

A THIRD SECTOR TRENDS BRIEFING >>

THIRD SECTOR TRENDS SURVEY 2020

COVID-19 AND ITS POTENTIAL
IMPACT ON THE THIRD SECTOR
IN THE NORTH

**Tony Chapman,
Sarah Longlands,
and Jack Hunter**

September 2020

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ABOUT THE THIRD SECTOR TRENDS SURVEY

The Third Sector Trends Survey is the only large-scale longitudinal survey of the third sector running in the UK. The study was initiated in the North East and Cumbria by Northern Rock Foundation and ran from 2008 until 2015; since then it has been funded by Community Foundation Tyne & Wear and Northumberland. In 2010, the study was established in Yorkshire and the Humber and then in 2016 across North West England. The last two iterations of the study have been funded by Garfield Weston Foundation, Community Foundation serving Tyne and Wear and Northumberland, Joseph Rowntree Foundation, and Power to Change.

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1. COVID-19 AND CIVIL SOCIETY IN THE NORTH

Like many other parts of society, third sector organisations (TSOs) in the north of England are facing unprecedented uncertainty due to the immediate and longer-term impact of Covid-19. For many in the third sector, Covid 19 presents an “acute three-dimensional crisis of resourcing, operation and demand” (MacMillan 2020), which means that they will need to adapt to survive.

In response to lobbying by representative bodies such as NCVO and ACEVO, the chancellor has allocated £750 million to support charities, and the government’s furlough scheme was also made available to charities that employ staff. Trusts and foundations have also stepped up efforts to support the sector through the first few months of the crisis through the establishment of, for example, the National Emergencies Trust (Weakley 2020).

But the nature of the crisis, the winding down of the furlough scheme, and the impending recession means that the impact on the sector is likely to be profound.

This is a moment to pause and reflect on what will be one of the biggest challenges ever faced by TSOs in the UK, and, indeed, much of the world. As we are still very much in the eye of the Covid-19 storm, we acknowledge that much of its longer-term implications are still very much unknown.

In this report, we draw on the evidence of the Third Sector Trends Survey to examine how the sector has previously responded to severe economic and social crisis – namely, the 2008 financial crash and the subsequent decade of austerity. While it is too early to draw firm conclusions, the data provide us with some insights as to the civic and financial resilience of the sector as well as its ability to adapt and change in the face of extreme challenge. We use this to identify the scenarios for the third sector and the potential lessons for sector leaders and policymakers.

About the Third Sector Trends Survey

The Third Sector Trends Survey is the only large-scale longitudinal survey of the third sector running in the UK. The data used in this report originates from the Third Sector Trends Survey and examines trends in the survey data since the survey was first launched back in 2008. The Third Sector Trends Survey is a unique data resource and provides a deep and detailed evidence base from which to understand the structure and dynamics of the third sector in response to social and economic change. The survey was originally commissioned by the Northern Rock Foundation, with research conducted by the Universities of Southampton, Teesside, and Durham. Separate reports have been produced for each of the three regions of northern England.

Our definition of the third sector draws on the work of the National Audit Office, which argues that: “The Third Sector is the term used to describe the range of organisations which are neither state nor

the private sector. Third sector organisations (TSOs) include small local community organisations, and large, established, national and international voluntary or charitable organisations. Some rely solely on the efforts of volunteers; others employ paid professional staff and have management structures and processes similar to those of businesses, large or small; many are registered charities while others operate as cooperatives, 'social enterprises' or companies limited by guarantee... All share some common characteristics in the social, environmental or cultural objectives they pursue; their independence from government; and the reinvestment of surpluses for those same objectives" (Bourne 2005).

Since the Third Sector Trends Survey begun in 2008, the term 'civil society' has come to be used more frequently in policy to describe the 'third sector' or TSOs.

The term 'third sector' is used in this report in preference to alternatives such as 'charities' and 'civil society'. It is slightly broader than the legal definition of a charity, and excludes some of the organisations covered by certain usages of the term 'civil society', which can encompass a much wider range of organisations, community organisations, unions, professional associations and foundations. However, the two terms are often used interchangeably, especially when setting up a contrast between public, private and 'third' sectors.

2.

THE THIRD SECTOR TRENDS SURVEY

Data for the Third Sector Trends Survey were collected in 2019 by Policy&Practice, St Chad's College, Durham University using online questionnaires across the north of England.¹ **A total of 3,158 responses were received, including 1,212 from the North West, 852 from Yorkshire and the Humber, and 1,084 from the North East. This represents a response rate of 7.5 per cent from the whole population of TSOs in the North.**

The 2019 data have already been analysed in depth and three regional reports have been produced.² However, little long-term trend analysis was attempted in these reports. In light of the dramatic social and economic impacts of the Covid-19 epidemic, this report therefore looks at long-term trends to show how the sector recovered from the 2008 global financial crisis and the subsequent austerity policies imposed by successive coalition and Conservative governments between 2010 and 2019.

1 In North East England, 4,000 paper questionnaires were also distributed to ensure that a large sample was garnered from an area with a smaller population of TSOs.

2 Separate reports have been produced for each of the three regions of northern England which are available at this address: <https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/>.

3.

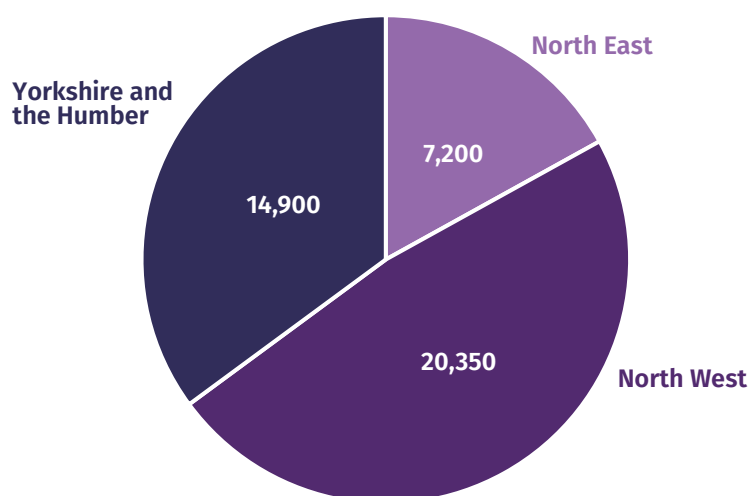
THE SIZE AND STRUCTURE OF THE THIRD SECTOR IN THE NORTH OF ENGLAND

The third sector plays a foundational role in the health and strength of the economy, culture, and society in the north of England.

From the analysis of the survey data, we can estimate that there are 42,250 TSOs in the North, of which there are 7,200 in the North East, 14,900 in Yorkshire and Humber, and 20,350 in the North West.

FIGURE 3.1: THE THIRD SECTOR TRENDS SURVEY PROVIDES AN ESTIMATE OF TSOs ACROSS THE NORTH

Estimated number of TSOs in the North and their geographical distribution



Source: Authors' analysis

The majority of these TSOs are micro and small organisations (with annual incomes of below £50,000) making up 73.9 per cent of the third sector in the North. However, in contrast, these small and micro organisations only account for 6.1 per cent of the sector's income.

Medium-sized organisations with annual incomes of between £50,000 and £250,000 form almost 15 per cent of the sector. As can be seen from table 3.1, there are fewer larger organisations with incomes of between £250,000 and £999,000 but they have control over almost a third of the sector's financial resources. The largest organisations (with annual incomes of above £1 million) account for 47 per cent of sector income.

TABLE 3.1: THE SIZE AND STRUCTURE OF THE THIRD SECTOR IN THE NORTH (ESTIMATED)

Estimates of regional TSO population in five income categories ³	Average TSO income by category	Percentage distribution by category	Percentage of sector income by category	Estimated number of TSOs in north of England
Micro (income £0–£9,999)	£2,889	48.7%	1.2%	20,674
Small (income £10,000–£49,999)	£23,835	25.2%	4.9%	10,697
Medium (income £50,000–£249,999)	£121,660	14.5%	14.5%	6,155
Large (income £250,000–£999,999)	£488,605	8.2%	32.9%	3,481
Big (income above £1,000,000)	£1,662,220	3.4%	46.5%	1,443
Total	£2,299,209	100%	100%	42,450

Source: Third Sector Trends Survey 2019

THE THIRD SECTOR AS A COMPONENT OF LOCAL AND REGIONAL ECONOMIES

The third sector is a significant and relatively stable employer which, at the time of the study, was growing. From the Third Sector Trends Survey data, we can estimate that that, in 2019, the third sector in the North west had 115,000 full-time equivalent employees in the North West – up, from 110,000 in 2016.⁴ In Yorkshire and the Humber the sector had 87,500 full-time equivalent employees – up from 85,000 in 2016; and there were 38,250 employees in the sector in the North East – up from 37,000 in 2016.

This means that, across the North in 2019, there were 240,750 full-time equivalent employees in the third sector compared with 233,000 in 2016. This is over 3 per cent of all workforce jobs, and roughly equivalent to the information and communication sector (255,000 jobs). The economic value, by salaries, of third sector employees is estimated across the North at £5.43 billion. Regional estimates are as follows: £2.7 billion in the North West, £2 billion in Yorkshire and the Humber, and £845 million North East.⁵

Compared to the private sector, organisations in the third sector tend to be older and have lower levels of churn than companies in the private sector. For example, the average age of TSOs in the Third Sector Trends Survey is 31.4 years, whereas the average age of UK registered companies is 8.5 years (GOV.UK 2019a). Likewise, 23 per cent of TSOs in the 2019 sample had been established since the start of the study in 2008. Although this does demonstrate a degree of renewal (not least during a period of public spending cuts), it is noticeably lower than in the private sector. Across the UK, over two-thirds of all companies are under 10 years old (ibid).

AN ENGINE FUELLED BY VOLUNTEER ACTION

Volunteers play a crucial role in helping the third sector achieve its impact. In the north of England, it is estimated that 955,000 people regularly volunteered in TSOs in 2019 (up from 930,000 in 2016). They provide 67 million hours of work which can be valued at between £564 million and £940 million per year (GOV.UK 2019b). At a

3 Average incomes were calculated using a random sample of 5,000 registered charities. The cumulative values for each category are likely to be lower than would be the case if other types of TSOs were included (such as CICs and Cooperatives and Community Benefit Companies as they tend to be larger in size). For further analysis, see Chapman 2020.

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.

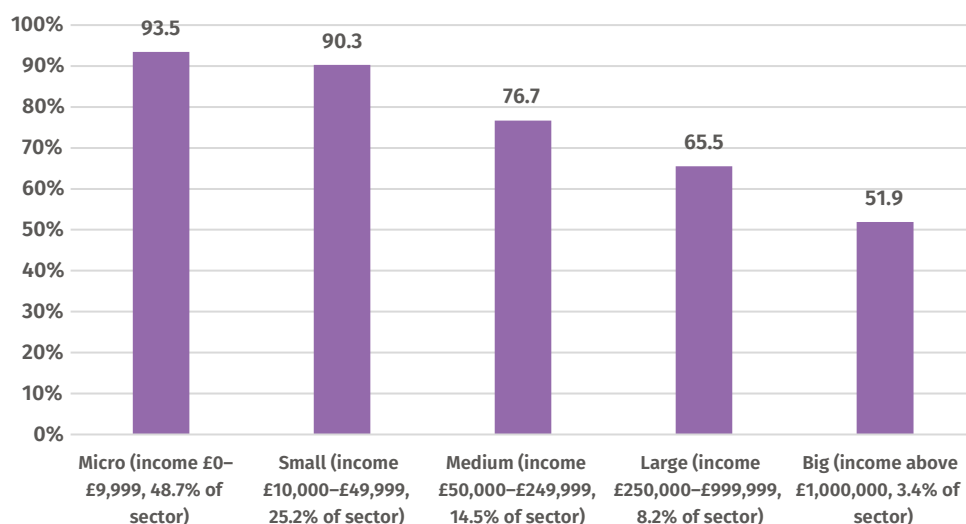
5 Estimate range for third sector employees earning on average 80 per cent of average weekly wages in each region using ONS 2020a estimates.

regional level, this works out as £266 million–£454 million in the North West, £207 million–£344 million for Yorkshire and the Humber, and £91 million–£148 million in the North East.⁶ It's worth noting that this figure does not include volunteers in the public sector (such as those in libraries or hospitals, or as school governors or magistrates). Nor does it include more informal volunteering such as that organised through mutual aid networks.

Reliance on volunteers varies considerably by size of organisation. As figure 3.2 shows, most smaller TSOs rely solely or almost entirely on volunteers (such organisations constitute almost 75 per cent of all TSOs in the sector).

FIGURE 3.2: MICRO AND SMALL TSOs ARE HUGELY RELIANT ON THE SUPPORT OF VOLUNTEERS FOR SURVIVAL

Percentage of TSOs in the North that could not survive without support from volunteers, 2019 (n=2,667)



Source: Third Sector Trends Survey 2019

⁶ Estimate range for third sector employees earning on average 80% of average weekly wages in each region using ONS 2019 estimates.

4.

THE SECTOR'S CONTRIBUTION TO SOCIAL WELLBEING

Part of what makes much of the third sector distinctive is its value in generating social wellbeing. The added value of the sector is hard to pin down, but many TSOs believe they have a significant impact. For example, 33 per cent of TSOs say they have a 'very strong impact' on improving health and wellbeing, and a further 36 per cent say they have a 'good impact'.

TSOs are much more likely to say that they have a strong impact on social indicators (reducing social isolation, fostering civic pride, empowering people, and promoting cohesion) than economic ones (such as employability and alleviating poverty).

IMPLICATIONS OF COVID-19

- The sheer size of the third sector makes it a significant part of the northern economy. Not only that, but in supporting the health and resilience of local areas – including through the added value that it provides to social and personal wellbeing – is a major contributor to the wider success of local economies. This should be recognised in strategies for how to rebuild after Covid-19. Third sector partners and the third sector ethos of volunteering and community action has been important in responses to Covid-19 and learning from this must be used in planning a recovery and a more sustainable future.
- The third sector is highly diverse and includes a wide range of organisations and networks of different sizes and types. Alongside its ability to draw on its volunteer base, this means that individual TSOs can in some ways be more resilient than other organisations. On the other hand, the age and relative lack of churn of the sector as a whole means that it may take longer to recover from a significant shock like Covid-19.
- It is likely that Covid-19 will have an impact on the ability of people to volunteer for TSOs in their community because of social distancing requirements. This is especially important given that many volunteers are older and thus more likely to have a pre-existing health condition that means that they must take additional precautions to avoid contracting Covid-19 or that they are vulnerable on the basis of age alone. TSOs are having to be much more creative about how they involve volunteers at the current time and the crisis has seen much greater use of online resources.

5.

THE FINANCIAL RESILIENCE OF THE THIRD SECTOR

The third sector needs resources to operate, including money, people, and ideas. When it comes to financial resources, different parts of the sector rely to different degrees on sources of income. Apart from those micro TSOs which have little need of financial support, very few organisations ‘keep all their eggs in one basket’. The results of the Third Sector Trends Survey show that out of a sample of 1478 organisations, no organisation with an income above £50,000 depended solely upon just one source of income.

There is a longstanding understanding within TSOs which accepts that to survive, it is necessary to gather funding income from a range of sources. This differentiates it from the private sector (where generating profit is often the driving force) or the public sector (where fiscal considerations dominate). Furthermore, what distinguishes the third sector from these other two sectors is to the necessity to live within its means rather than to rely heavily on borrowing (to invest in the case of business, and the public sector borrowing requirement in the case of the state).

Though many TSOs are currently facing serious financial difficulties in the context of Covid-19 for reasons that are beyond their control, fewer may fold than might be expected. While Covid-19 presents the sector with an almost unique challenge, experience suggests that, in the face of a crisis, the general response of TSOs is to reduce the scale of their operation and batten down the hatches until things get better (Chapman 2017a).

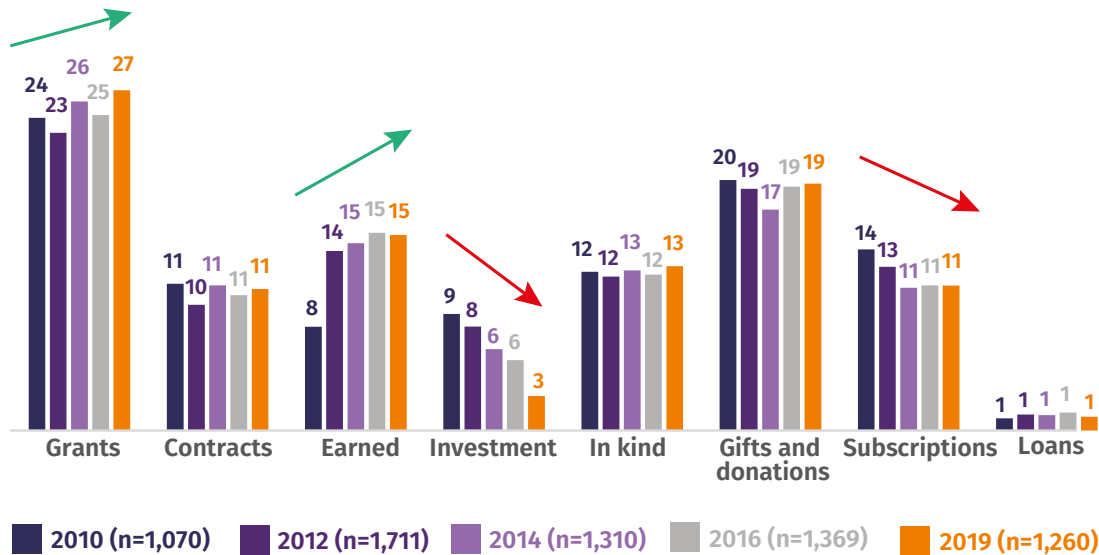
THIRD SECTOR RELIANCE ON DIFFERENT SOURCES OF INCOME: TRENDS OVER TIME

The third sector relies on a wide range of financial, in-kind, and people resources, but the extent of reliance changes over time. Figure 5.1 illustrates the changing levels of reliance on resources in ‘relative terms’ over the last 10 years using Third Sector Trends Survey data.⁷ Through a discussion of these data, we can examine the resilience of the sector and how TSOs adapt to new circumstances. This may then help us to speculate on how the sector may respond to the current situation created by the Covid-19 crisis.

⁷ The data in this graph are based on how survey respondents rated the relative importance of different income sources for their work for each year that the Third Sector Trends Study was conducted.

FIGURE 5.1: THE RELATIVE IMPORTANCE OF DIFFERENT INCOME SOURCES FOR TSOs HAS VARIED SIGNIFICANTLY OVER TIME

Relative importance (%) of income sources to TSOs, North East and Cumbria, 2010–19



Source: Third Sector Trends Survey 2019

Grants from trusts and foundations, government, and private sector businesses have remained the most important source of income in the third sector since 2010, and the level of reliance on grants has risen slightly over time. Very few TSOs (apart from micro organisations) have no reliance on grant income. The importance of grants has continued in spite of much criticism of ‘grant dependence’ by sector commentators a decade ago – when social enterprise was strongly promoted as an alternative way of achieving independence and financial ‘sustainability’.

Public service delivery contracts have never represented a significant source of income for the majority of TSOs. Only larger TSOs are generally in a position to take on these types of contracts, though some medium-sized and smaller TSOs may be sub-contracted to do elements of the work. But, even among the biggest TSOs, about one-third of them choose not to take that option and focus instead on objectives they’ve prioritised, rather than those dictated by the state.

Reliance on **self-generated earned income** increased, in relative terms, dramatically between 2008 and 2010, and continued to rise thereafter before stabilising between 2016 and 2019. The importance of trading income increased in relative terms in response to the financial crisis of 2008 and subsequent austerity programmes, and is indicative of the sector’s ability to flex to circumstances. While TSOs were strengthened by engaging in trading up to 2019, the reverse may now be the case (as discussed in more depth below).

The value of **investment income** to TSOs, in relative terms, has plummeted over the last decade. This means that TSOs no longer perceive investments as a reliable source of income in comparison with their other income sources. That said, NCVO analysis (NCVO 2020) demonstrates that while the financial yield of investment is low, the scale of sector investments has held up well over the last decade. Indeed, in 2017/18 the net assets of the sector in the UK grew to £142

billion. NCVO concluded that “investments were the main driver in the overall growth of assets and grew by £4.1 billion” (ibid).⁸

The financial value of **in-kind** support from private sector businesses, the local public sector or other TSOs cannot be easily quantified. But in relative terms it is important to recognise that in-kind support (such as free training, use of space and facilities, pro-bono consultancy or professional services, work by employee supported volunteers, and so on) has always been regarded as an important element of the third sector’s resource mix.

Public giving is the single most important source of income for the third sector overall. NCVO have demonstrated that 47 per cent of sector income is derived from public giving (ibid), but this income is not distributed evenly across the sector. According to a reanalysis of NCVO Charity Commission data, just 4.4 per cent of gift and legacy income is received by micro organisations, compared to 14.2 per cent by TSOs with income between £10,000 and £1 million. By contrast, 81.4 per cent of the money donated by the public is attained by TSOs with income of £1 million or more (ibid).

In the north of England, **subscriptions** tend to be a more important source of income for micro organisations (Chapman 2020c). But there are exceptions; major charities such as the National Trust rely heavily on subscription income from their 5.6 million members.⁹ Over the last decade, the relative importance of subscription income has declined in comparison with earned income which has risen.

While social investment has attracted enormous political interest in recent years, sector interest in **borrowing** money remains extremely low and, in relative terms, such income sources have remained largely insignificant. Only bigger TSOs consider loans to be of greater relative importance, but even among these TSOs, borrowing is regarded as the least important source of income in the mix. This is likely to reflect the ‘prudent’ approach TSOs tend to have towards finances, rather than ‘risk aversion’ as is sometimes asserted by critics (Chapman 2017b).

IMPLICATIONS OF COVID-19

Many of the financial impacts of Covid-19 on the sector are likely to be stretched across several years, just as was the case after the 2008 crash. If the pandemic and following recession leads to fewer charitable grants (due to, for example, lower level returns from the endowments of trusts and foundations), as well as further austerity for local government, then the finances of TSOs will come under pressure in the short and longer term.

Those reliant on earned income will have already seen a significant negative impact, because of lockdown and social distancing rules that have meant that many functions will have had to close, or to change their operations radically. Revenue from charity shops, venue hire, large scale events which bring in substantial sponsorship revenue (such the Great North Run), and cafes, for example, will have collapsed, and organisations will also have incurred financial costs to ensure that their facilities are Covid-secure. Arguably, the sector is now more vulnerable to losses from earned income than previously because of the concerted policy shift towards social enterprise and away from grant ‘dependency’.

8 It should be noted that the investments held by large national charities skews these data to some extent. In relative terms, the local third sector (such as that in the regions of the North) is less reliant upon nor as successful in building substantive investments.

9 National Trust membership data, downloaded 3rd August, 2020: <https://www.nationaltrust.org.uk/lists/fascinating-facts-and-figures>

The implications of Covid-19 on fundraising income are likely to be significant. Some have predicted, for example, that the cancellation or redesign of major events will lead to a significant loss of fundraising income. Our analysis suggests that this will primarily impact upon the largest TSOs.

The reliance of the very smallest organisations on volunteering time means that the economic impacts of Covid-19 may hit them less hard compared to larger TSOs, which need to secure the financial resources to pay their staff. But that is not to say that very small TSOs are invulnerable; on the contrary – many may face real problems if they cannot draw upon the time and good will of their volunteers because of social distancing and/or local lockdowns.

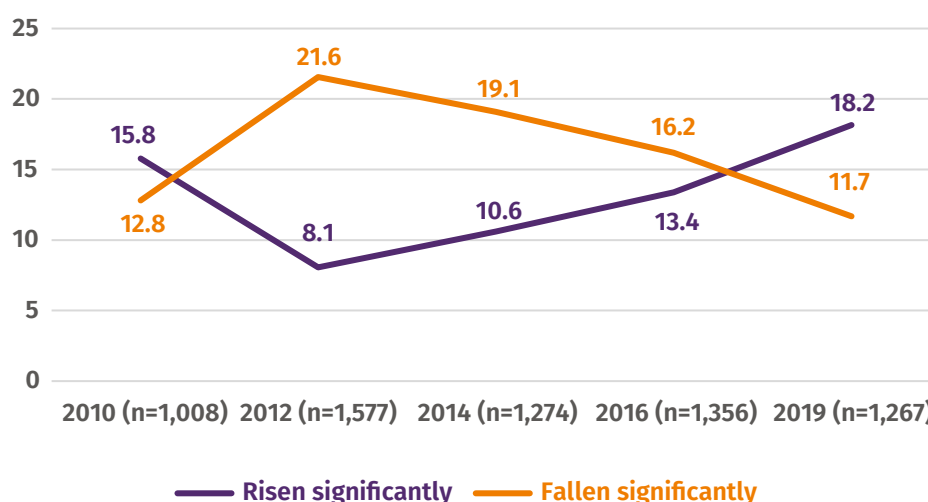
6. THIRD SECTOR RESILIENCE IN A TIME OF PANDEMIC: WHAT CAN BE LEARNED FROM THE 2008 RECESSION AND AUSTERITY?

The analysis in this report has shown the changing levels of reliance on financial and in-kind resources over the previous decade. This provides us with insights into the impacts of the previous 2008 financial crisis, recession, and subsequent austerity on the third sector. While Covid-19 and the emergent recession are very different types of economic and social events, it is useful to reflect on what the Third Sector Trends Survey results over time tell us about how the sector responded to the 2008 economic crisis.

A useful indicator of financial wellbeing is the proportion of TSOs that experienced ‘significantly rising’ or ‘significantly falling’ income over the previous two years (at each stage of the Third Sector Trends Survey).¹⁰ Figure 6.1 shows that, from 2008–19, relative stability has been the norm in the sector – although this is not to argue that maintaining stability has been easy as TSOs juggle priorities and practices to meet the requirements of their principal funders, generate their own income or through fundraising from the public.

FIGURE 6.1: THE PROPORTION OF TSOs WITH RISING INCOME COLLAPSED BETWEEN 2010 AND 2012

Percentage of TSOs with significantly rising or falling income, North East and Cumbria, 2008–19



Source: Third Sector Trends Survey 2019

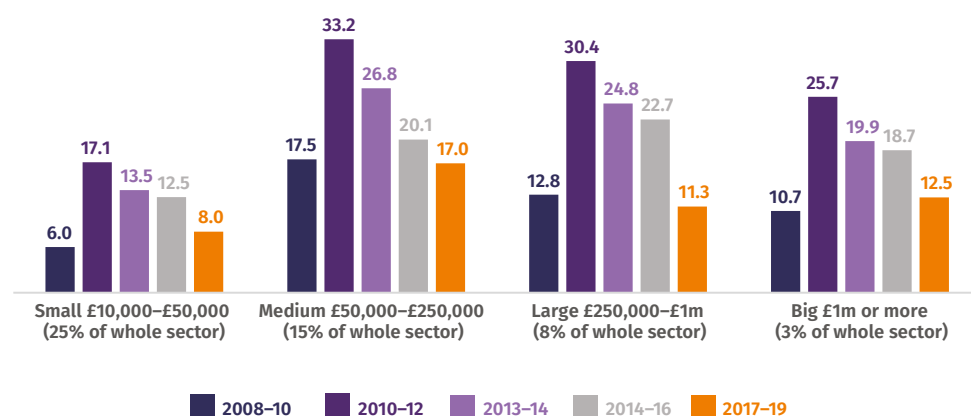
¹⁰ It should be noted that ‘falling income’ is not necessarily an indication of decreased financial security. Often TSOs have to manage significant levels of turbulence in their income portfolios over time, but these are often expected and can, as a consequence, be carefully managed (see Chapman 2017a).

The impact of the 2008 crash on the sector is also evident. The proportion of TSOs with rising income collapsed between 2010 and 2012 from 16 per cent to 8 per cent, and conversely those experiencing a significant fall in income increased from 13 per cent to 22 per cent. After 2012, as the economy slowly recovered, the proportion of TSOs with significantly rising income increased steadily from 8 per cent to 18 per cent by 2019. The overall picture improved slowly over subsequent years, although it took until the end of the decade for the proportion of struggling TSOs to drop back to 12 per cent.

Figure 6.2 compares the percentage of TSOs of different sizes which faced significant financial challenges over the last 10 years (micro TSOs are not included in the analysis because their reliance on financial resource is lower in relative terms when compared with their reliance on volunteers).

FIGURE 6.2: LEVELS OF INCOME IN TSOs ACROSS THE NORTH EAST AND CUMBRIA FELL DRAMATICALLY BETWEEN 2008 AND 2010

Percentage of TSOs with significantly falling income, North East and Cumbria, 2008–19



Source: Third Sector Trends Survey 2019

Note: Sample sizes: 2010= 970, 2012=1546, 2014=1070, 2016=1289, 2019=1201

Figure 6.2 shows that between 2008 and 2012, levels of income in the third sector fell dramatically, irrespective of TSO size. Small TSOs generally have a lower reliance on financial resource to keep going because of low staff overhead costs; nevertheless, the percentage of small TSOs facing significant cuts in their income rose from 6 per cent to 17 per cent during this period.

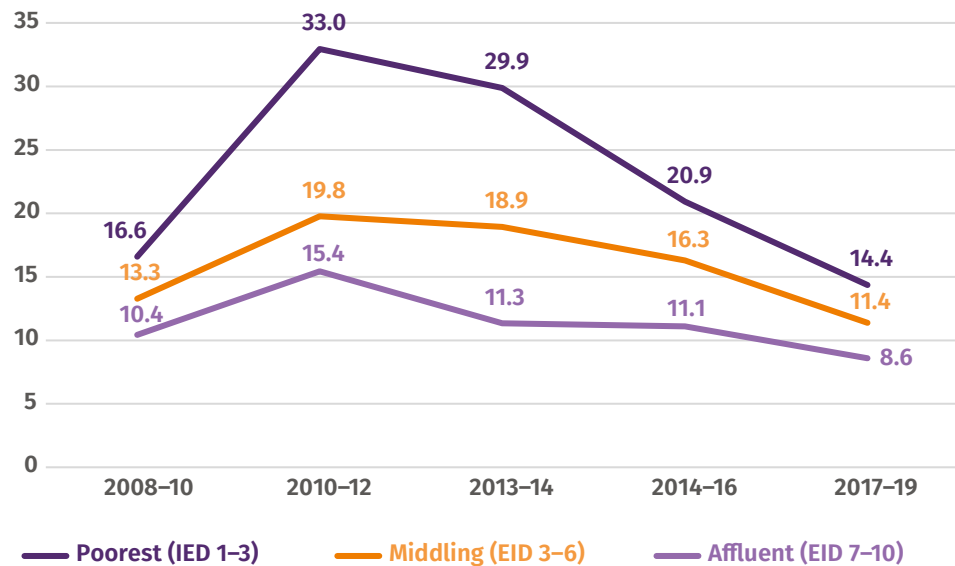
Medium-sized TSOs (with income between £50,000 and £250,000) were hit hardest. In the results from the 2008–10 Third Sector Trends Survey, 17 per cent of medium sized TSOs had experienced significant levels of falling income, but this rose to 33 per cent by the time of the 2010–12 Third Sector Trends Survey. But the situation steadily improved over the rest of the decade, and the percentage of TSOs facing significant financial challenges fell from 33 per cent to just 17 per cent.

What this data suggests is that it is not just the size of TSOs that impacts on financial wellbeing; the places where they are located can also have a substantive effect on their situation, as shown in figure 6.3.¹¹

¹¹ While the location of TSOs in richer or poorer areas clearly has an impact on their financial wellbeing, it should not be taken as read that such organisations operate exclusively in these areas. For more detailed analysis see: Chapman 2020b, 2020c, and 2020d.

FIGURE 6.3: TSOs IN THE POOREST AREAS HAVE BEEN HIT HARDEST DURING THE LAST DECADE

Percentage of TSOs experiencing significantly falling income based in areas of relative affluence or deprivation, North East and Cumbria, 2008–19 (English indices of deprivation)



Source: Third Sector Trends Survey 2019

These data show that TSOs based in areas with the highest levels of deprivation were much more likely to face significant financial challenges throughout the decade. Between 2008–10 and 2010–12, the percentage of organisations in the poorest areas with significantly falling income increased from 17 per cent to 33 per cent. By comparison, in more affluent areas, the percentage increased from just 10 per cent to 15 per cent. The disproportionate effect of austerity during the last decade, particularly on communities with the highest levels of deprivation has been highlighted elsewhere, for example, Johns (2020).

After 2012, there was a slow period of recovery and the percentage of TSOs with significantly falling income declined steadily until, by 2019, differences had both fallen and narrowed by area considerably (only 14 per cent of TSOs in the poorest areas had significantly falling income, compared with 9 per cent in more affluent areas).

IMPLICATIONS OF COVID-19

Based on our analysis, the third sector has proven to be highly resilient in the face of economic challenge. Despite some of the more dramatic predictions of its collapse, many TSOs - the very smallest, in particular - have managed to weather a recession and austerity by adapting effectively to new circumstances. There is a recurring perception in popular media that charities, community groups, and organisations that rely upon volunteers are fundamentally unstable, weak, and constantly on the brink of collapse. What the analysis in this report shows is that, contrary to this popular perception, TSOs are stronger than they are given credit for, and demonstrate a high level of resilience and adaptability to economic change.

However, the 2008 crash did have a significant impact on income for TSOs, with knock-on effects for their operations. Given the forecasts for the scale of the economic shock from Covid-19, we can assume that organisations will once again experience an even higher drop in income than previously. For example, it was estimated by NCVO that the sector could face a shortfall of £4.6 billion in income in the first financial quarter of 2020 (Whitehead 2020).

During the Covid-19 crisis to date, we have seen how it has had a disproportionate impact on those communities with the highest levels of inequality and deprivation. Similarly, we should expect the financial impacts of Covid-19, to also be highly uneven. Like in the aftermath of the 2008 crash, we can expect that those TSOs in the most deprived areas will be more severely impacted, and that TSOs who rely on earned income will be also be disproportionately affected.

7. CONCLUSIONS

Covid-19, and the impact of recession, are likely to have a profound impact on the third sector in the North. Many organisations will have already seen an immediate impact on their activities through increased levels of demand, the impacts of social distancing, and the loss of trading income.

These impacts will be felt keenly over many years, with knock-on effects of a recession on corporate and foundation giving, and, potentially, a new wave of austerity as the public purse comes under sustained pressure.

However, previous experience tells us that despite popular opinion, the third sector has high levels of resilience and adaptability. The evidence presented in this report demonstrates this resilience in the years since the 2008 financial crash, and throughout a decade of public sector cuts. This resilience seems to originate from:

- the size and diversity (in terms of different types of organisation) of the sector
- a significant volunteer base on which three-quarters of the sector primarily relies
- multiple income streams, and a 'make do' attitude
- a distinctive culture that discourages organisations from not living beyond their means
- the independent spirit of TSO leaders, staff, and volunteers, and their focus on issues which are important to them despite sustained pressure from policy and practice.

Because of this, many TSOs will work hard to survive the impacts of Covid-19 by adapting their working practices and responding creatively to the challenges they face now and in the future. Warnings about the collapse of the sector may therefore be premature and may actually be detrimental to the reputation of the sector. In most cases, TSOs are and will continue to be a vital asset to the health and wellbeing of their local area and its economy. Indeed, the work of TSOs will be central to the post Covid-19 recovery of many places.

However, some TSOs are more vulnerable to the potential impacts of the pandemic and ensuing recession than others. In the years after the 2008 crash, one in six charities (17 per cent) experienced a significant fall in income. Although many will have been able to make changes to ensure their survival, this will have had an impact on the work they were able to carry out, and the effects were drawn out over many years. In addition, Covid-19 presents new pressures for the sector – particularly the restrictions imposed by the requirements of social distancing, which may have a significant impact on volunteering.

There is little doubt that, despite the sector's ability to adapt, the economic impacts of Covid-19 will be profound – particularly after the job retention scheme ends in October 2020. Many funding organisations have already taken steps to support grantees. We recommend that policymakers, grant-makers and other organisations which work alongside TSOs should:

- **Maintain clear and consistent communication with grantees** about the status of current funding and future plans for funding third sector activity, including at what scale.
- **Support research as to the future role of TSOs in the post Covid-19 recovery**, particularly how investment in the third sector can underpin a more resilient, and more inclusive approach to economic development. We recommend that measures to 'build back better' in the North, including the formation of a northern 'growth body' or 'prosperity board', should include a new deal for the North's civic sector. This could include active representation and engagement on the board, so as to make full use of the sector's resourcefulness and creativity. There should also be consideration of 'civic investment and return' when it comes to addressing challenges such as high street decline, long term unemployment, and restoring pride and purpose in so called 'left behind' communities.
- **Recognise that TSOs which rely on self-generated trading are under particular threat and need support** to get them through very difficult trading conditions over the next two years – in addition to emergency funding. These organisations form the bedrock of the local third sector and need to be recognised for their social function in hard-pressed communities, not just their economic sustainability as quasi-businesses. This could take the form of bridging loans, emergency grants and pledges to pay invoices promptly.
- Where appropriate, **grant-giving and commissioning organisations should consider how projects and initiatives to manage the spread and impacts of Covid-19 in their communities could be effectively run and operated by TSOs**. This means ensuring that procurement and commissioning processes are accessible and open to TSOs to bid for, either individually or as a consortium.
- One of the lessons from the previous recession was how TSOs benefitted from the Future Jobs Fund. In the efforts to help people back into employment and training, particularly those who have been made unemployed in the current crisis, the potential role of civil society should not be overlooked. Initiatives such as the government's Kickstart Scheme, as well as local projects to mitigate the impacts of unemployment on local communities, should ensure that they are working with third sector as well as private sector organisations to identify potential jobs, training, volunteering and work experience opportunities.
- This research suggests that TSOs in areas of high deprivation are particularly vulnerable in a time of economic crisis. Similarly, we know that rates of Covid-19 deaths are disproportionately high in communities with the highest levels of deprivation and among BAME people (ONS 2020b). Therefore, **grant-making organisations in regions like the North (with a higher proportion of communities living in areas of deprivation) should consider how they can target their support** so as to underpin the work of TSOs in these communities.

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