1.8 billion in Yorkshire and the Humber, and £750 million in the North East according to regional estimates.⁶

Evidence from the North East and Cumbria shows that the number of full-time equivalent employees in the third sector seems to have remained relatively similar over time: falling from 38,200 in 2010 to 37,500 in 2016. But the balance between part-time and full-time staff has changed quite significantly since 2010. In the North East and Cumbria, part-time staff only constituted 35 per cent of employed staff in 2010, but this has risen to 45 per cent in 2016. While more data analysis needs to be undertaken to explore this shift in detail, it is possible that it is being driven by funding changes, and that in turn it is causing organisational capacity and capability to be eroded.

Additionally, the sector benefits from the contribution of people who freely give their time as volunteers. In the north of England, it is estimated that there are 930,000 volunteers currently providing over 66 million hours of work per year, which can be valued at between £475 million and £816 million.⁷ At a regional level, this works out as £225–£380 million in the North West; £174–£305 million for Yorkshire and the Humber, and £77–£131 million in the North East.⁸

4 Estimates for the North West are less reliable due to the lack of baseline data on sector employment which is available in the North East and Yorkshire and the Humber.

5 This figure represents total employment, not full-time equivalent. From Office for National Statistics [ONS] (2016) 'UK business register and employment survey (BRES)'.

6 Estimate range for third sector employees earning on average 80 per cent of average weekly wages in each region, using ONS 2016 estimates.

7 Estimating the number of volunteers in the third sector is a complicated process because there are many small organisations and groups which are not formally registered, and there is, therefore, uncertainty about how many of them fall 'under the radar' of official statistics. However, an approach has been developed in the Third Sector Trends study which can produce broadly-based estimates on the number of volunteers and their likely contribution in terms of average hours worked. In addition, it is possible to attach a crude economic 'replacement value' to the work of volunteers, using the national minimum wage and average regional hourly wage as financial benchmarks.

8 Estimate range for third sector employees earning on average 80 per cent of average weekly wages in each region using ONS 2016 estimates.

KEY FINDING 2: THE STRENGTH OF THE THIRD SECTOR IS DEPENDENT TO A HUGE DEGREE ON ITS VOLUNTEERS

The majority of TSOs, and particularly the smallest organisations, have very limited income and do not employ staff. They are, as a consequence, entirely dependent upon freely given time to manage organisations and deliver the work needed. As organisations become larger, they depend much more heavily upon employees – but volunteers continue to play an important role in their governance and the delivery of their work.

The extent to which TSOs rely on volunteers is demonstrated in table 1, which shows the following.

- The sector depends on regular volunteers, especially the smallest organisations which also tend to rely more heavily on volunteers who can work unsupervised.
- Many TSOs work with volunteers who are service users or beneficiaries, in particular the very smallest organisations – suggesting that the benefits of volunteering are multi-dimensional.
- Few TSOs see disadvantages in using volunteers, although larger TSOs (with income £250,000–£1 million) are the most likely to say the cost of using volunteers is greater than the benefit gained (20 per cent) and that they seek payment to take on volunteers (9 per cent).

TABLE 1

The sector depends on regular volunteers, with the smallest organisations valuing volunteering most

Attitudes about the value of volunteers by organisational size

'Agree' or 'strongly agree' with statements	£0–£10,000	£10,001–£50,000	£50,001–£250,000	£250,001–£1m	£1m or more	All
We rely mainly on volunteers who commit time on a very regular basis	85.6%	86.6%	81.7%	79.6%	74.9%	83.1%
We see it as part of our social duty to provide opportunities to volunteers	75.5%	78.5%	84.6%	84.4%	85.8%	81.0%
We could not keep going as an organisation or group without volunteers	92.9%	90.4%	78.3%	59.9%	55.0%	80.6%
We rely mainly on volunteers who can work unsupervised	77.0%	68.6%	53.1%	42.1%	39.8%	60.3%
Many of our volunteers are our service users/ beneficiaries	67.8%	60.2%	58.6%	50.0%	50.0%	59.2%
Supporting volunteers often costs us more than the benefit we get from them	8.2%	11.8%	12.8%	20.2%	14.2%	12.8%
We don't normally take on volunteers unless we have been funded to do so	6.6%	5.7%	5.9%	9.0%	6.9%	6.6%

Source: Third Sector Trends survey 2016

KEY FINDING 3: THE SECTOR IS CHARACTERISED BY STRONG RELATIONSHIPS, BOTH BETWEEN TSOs AND WITH THE PUBLIC AND PRIVATE SECTORS

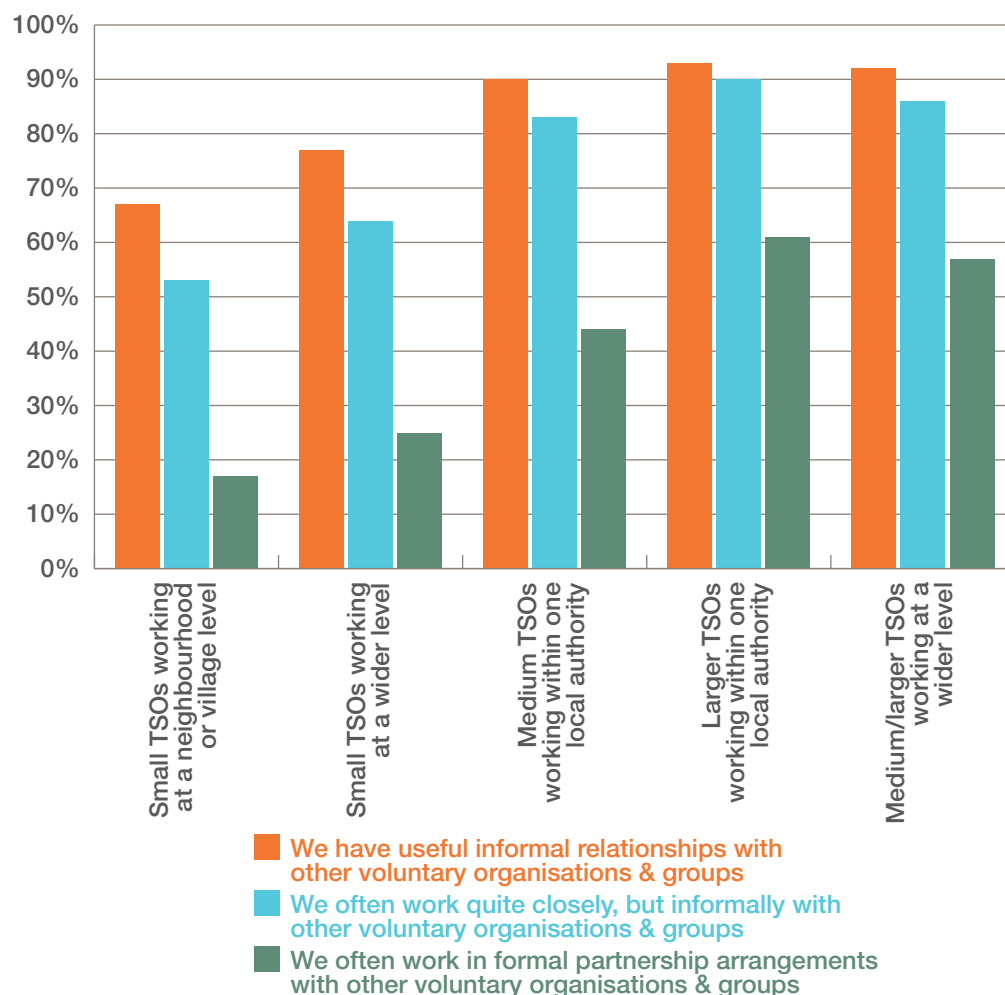
Relationships between TSOs

The scale of complementary working across the sector is substantial (see figure 1), with a clear majority of organisations reporting some form of productive relationship with others. Small TSOs tend to have good informal relationships, and often work closely together, but are less likely to have formal arrangements.⁹ Medium-sized and larger organisations, however, are much more likely to work together, including in more formal ways.

FIGURE 1

The extent of complementary and partnership working within the third sector is substantial

Relationships with other voluntary organisations or groups by organisation type



Source: Third Sector Trends survey 2016

⁹ In this context, 'small' organisations are those with income ranging from £0 to £50,000. 'Medium-sized' organisations are those with income of £50,001–£250,000, and larger organisations are those with income of £250,001 or more.

This evidence demonstrates that TSOs are interested in developing stronger formal partnerships in future. Trend data from the North East and Cumbria shows that the percentage of TSOs bidding for grants and contracts in partnership has increased significantly, from just 26 per cent of TSOs in 2008–10, to 39 per cent in 2014–16. However, smaller TSOs across the North are less inclined to develop stronger partnerships in future (27 per cent) while larger organisations are much more enthusiastic (64 per cent).

Relationships between TSOs and the public sector

The evidence shows that relationships with the public sector are strong in the sense that TSOs feel their contribution is valued (90 per cent) and that their role is understood (87 per cent). Furthermore, TSOs have become more likely to state that they are well informed by public sector bodies about issues of interest to them (rising from 62 to 69 per cent since 2008). A substantial – albeit smaller – proportion of TSOs feel that they have been involved in decision-making about policy and practice (rising from 47 to 50 per cent since 2008).

Relationships between TSOs and the private sector

It is often assumed that the third sector has only a limited level of engagement with business. However, the evidence demonstrates that this relationship is stronger than expected. As table 2 shows, many TSOs rely on businesses for support, including finance and volunteers as well as in-kind resourcing.

Larger TSOs clearly benefit the most from good relationships with business. In addition, initial analysis suggests TSOs in the poorest areas, those working in urban areas, and those which tackle immediate social or personal needs, are marginally more likely to report beneficial relationships with business.

TABLE 2

Larger TSOs gain most from relationships with business *Beneficial relationships with business by organisational size*

Percentage of TSOs stating of 'great' or 'some' importance	Smaller TSOs (£0– £50,000)	Medium TSOs (£50,001–£250,000)	Larger TSOs (£250,000 or more)
They give us money to help us do our work	33.5%	45.3%	43.8%
They provide free facilities to help us do our work	26.4%	30.3%	31.6%
They provide volunteers to help us do our work	16.9%	28.2%	31.9%
They provide free expert advice to help us do our work	22.1%	31.9%	39.2%
They provide free media/PR support to help our work	18.2%	25.3%	25.6%

Source: Third Sector Trends survey 2016

THE FINANCIAL SITUATION OF THE THIRD SECTOR

KEY FINDING 4: GRANT FUNDING CONTINUES TO BE THE MOST IMPORTANT SOURCE OF INCOME FOR ALL BUT THE LARGEST TSOs

In recent years, there has been much debate about the imposition of a ‘contract culture’ on the third sector. However, the evidence shows that, for all but the larger TSOs, contracts to deliver public services are of much less importance than grants and earned income.

When asked how important income sources are in relative terms, TSOs are far more likely to consider income from grants (38 per cent), rather than contracts (20 per cent), as being very important to support their activities, as shown in table 3. Larger TSOs are more likely to stress the importance of contracts (50 per cent) when compared with small TSOs (6 per cent). Background analysis shows that very few TSOs have no reliance on grants (13 per cent), and most of these are small TSOs.

TABLE 3

Grant funding remains the most important source of income for all but the largest organisations

Relative importance attached to income sources by TSOs in the north of England by percentage¹⁰

	Grants	Contracts	Earned income (trading)	Investment income	In-kind support	Gifts & donations	Subscriptions	Borrowing/loans	n=
Smaller TSOs	34.2%	5.5%	15.8%	5.3%	15.0%	24.0%	22.1%	0.5%	1,902
Medium TSOs	51.6%	24.1%	26.0%	4.0%	10.6%	22.5%	9.3%	1.2%	773
Larger TSOs	36.4%	49.7%	25.0%	7.1%	4.8%	15.8%	4.2%	2.2%	780
All TSOs	38.5%	19.9%	20.1%	5.5%	11.6%	21.7%	15.2%	1.0%	3,503

Source: Third Sector Trends survey 2016

¹⁰ These data refer to TSOs’ appraisal of the importance to them of a range of income types. The data do not indicate actual levels of income but perceptions about their relative importance to individual organisations. The percentages do not round up to 100 per cent because TSOs were asked to state the value of each source of income separately.

Longitudinal data from the North East and Cumbria from 2008 to 2016 suggests that:

- grants may have become much more important as a source of income for TSOs of all sizes since 2008–2010
- dependence on contracts has actually fallen for both medium-sized and large organisations (for small organisations working on contracts it is of little relevance)
- earned income from trading has increased substantially in importance across all organisation sizes
- relative dependence on investments, in-kind support and subscriptions has fallen significantly.

Beneath these headline statistics, there is considerable variation in routes to funding by size and by area.

- Smaller, and – to a lesser extent – medium-sized TSOs based in less affluent areas, are more likely to limit their grant applications to local community foundations or to local authorities and health authorities because they feel that their chances of success with national grant giving foundations would be too low.
- In more affluent areas, TSOs of all sizes are more confident about applying to national grant funding foundations than in poorer areas. Furthermore, their success rate is also higher. This should be noted by charitable foundations which dispense such grants.

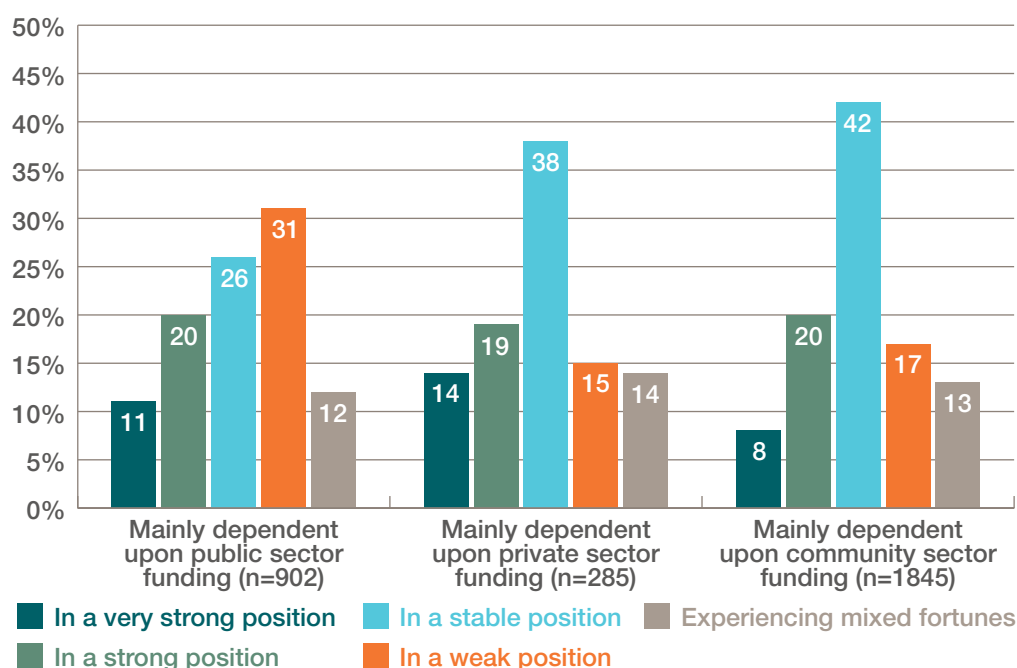
KEY FINDING 5: MANY TSOs CONTINUE TO SHOW CONSIDERABLE RESILIENCE; HOWEVER, THOSE WHICH ARE MOST RELIANT UPON PUBLIC SECTOR FINANCE AND THOSE IN THE POOREST AREAS ARE MUCH MORE LIKELY TO BE STRUGGLING FINANCIALLY

To measure the organisational wellbeing of TSOs, this study links a number of factors together, including: uses of reserves (for investment or to pay vital costs such as salaries and rent), the recruitment or loss of employees, and significant changes to organisational income. This helps to produce a more accurate picture of which TSOs are doing well, are in a stable situation or are struggling, rather than relying on data on income alone.¹¹ Because the analysis refers to situation of TSOs in the last two years, it irons out the impact of the immediate situation and instead looks at general trends.¹²

FIGURE 2

TSOs that are most reliant upon public funding are more likely to be experiencing financial difficulties

Organisational wellbeing of TSOs by principal source of funding



Source: Third Sector Trends survey 2016

Figure 2 shows that the TSOs that are mainly dependent upon public sector finances are currently under the most pressure: 31 per cent are experiencing significant resource difficulties, compared with just

11 For example, a drop in income when expected and well planned for does not necessarily undermine organisational wellbeing and resilience. See Chapman T (2017) 'Journeys and destinations: using longitudinal analysis to explore how third sector organisational governance helps to navigate sustainable futures', *Voluntary Sector Review* 8(1).

12 While this indicator is arguably more reliable, it should not be taken as definitive. In particular, a concern is that many TSOs which – from a statistical point of view – appear to be in a stable position, may in fact be under considerable pressure too. This will be explored as part of two Economic and Social Research Council studies currently being undertaken on third sector interactions with local authorities and health authorities. Interviews are being undertaken to explore the resilience of 40 TSOs over time by following up on the previous Northern Rock Foundation TSO50 study which ran from 2008 to 2015. Previous publications on this study can be found at <http://www.communityfoundation.org.uk/third-sector-trends-study>, (See also Chapman [2017] *ibid.*)

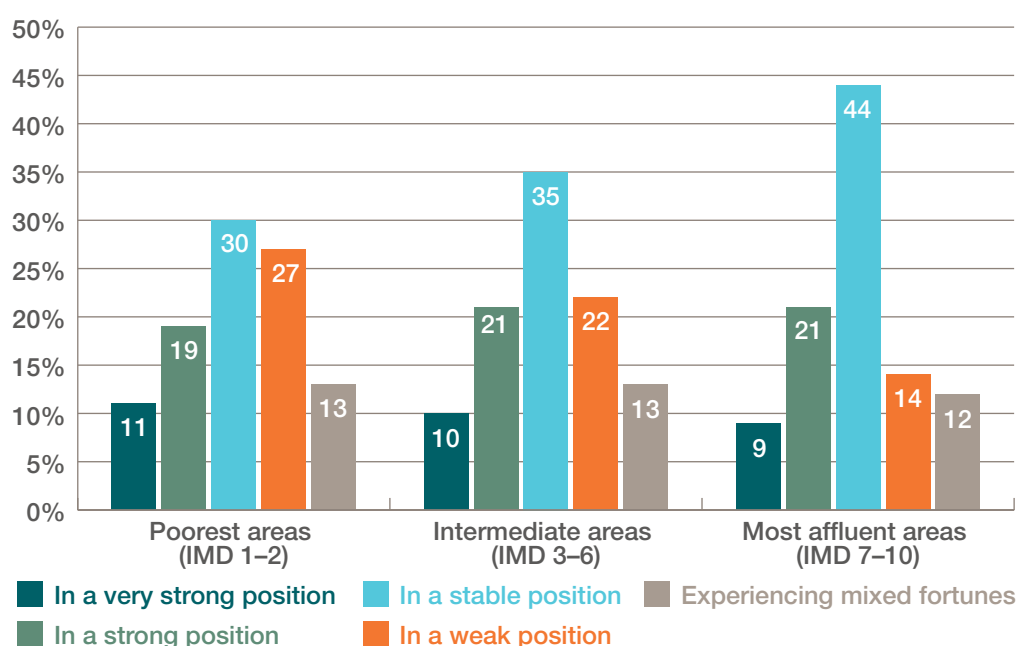
17 per cent of TSOs which rely on community sector funding. That stated, about 31 per cent of mostly public sector funded organisations are doing well financially – a higher number than those mainly funded by the community sector (28 per cent). While TSOs funded mainly by the private sector are smaller in number, the evidence suggests that a third are in a strong or very strong position, compared with just 15 per cent which are facing serious difficulties.

Place is another important factor. Organisations working in the most deprived areas of the North are more likely to be in a weak financial position (see figure 3 below). However, the picture is not clear-cut; it is worth noting that there is a similar proportion of TSOs in a strong position (30 per cent) in the poorest areas as there are in the most affluent areas.

FIGURE 3

TSOs that operate in the most deprived areas are more likely to be experiencing financial difficulties

Organisational wellbeing of TSOs by levels of deprivation



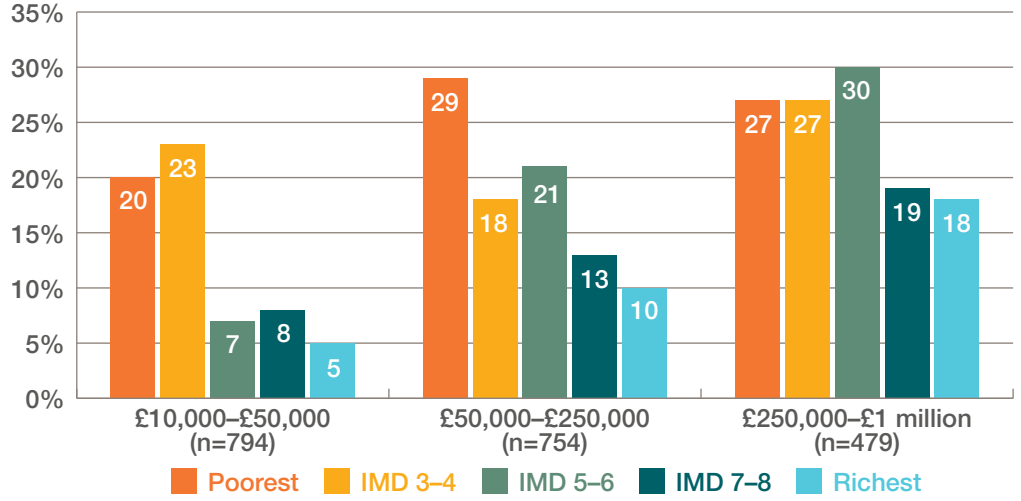
Source: Third Sector Trends survey 2016

While income alone is known to be a crude indicator of organisational wellbeing, figure 4 demonstrates that the percentage of organisations that have recently experienced loss of income is closely related to organisational size and the relative affluence of the area within which they are based. For example, small- and medium-sized TSOs in the poorest areas are much more likely to be experiencing significant income loss (20 per cent and 29 per cent respectively) when compared with the richest areas (5 per cent and 10 per cent respectively). By contrast, larger organisations are fairly equally likely to be suffering income loss (27–30 per cent) in poorer and intermediate areas when compared with the two richest areas (18–19 per cent).

FIGURE 4

Organisations in the most deprived areas are more likely to have experienced loss of income

TSOs with significantly falling income in last 2 yrs by organisational size and area



Source: Third Sector Trends survey 2016

EXPECTATIONS ABOUT AND PREPARATIONS FOR THE FUTURE

KEY FINDING 6: TSOs MAY BE BEING OVERLY OPTIMISTIC ABOUT THEIR SHORT-TERM PROSPECTS

Many leaders of TSOs are irrepressible optimists, with expectations regarding future income, workforce and volunteer numbers that are unlikely to be realised. As might be expected, TSOs in the strongest financial position are the most positive about the prospects of increasing income in the future (69 per cent). However, a substantial proportion of those currently in a stable situation (31 per cent), and even those who are in a weak position (28 per cent) think that they will increase their income in the future.

By contrast, just 5 per cent of the strongest TSOs think that income will fall, compared to 42 per cent of those that are struggling financially. Given that previous research has indicated that TSOs (and especially smaller TSOs) are likely to experience considerable income volatility, this optimism is arguably misplaced.¹³

There is a similar pattern with regard to staffing numbers: many TSOs in the weakest financial position expect staff numbers to increase (20 per cent), and many more (46 per cent) expect to have more volunteers. In reality, volunteering levels remain relatively flat according to national statistics, so such expectations are likely to be over ambitious.

KEY FINDING 7: TSOs EXPERIENCING FINANCIAL DIFFICULTIES ARE SIGNIFICANTLY LESS LIKELY TO INVEST IN STAFF DEVELOPMENT AND CAPABILITY-BUILDING

Organisational foresight is clearly important when making plans for the future.¹⁴ However, the evidence suggests that the focus of many organisations may be too closely associated with income generation, while too little attention is paid to other aspects of organisational wellbeing. Many organisations are focusing their attention on increasing earned income (69 per cent of the strongest and 48 per cent of TSOs in the weakest financial position), or are taking action to change the way they run services or activities (43 per cent of TSOs in either a strong or weak financial situation).

Those TSOs in a relatively weak financial position focus much more strongly on fundraising (56 per cent), bidding for grants (57 per cent) and tendering or commissioning (43 per cent), rather than strategic (37 per cent), financial (29 per cent) and people management (30 per cent).

While the search for new sources of income is understandable, it is apparent that this is sometimes prioritised at the expense of other factors. By trying to sustain current levels of income from the same sources, some in the sector might be distracting themselves from the need for more fundamental change.

¹³ <http://blogs.ncvo.org.uk/2016/02/11/the-squeezed-middle-small-and-medium-sized-charities-in-a-changing-financial-landscape/>

¹⁴ See Chapman (2017) *ibid.*

CONCLUSIONS

The analysis put forward in this report underlines what many already know: the north of England has a strong and deeply interconnected third sector that draws its strength from myriad factors. These include: the sheer size of the sector as a whole; the strength of the positive relationships between organisations (both formal and informal), between TSOs and with the public and private sector; and the crucial role of volunteers in sustaining third sector activity.

Because of this, the third sector overall continues to show great resilience and, in some areas, the capacity to adapt in the face of a stagnating economy, increasing demand, and the continuation of the government's austerity agenda. Indeed, analysis presented here is arguably a rebuke to those who talk of a financial crisis across the whole of the third sector – this is demonstrably untrue.

Instead, it is clear that the impact of current trends has been highly uneven; many organisations have enjoyed income stability or growth as others have borne the brunt of change.

In itself, the fact that some TSOs will experience financial difficulty or even be forced to close is not necessarily a bad thing. Indeed, where organisations struggle to adapt to new contexts and challenges, it would be reasonable to argue that they should not continue to compete for or draw on resources and funding that could otherwise be used more effectively.¹⁵

However, there are three trends that should be of concern, and that bring with them some implications for those who support and sustain third sector activity (including charitable foundations, infrastructure organisations and local authorities, as well as TSOs themselves).

First, that place is such a clear determining factor of TSOs' current wellbeing. The initial analysis presented here suggests that TSOs in more deprived areas are much more likely to be struggling financially. This is of particular importance to the north of England, because it includes many of the most deprived areas in the country. Although this is not *necessarily* an indication of a weakening civil society in these areas, it does suggest that **those who support TSOs should work in a targeted and place-based manner.**

Second, that those who until now have been most reliant upon public funding are struggling. The ongoing impact of reductions to local government spending has been especially pronounced in the north of England – making the challenge of adapting to this particularly pressing. Background analysis from long-term studies in the North East and Cumbria suggests that some such organisations have learned how to adapt to new situations by increasing their earned income, working

15 See for example <http://www.ippr.org/juncture/backing-those-who-show-most-courage-voluntary-sector-leadership-in-a-time-of-austerity>

with other organisations in a complementary or constructive way, or by focusing more on grant funding.

Those who support TSOs could:

- **ensure that social action that is valuable to local areas continues to be supported, either through funding organisations directly, or by supporting them to secure alternative sources of funding**
- **engage with local authorities and combined authorities (and support TSOs to engage themselves) on strategic and local decision-making processes regarding ongoing and future changes to public spending.**

And finally, that few TSOs seem to be investing seriously in ongoing development and strategic management. This may belie an unwillingness – or, worse, an inability – to change according to circumstance. It should be of concern if TSOs prefer to exist in constant ‘crisis management’ mode, believing that the next grant that comes in will solve their problems. This is unrealistic and, potentially, an obstacle to maintaining a third sector that is able to adapt to change.

Those who support TSOs could consider, where appropriate, making funding conditional on ongoing development and strategic management, informed by the needs of the local area.

IPPR North’s programme of work, the Future of Civil Society in the North, will build on these findings, and set out in greater detail recommendations for how to ensure a healthy and relevant third sector that plays a vital role within civil society in the north of England.
