



# Third Sector Trends in North East England and Cumbria

**Headline trends 2008-2014**

**Tony Chapman and Fred Robinson**



**Policy&Practice  
St Chad's College  
Durham University**

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# **i** Acknowledgements

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We are immensely grateful to the many people in Third Sector organisations who have contributed to this study, particularly those who took part in our foresight panels, helped us with the case studies, and responded to our questionnaire survey. We hope that our findings will be useful to them and to the sector as a whole.

We also acknowledge the role of our fellow researchers: Emma Dunkerley and Ian Zass-Ogilvie, at St Chad's College; and, Dr Victoria Bell and Dr Peter van der Graaf at Teesside University who were heavily involved in undertaking fieldwork and preliminary analysis in the TSO50 and TSO1000 studies in 2010 and 2012.

# 1 Introduction

This report presents preliminary findings from the 2014 Third Sector Trends survey. Its purpose is to begin an exploration of trends from 2008-2014 by providing headline results. Further reports will follow in 2015 with more in-depth analysis of the data.

As we have built up evidence over many years, we have become more able to deliver forthright messages about the structure, dynamics and mood of the Third Sector. And yet, some people tell us that our findings 'don't ring true'. In other words, we have said things that challenge or even contradict the 'conventional wisdom' about what life is like in the Third Sector. It is important, therefore, to make some comments about the validity of the data which are being used.

When we were commissioned to do this research, which began in 2008, we were asked to do a 'root and branch' study of the Third Sector. It was agreed that we should not position ourselves as 'advocates' for the sector – but rather we were set the task of producing as 'objective' a view of the situation as possible.

In the Third Sector Trends study (TST) questionnaires, we have been careful not to ask questions which will produce stock responses.<sup>1</sup> And we have also been careful to ask about the same issues in different ways to check whether or not the findings are consistent and reliable. Reliability and consistency are different things.

*Reliability* refers to the confidence researchers have in the quality of data. Quality comes from several sources such as:

- The *size* of the data set – to ensure that data can be sufficiently well disaggregated to explore in depth. All the TST data sets have been large (1,050 in 2010, 1,700 in 2012 and 1,300 in 2014).
- The extent to which responses came from a *representative* sample of organisations drawn from undifferentiated listings of organisations in an area rather than being a 'self-selected' group of responses from organisations which are particularly interested in a topic.
- The extent to which questions are asked about issues upon which organisations can realistically have a view and are able to express that view. Also, the extent to which TSOs have information immediately to hand so that

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<sup>1</sup> Writing questionnaires which produce credible evidence is not easy to do. Writing questionnaires to find out what you *want* to find is much easier. Sadly, there have been far too many surveys undertaken which fall squarely into the second category – where questions have been designed (on purpose or accidentally) to elicit responses which 'confirm' *what everyone knows to be true*. In one recent local survey outside of the TST study region, for example, this question was asked: "Overall how would you say that your organisation is being affected by the recession? (tick one box): very badly affected; badly affected; not affected one way or the other; positively affected (If yes please say below what is affecting your organisation). By 'if yes', it is implicitly presumed that it is a negative effect. See Simpson *et al.* 2009

a response to most questions can be given: so producing a complete set of data.

*Consistency* is a different matter. People who respond to questionnaires about the operating environment in the Third Sector can hold conflicting or contradictory views. We have demonstrated in previous reports, for example, that while respondents may be quite gloomy about the prospects for the Third Sector as a whole, they can feel confident about the situation of their own organisation.

This does not constitute a statistical anomaly, therefore, but a clear picture of the realities of working in the Third Sector. As this report shows, for example, trend analysis indicates that people in the Third Sector 'feel' that their reliance upon 'earned income' has steadily increased over the last six years. But when we look at the *proportion* of organisational income which is earned over time, we find less evidence of change.

To take a second example, we find from quantitative and qualitative research that many organisations which describe themselves as 'social enterprises' do not plan in a businesslike way and often do not actually earn much or, indeed, *any* income from enterprising activity. While on the other hand, we find many organisations which vigorously eschew the label of social enterprise but are very businesslike in their practice and earn much of their income.

We find that while there are discernible changes in experience, practices and attitudes over time – there is a good deal of continuity. We consistently find that the majority of people in the Third Sector are generally quite optimistic about the future when it comes to thinking about the situation of their own organisation. We also find that most organisations don't change the way they do things very much over time (and often do not want to either). Those organisations which do want to change or *must* change are generally flexible enough to respond to the challenges and opportunities they face

When such findings are presented – some people are aghast! They ask us, how is it possible that we don't recognise the *crisis* the sector is facing? But the point of the Third Sector Trends study was to find out what factors contribute to the sector's resilience to withstand change and have the momentum to capitalise on new opportunities.

### ***The structure of this report***

This report is divided into seven substantive sections which cover the following issues:

- Section 2 presents an overview of the research methodology employed in the Third Sector Trends study and outlines other related research projects which have informed our understanding.
- Section 3 provides a detailed discussion of the sample characteristics. This section shows that the data from each wave of the study are directly comparable. Furthermore, it is shown that the findings from the study will be relevant to other areas of the country.
- Section 4 considers trends in the income profile of TSOs from 2008-2014. The analysis also explores the extent to which TSOs value different kinds of given, earned and borrowed money.

- Section 5 shows the extent to which TSOs are involved with enterprising activity. The principal focus is on the propensity of organisations to engage with the delivery of public sector contracts.
- Section 6 looks at the way that relationships work within the Third Sector and between the Third Sector and public and private sector organisations.
- Section 7 presents trend data on TSOs' expectations about the future. It focuses particularly on expected changes in, for example, employment, partnership working, volunteering and income generation.
- Section 8 examines the way that TSOs are preparing to meet the challenges and opportunities of the future by developing their capability.
- Section 9 provides a summary of key findings and offers some preliminary observations on the implications of the research.

# 2 Research methodology

The Third Sector Trends study was designed to examine how TSOs fare over time in the context of change. As a long-term longitudinal study, it was possible to devise a methodology which observed the Third Sector from a number of vantage points. This included:

- The TSO50: a longitudinal study of fifty Third Sector organisations which was planned to take place over a period of seven years beginning in 2009. The second phase of the research fieldwork of the TSO50 was completed in 2012. The research involved observation, interviews and statistical research on a representative sample of organisations. A third and final phase of work is planned to take place in 2015.
- The TSO1000: a survey of TSOs in the study region (the North East of England and Cumbria) was planned to take place in three phases. The first survey, attracting 1,055 responses, took place in 2010. The second survey was completed in 2012 and drew in 1,700 responses. The final survey took place in 2014 and attracted 1,300 responses.
- Foresight Panels: in 2010 three foresight panels were established, in Cumbria and in two areas of North East England (Northumberland and Tyne and Wear, and County Durham and Tees Valley). In 2010, 12 focus groups took place with the panels, together with three short on-line questionnaires to gauge opinion on sector wellbeing from a representative group of Third Sector, private sector and public sector stakeholders.

Our work on the Third Sector Trends Study has been complemented by a number of related research projects.<sup>2</sup>

- For the ***Institute for Local Governance***, four interrelated, but separate research projects, on Third Sector and public sector relationships have been undertaken. In 2012-2013 a study was carried out by Tony Chapman for Northumberland County Council to examine the strategies to produce a conducive environment for the development of socially enterprising activity and promote social growth. In County Durham, Fred Robinson began a study on asset transfer which commenced in 2012 and will be completed in 2014. In 2012-13, a project was undertaken for Stockton-on-Tees Council by Tony Chapman to explore ways of assessing the value of investment by the Council on the Third Sector. These three studies in County Durham, Stockton-on-Tees and Northumberland explored complementary issues, making it possible to test ideas in similar and different contexts.<sup>3</sup> Currently a

<sup>2</sup> Brief details on the methodologies adopted in each of these studies can be found in the Appendices of this paper. More detailed discussions can be found in earlier working papers: for the TSO50 see Chapman and Robinson, *et al.*, 2010 and 2012; for the TSO1000 see Chapman and van der Graaf, *et al.* 2011; and, for the Foresight Panels, see Bell and Robinson, *et al.* 2011.

<sup>3</sup> In Northumberland, additional research work has been undertaken since 2011 on the initiation and review of operation of new consortia arrangements for infrastructure support in the county. This work is also of assistance to the present project as there may be some scope to integrate aspects of sector intelligence gathering activity in Stockton-on-Tees drawing upon recent experiences in Northumberland. A second study for the ILG on the role of TSO organisations in the delivery of Total Place initiatives was

new study is being undertaken by Tony Chapman for **Sunderland City Council** on the same lines as these ILG projects, deepening further our understanding of sector dynamics in North East England. Previous to these studies, another project for the ILG, led by Tony Chapman, was undertaken on the role of place-based budgeting (previously known as Total Place) in 2011. This study explored the importance of collaborative governance and partnership working in the delivery of integrated services. The research involved content analysis of evaluation reports from 20 Total Place initiatives and concluded with a seminar for TSO and public sector officers.<sup>4</sup>

- For **Involve Yorkshire and Humber** a Third Sector Trends study (YHTST). This research began in 2008 as a smaller-scale sister project to the NRFTST. The quantitative study replicated analysis of Guidestar data on registered TSOs in the region by Southampton University. In 2013 a quantitative study was undertaken to update previous NRFTST analysis. Tony Chapman carried out this study, funded by Joseph Rowntree Foundation and Involve Yorkshire & Humber which involved an online survey with 1000 organisations. The study also partly replicates analysis from an earlier study for York and North Yorkshire Infrastructure Consortium on the Third Sector undertaken in 2008 (which in turn was a replication of an earlier study by Leeds Metropolitan University in 2000).
- For **One North East**, the former Regional Development Agency, a study of public sector and TSO relationships in Tees Valley was undertaken in 2008. This involved a series of seminars with public sector and Third Sector participants from Darlington, Hartlepool, Middlesbrough, Stockton-on-Tees and Redcar and Cleveland. The study explored internal and external perceptions of sector strengths and weaknesses. It produced new insights on the cultural conditions under which collaborative governance can operate successfully.<sup>5</sup>
- For **Garfield Weston Foundation**. A study of the situation of the Third Sector in North East England by Professor Cathy Pharoah of the Centre for Charitable Giving and Philanthropy and Tony Chapman which involved a survey and a series of interviews with key stakeholders about the current funding situation in the region. The study, carried out in 2013-14 was particularly concerned with the role of non-statutory funding for TSOs coming from charitable foundations and provided valuable insights on the shifting balance between statutory and charitable foundation funding to the Third Sector.<sup>6</sup>

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undertaken in 2010 by Tony Chapman with colleagues from the TSO in Stockton-on-Tees. This work considered patterns of collaborative governance which were aligned closely to commissioning and procurement models presented by the Audit Commission. Details of the project can be found at this address:

[http://www.tees.ac.uk/sections/Research/social\\_futures/research53.cfm](http://www.tees.ac.uk/sections/Research/social_futures/research53.cfm).

<sup>4</sup> The report from can be found at this web address: <http://www.tees.ac.uk/docs/docrepo/Research/Total%20Place.pdf>

<sup>5</sup> This research was published in the following article: Chapman, *et al.* (2010) 'Trouble with Champions: local public sector-Third Sector partnerships and the future prospects for collaborative governance in the UK', *Policy Studies*, 31:6, 591-613.

<sup>6</sup> The report by Pharoah, *et al.* (2014) was published in March 2014 and is available from:

[http://www.garfieldweston.org/\\_common/updateable/documents/2576d2e1-eb88-4a3d-b48c-525cd6fd82a3.pdf](http://www.garfieldweston.org/_common/updateable/documents/2576d2e1-eb88-4a3d-b48c-525cd6fd82a3.pdf).

# 3 Sample characteristics

Before analysis of headline findings can proceed, it is necessary to demonstrate that the sample structure of the Third Sector Trends study is appropriate for comparative analysis. Secondly, it is important to examine the extent to which the sample in North East England and Cumbria resembles the national situation so as to allow for more general observations to be made about the situation of the Third Sector.

## ***Comparability of longitudinal data***

Figure 1 presents data on the range of TSOs' income profiles from 2010 to 2014. The purpose of presenting these data is to assess the extent to which sample structures are broadly similar and suitable for the purpose of comparison. While it is to be expected that the proportion of TSOs in income categories may have changed to some extent over time, the likelihood is that the magnitude of such change would be limited. If samples are broadly comparable it would be expected that variance, in percentage terms, from the mean in each category for all cases (from 2010 to 2014) would not exceed 2-3%.

It is clear from data presented in Figure 1 that there is a very low level of variation from the combined sample mean across the life of study – and in no category is the variation greater than 2%.

Figure 1

<b>Third Sector Trends samples compared by organisational income: 2010-2014</b> (column percentages)	2010	Variance from average	2012	Variance from average	2014	Variance from average	Average number of TSOs in each category (all cases 2010-2014)
No income	3.2	0.1	3.2	0.1	2.8	-0.3	3.1
£1 - £2,000	13.6	0.2	14.7	1.3	11.8	-1.6	13.4
£2,001 - £5,000	13.2	1.2	11.8	-0.2	10.9	-1.1	12.0
£5,001 - £10,000	13.3	0.3	13.2	0.2	12.5	-0.5	13.0
£10,001 - £25,000	14.0	0.2	13.9	0.1	13.4	-0.4	13.8
£25,001 - £50,000	7.5	-0.6	7.9	-0.2	8.8	0.7	8.1
£50,001 - £100,000	9.5	0.5	8.7	-0.3	8.7	-0.3	9.0
£100,001 - £250,000	9.0	-1.3	9.7	-0.6	12.3	2.0	10.3
£250,001 - £500,000	6.7	-0.3	7.2	0.2	7.1	0.1	7.0
£500,001 - £1,000,000	4.3	-0.3	4.8	0.2	4.5	-0.1	4.6
£1,000,001 or more	5.6	-0.2	4.8	-1.0	7.1	1.3	5.8
N=	1,027		1,595		1,189		3,811

It is useful to check comparability of samples by recording the number of respondents in each of the five sub-regions of the study area between 2010 and 2014. Data presented in Figure 2 shows that there is some variation between phases of the study.

- The percentages of responses from Cumbria have stayed at the same level throughout the longitudinal study.
- The percentages of responses from County Durham and Northumberland have been very similar throughout the period of study.
- In Tyne and Wear, the proportion of organisations has dipped by 2.5% in 2014 from the combined sample mean.
- In Tees Valley, the proportion of organisations dipped by 2.3% in 2012 but was 2.3% above the sample average in 2014.

These data show, in sum, that the samples are comparable over time.

Figure 2  
Third Sector Trends samples compared by sub-region: 2010-2014  
(column percentages)

	Third Sector Trends Sample 2010	Variation from combined sample mean	Third Sector Trends Sample 2012	Variation from combined sample mean	Third Sector Trends Sample 2014	Variation from combined sample mean	Combined sample mean 2010 to 2014
Cumbria	30.1	0.0	30.0	0.0	30.1	0.1	30.1
Northumberland	14.3	-0.4	14.8	0.1	14.9	0.2	14.7
County Durham	15.9	-1.0	17.5	0.6	16.9	-0.1	16.9
Tyne and Wear	25.5	0.2	26.9	1.6	22.8	-2.5	25.3
Tees Valley	14.1	1.1	10.8	-2.3	15.4	2.3	13.1
N=	991		1,653		1,156		3,800

The third test of sample comparability is to consider the age of TSOs as shown in Figure 3. As in the previous figures, it is shown that samples are broadly comparable. Two variations of above 2% from the mean for the combined sample should be noted.

- The 2014 sample has 2.6% fewer TSOs established between 1980-1989 when compared with the combined sample average. It is not possible to explain why this small difference has emerged.
- The 2014 sample has 3.7% more TSOs established after 2010 when compared with the combined samples. The reason for this is that time has elapsed (4 years) since the earliest survey, so allowing for new organisations to be established.

While some variation in sample composition has been noted, it is worth bearing in mind that fewer TSOs responded to this question than in the previous two figures – suggesting that the comparability check in Figures 1 and 2 provide the more reliable indicators.

Figure 3

**Third Sector Trends samples compared by age of TSOs: 2010-2014**
*(column percentages)*

	<i>Third Sector Trends Sample 2010</i>	<i>Variation from combined sample mean</i>	<i>Third Sector Trends Sample 2012</i>	<i>Variation from combined sample mean</i>	Third Sector Trends Sample 2014	<i>Variation from combined sample mean</i>	Combined sample mean 2010 to 2014
before 1900	6.9	0.5	6.1	-0.2	6.2	-0.2	6.4
1900 - 1945	17.6	1.9	15.8	0.1	13.7	-1.9	15.6
1945 - 1969	14.1	-0.9	16.1	1.1	14.4	-0.6	15.0
1970- 1979	9.2	-1.1	10.9	0.6	10.6	0.2	10.3
1980-1989	14.4	1.3	14.3	1.1	10.6	<b>-2.6</b>	13.1
1990-1999	20.0	0.7	19.0	-0.3	19.0	-0.3	19.3
2000 - 2009	17.7	-0.4	17.0	-1.0	19.6	1.6	18.0
2010 to date	0.1	-2.1	0.8	-1.5	5.9	<b>3.7</b>	2.2
N=	973		1,319		1,080		3,372

### ***Comparability with national statistics***

From the analysis presented above on organisational size, area of operation and age, it is clear that data from each of the biennial surveys are comparable and that data analysis can proceed with considerable confidence.

It is worthwhile first, however, to establish the extent to which the combined sample corresponds with national data on the distribution of Third Sector organisations.<sup>7</sup>

The purpose of this analysis is to assess the extent to which findings from the study may be regarded as generally applicable. Figure 4 shows that the Third Sector Trends data set is broadly comparable with the Charity Commission national data.

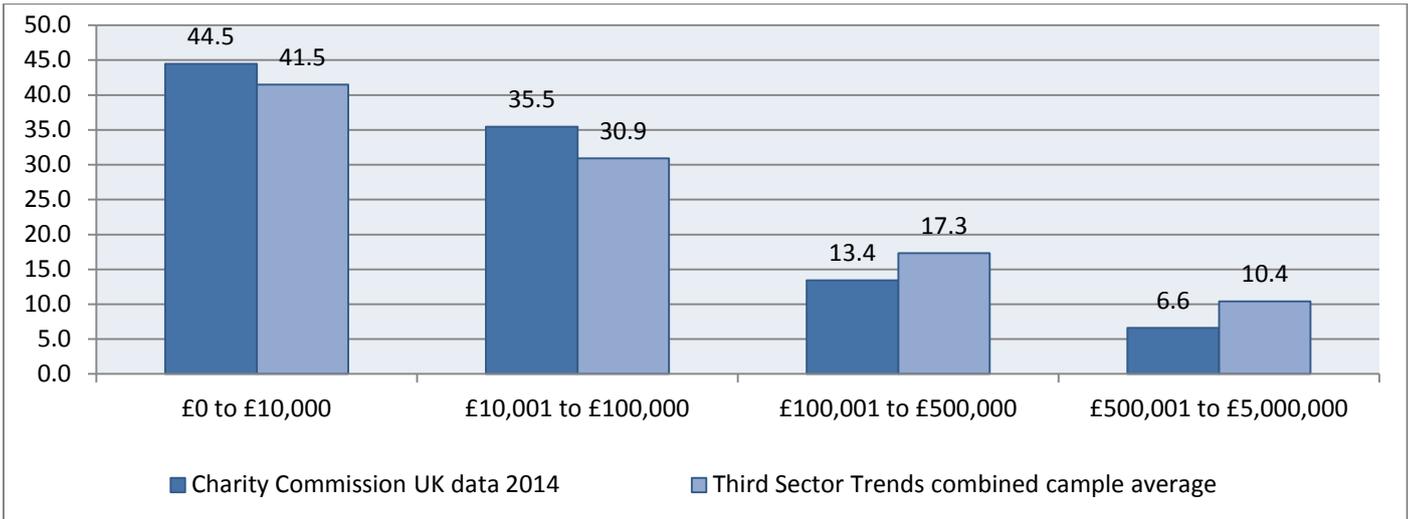
The following points should be noted:

- Charity Commission data refers to registered charities. Third Sector Trends data includes other non-profit organisations which have a social mission which may be registered as, for example, Community Interest Companies, Companies Limited by Guarantee or Industrial and Provident Societies.
- An impression is given that there are more large TSOs in North East England and Cumbria. But this is misleading as 44% of TSOs in the £500,000 plus category have income below £1m and very few (2.1%<sup>8</sup>) have income above £5m.

<sup>7</sup> Data from Charity Commission (March 2014). <https://www.gov.uk/government/publications/charity-register-statistics/recent-charity-register-statistics-charity-commission> (accessed online 3rd October 2014)

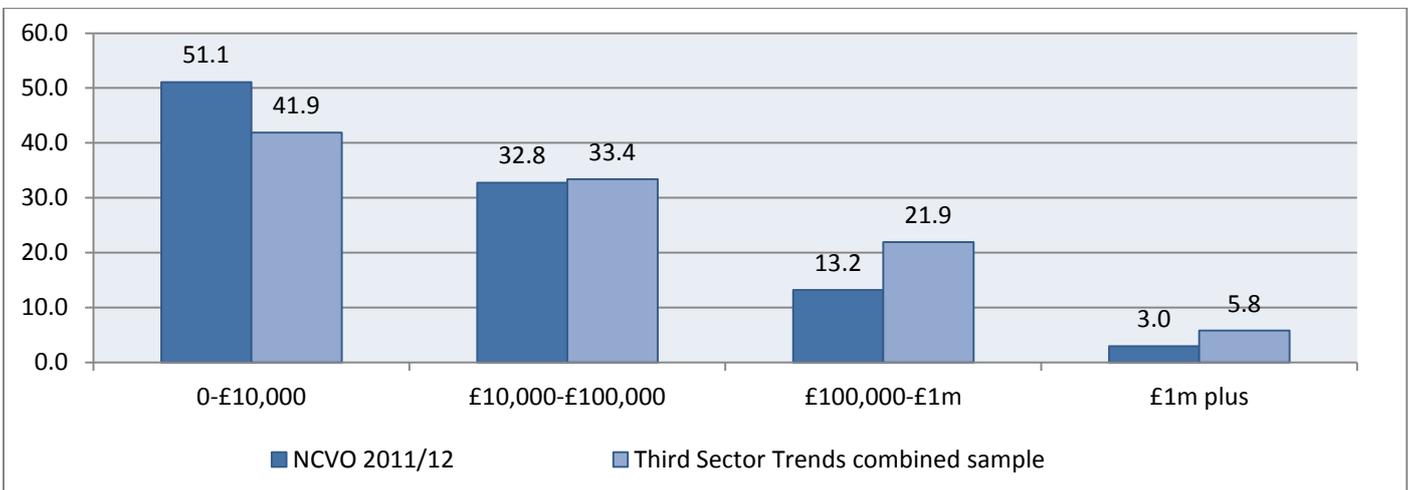
<sup>8</sup> Third Sector Trends studies did not disaggregate data for TSOs earning above £1m until 2014. 2.1% of TSOs in 2014 had income above £5m in the North East and Cumbria.

Figure 4 **Third Sector Trends data compared with Charity Commission data: income**



NCVO also produce annual statistics on the size and structure of the Third Sector. Figure 5 presents 2010-12 data from NCVO<sup>9</sup> on organisational income. The proportion of small TSOs in the Third Sector Trends study sample is smaller than predicted by NCVO. It is likely that this is due to lower response rates from such organisations as much of the questionnaire was concerned with issues that affect bigger organisations. It is also clear from these data that the number of responses in the Third Sector Trends study tend to be higher than UK averages in the £100,000 - £1m income bracket.

Figure 5 **Third Sector Trends data compared with NCVO data: income**



Comparisons with NCVO and Charity Commission data suggest that the Third Sector Trends data are broadly comparable with national data. However, the combined samples include more larger organisations than may be found in a census study of the sector. Consequently, it is necessary to be cautious about making direct comparisons with national data.

<sup>9</sup> NCVO data for the UK 2011/12, <http://data.ncvo.org.uk/a/almanac14/how-many-voluntary-organisations-are-active-in-the-uk-3/> Accessed online 3<sup>rd</sup> October 2014

The best way of proceeding with analysis, as has been the case in previous Third Sector Trends studies, is not to use whole sample data to indicate sector trends, but instead, to disaggregate TSOs by income brackets to reflect differences in their resource base, organisational structure and their capability to tackle different activities.<sup>10</sup>

In this paper two sets of distinctions are used to disaggregate TSOs:

■ ***Smaller and Larger TSOs***

This broad distinction has been devised to separate more informal smaller TSOs which generally do not employ any members of staff and have an income of less than £25,000 a year from larger more formal TSOs which do generally employ staff and have income above £50,000 a year.<sup>11</sup>

■ ***Small, Medium and Large TSOs***

These categories are devised to distinguish between TSOs with different levels of capacity to tackle issues.

- ***Smaller TSOs*** have income below £50,000. They are less formal organisations with few or no employees, usually (but not exclusively) operating at a local level and are almost entirely voluntarily led and run. They tend to be very independently minded and do not often work in formal partnerships.
- ***Medium TSOs*** have annual income between £50,000 and £250,000. They tend to be more formal organisations which employ a mix of employees and volunteers. Often they work across local authority boundaries and sometimes beyond. They tend to work in partnership more often than small organisations and are more likely to work to contract.
- ***Larger TSOs*** have annual income above £250,000 a year. They tend to employ a higher proportion of people but still rely upon volunteers; they have a larger resource base (including assets and a mix of earned, given and borrowed money) and often operate at a wider geographical level. They generally engage in partnership working and are the most likely to deliver public sector contracts.

### ***Summary of key points***

The above analysis has been presented to reassure readers, firstly, that the data which are presented in this report are fully comparable within the context of a longitudinal study of the Third Sector in North East England and Cumbria. Secondly, it has been demonstrated that the sample structure of the Third Sector Trends study is broadly in line with national estimates of sector structure and that extrapolations of general findings about TSOs may be of considerable interest to audiences beyond the study region to which these data refer.

<sup>10</sup> As the analysis proceeds over the next few months, data from the TST study will be used to estimate the size of the Third Sector in the study region as measured by income and full-time equivalent employees. When this analysis is undertaken, weights will be allocated to sample data to ensure that representative estimates are produced.

<sup>11</sup> Those TSOs which have income in the range £25,000-£50,000 are removed from the sample as those organisations in this intermediate position tend to share some characteristics of both larger and smaller TSOs.

# 4 Income

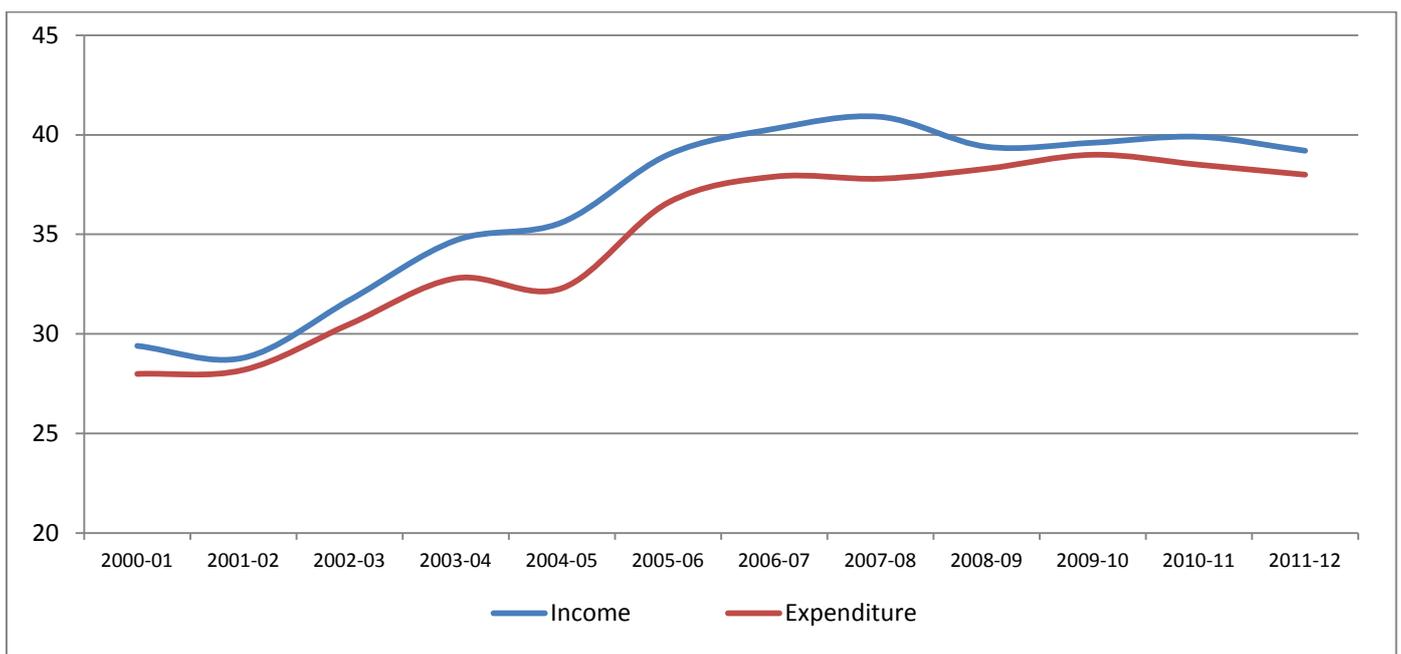
In previous Third Sector Trends reports it has been shown that TSOs are generally and continuously concerned about their financial situation. Worries about money are understandable in a constantly changing funding and economic environment. However, the survey evidence has generally shown that there is considerably more stability in sector income than might be imagined and that organisations are generally quite adaptable and resilient when faced with change.<sup>12</sup>

## Fluctuations in income

It is now possible to observe the extent to which change occurs over a relatively long period of time. Such analysis needs to be set within the context of national data on Third Sector income which has demonstrated that, even in economically challenging times, sector income has not tended to be affected as much as might be expected.

While there was a significant surge in Third Sector income between 2001-02 and 2006-07, headline national statistics do not tend to paint a picture of a sharp decline in Third Sector income over the last few years. Indeed NCVO’s recently produced data on broad income trends, shown in Figure 6, demonstrate the evidence of decline was limited up to 2011-12.

Figure 6 **National Third Sector income and expenditure 2000-2012 (£bns)**<sup>13</sup>



<sup>12</sup> See Chapman and Robinson (2013) *On the Money*.

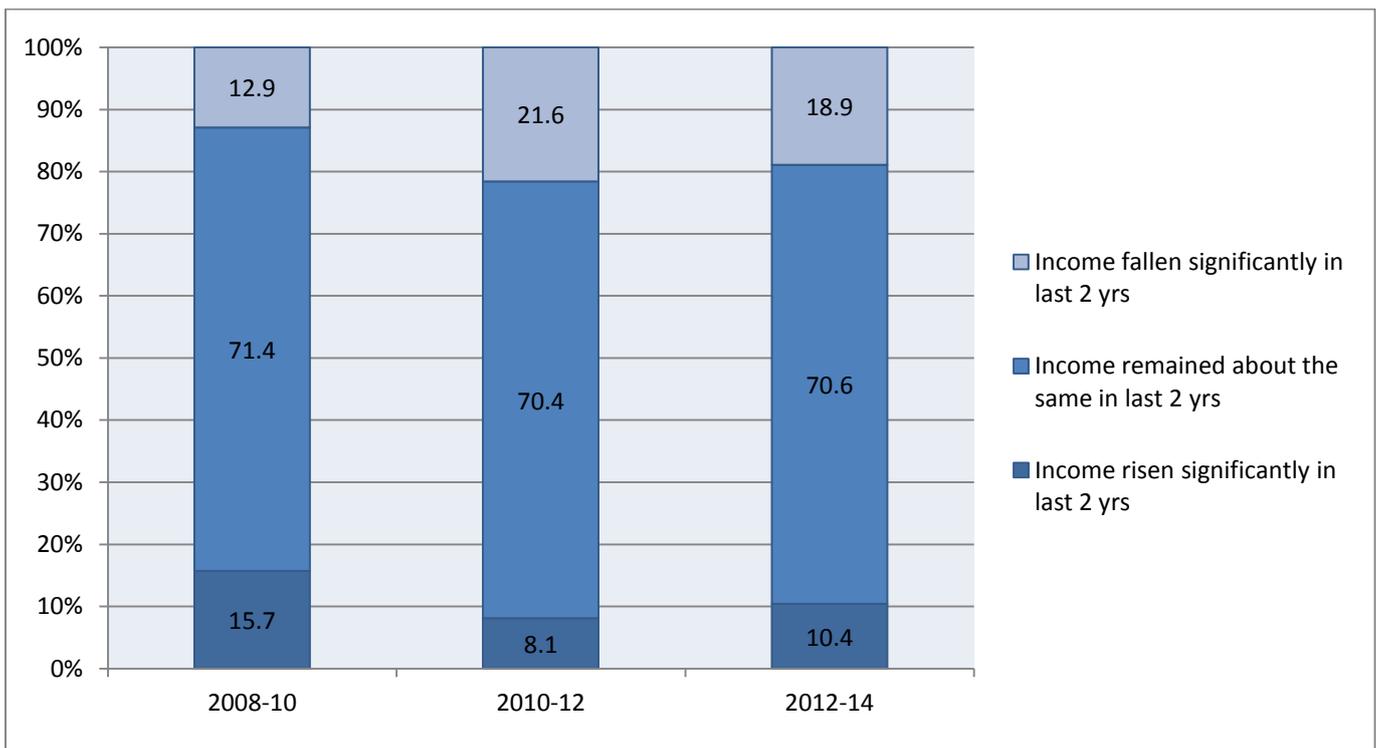
<sup>13</sup> NCVO/TSRC, Charity Commission May 2014, £bns at 2011/12 prices.

With these data in mind, it is useful to show the extent to which individual TSOs in Cumbria and North East England have experienced fluctuations in income over the last six years. Figure 7 shows that:

- For the majority of TSOs (about 71%) income has remained relatively stable over the last six years.
- About 16% TSOs experienced rising income in 2008-2010, this fell to 8% in 2010-2012, but has risen again to 10% in 2012-2014.
- In 2008-10 about 13% of TSOs had experienced falling income over the last two years. This increased to 22% in 2010-2012, but by 2012-2014, the proportion of TSOs with falling income had declined to 19%.

These data indicate that a sizeable minority of TSOs (between 13%-22%) have experienced significantly falling income over the last six years. But it does not seem to be a long-term trend of continuously declining income in the sector as the situation has recovered to some extent between 2012 and 2014.<sup>14</sup>

Figure 7 **TSO income fluctuation 2010-2014**



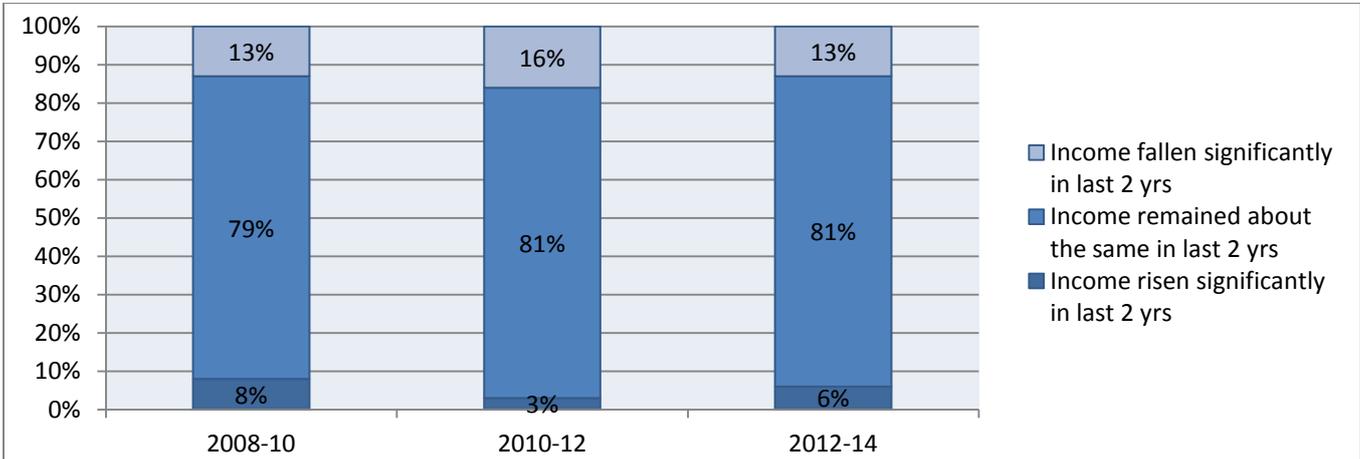
Figures 8(a) and (b) compare, in turn, the situation of smaller 'less formal' TSOs and larger 'more formal' TSOs. Figure 8(a) shows that the vast majority of smaller TSOs (with income below £25,000 in the last year) have experienced a measure of income stability over time. It is clear that:

- About 80% of smaller TSOs have experienced income stability between 2008-2014.

<sup>14</sup> In later stages of the analysis, trends will be assessed on changing income levels for the same TSOs across the lifetime of the research. Such analysis will be confined by the number of TSOs which completed questionnaires in 2010, 2012 and 2014. It is estimated that between 300-350 TSOs will fall into this category.

- About 8% of smaller TSOs had rising income in 2008-2012. This fell to 3% in 2010-12, but in 2012-14 about 6% had rising income.
- In 2008-10, 13% of smaller TSOs had significantly falling income. In 2010-12 the situation seemed to worsen with 16% reporting significantly falling income, but by 2012-14, only 13% of TSOs reported falling income.

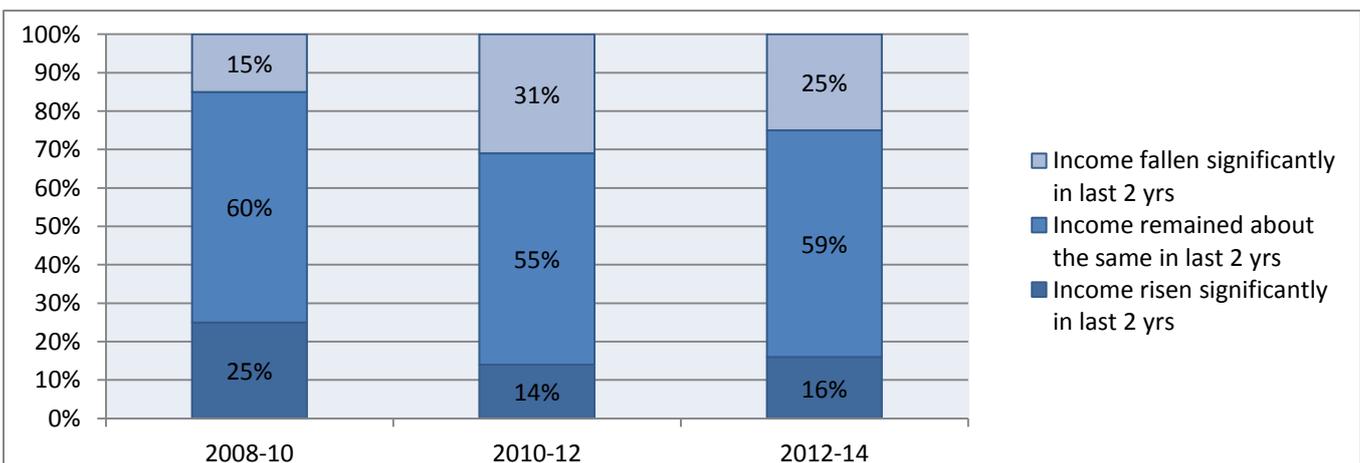
Figure 8(a) **Income fluctuation and stability amongst smaller TSOs: 2008-2014**



Amongst larger, more formal TSOs, there is more evidence of income fluctuation between 2008-2014.

- The percentage of larger TSOs experiencing income stability has remained fairly constant at between 55-60% over six years.
- The percentage of TSOs with significantly rising income has reduced since 2008-10 from 25% to 16% in 2012-14. But this does not represent a downward trend as there is some evidence of recovery in the last two years from only 14% of TSOs reporting rising income in 2010-12.
- The percentage of TSOs experiencing significantly falling income was at its highest in 2010-12 (31%). And while the proportion with falling income has not returned to levels of 2008-10 (15%), there are signs of improvement. But still, 25% of TSOs experienced significantly falling income in 2012-14.

Figure 8(b) **Income fluctuation and stability amongst larger TSOs: 2008-2014**



These data refer to the Third Sector as a whole and so it cannot be known at this stage whether the experience of falling or rising income is cumulative for the same TSOs over time. As the analysis proceeds, it will be possible to make some estimates on the extent to which this is the case.<sup>15</sup>

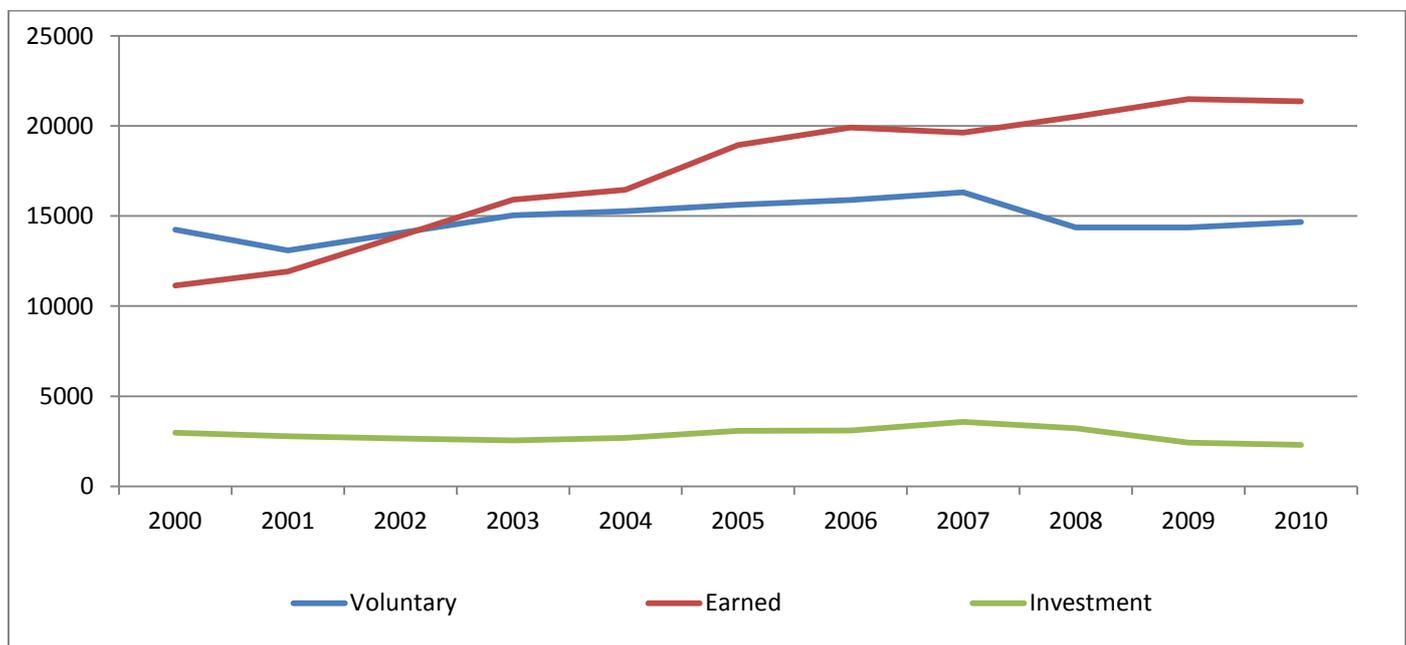
### ***Reliance on different sources of income***

To what extent are changes in income underpinned by transformations in the distribution of different sources of income which TSOs rely upon? Unfortunately, regional Charity Commission data are not currently available on discrete income sources over time. However, data on income sources can be contextualised by considering the longer-term national trends.

Figure 9 shows trends in '**voluntary income**' (i.e. *grants, endowments and gifts* from individuals, public sector, private sector, foundations, lottery etc.) '**earned income**' and '**investment income**' between 2000-2001 to 2010-2011.

These data show that the balance between voluntary income and earned income has shifted quite considerably over time. Voluntary income has remained broadly similar rising from £14.2bn to £14.6bn. Earned income, by contrast, has risen dramatically from £11.1bn to £21.3bn – a rise of 91%.<sup>16</sup> Investment income has remained fairly stable, but has reduced from £2.9bn to £2.1bn.

Figure 9 **Third Sector income (£bns) UK: 2000-2011.**<sup>17</sup>



<sup>15</sup> The scope for assessing the extent of cumulative change is affected by the number of organisations which completed the survey on all three occasions. Between 2010 and 2012 about 500 organisations could be matched. For 2014, however, the number of TSOs which can be matched in this way is reduced further to about 300 TSOs.

<sup>16</sup> Earned income includes 'contracts' to deliver public sector services. The sharp rise in earned income may mask, to some extent, some anomalies in the way that public sector funds to deliver services have been redefined over time. There is some good evidence to suggest that the terms 'grants', 'contracts' or 'service level agreements' are subject to redefinition from time to time even if the services they pay for are, ostensibly, much the same. See: Macmillan, R. (2010) *The Third Sector delivering public services: an evidence review*, Working Paper. University of Birmingham, Birmingham, UK; Matthew Jackson, (2010) "Matching rhetoric with reality: The challenge for Third Sector involvement in local governance", *International Journal of Sociology and Social Policy*, Vol. 30 Iss: 1/2, pp.17 – 31.

<sup>17</sup> Source: NCVO Civil Society Almanac: <http://data.ncvo.org.uk/a/almanac13/almanac/databank/income-2/>

No data have been collected in the Third Sector Trends study on 'actual' levels of income from different sources.<sup>18</sup> Instead, data have been collected upon the extent of reliance of TSOs on different sources of income. This is a valuable source of information as it provides a clearer understanding of how the balance of reliance on different income sources changes over time.

When asking TSOs about the importance of different sources of income, they answered separately for each source of income instead of attempting to rank them in order of priority. Putting sources of income in rank order is too difficult for most TSOs because they may well rely upon a balance of 'equally important' income sources.

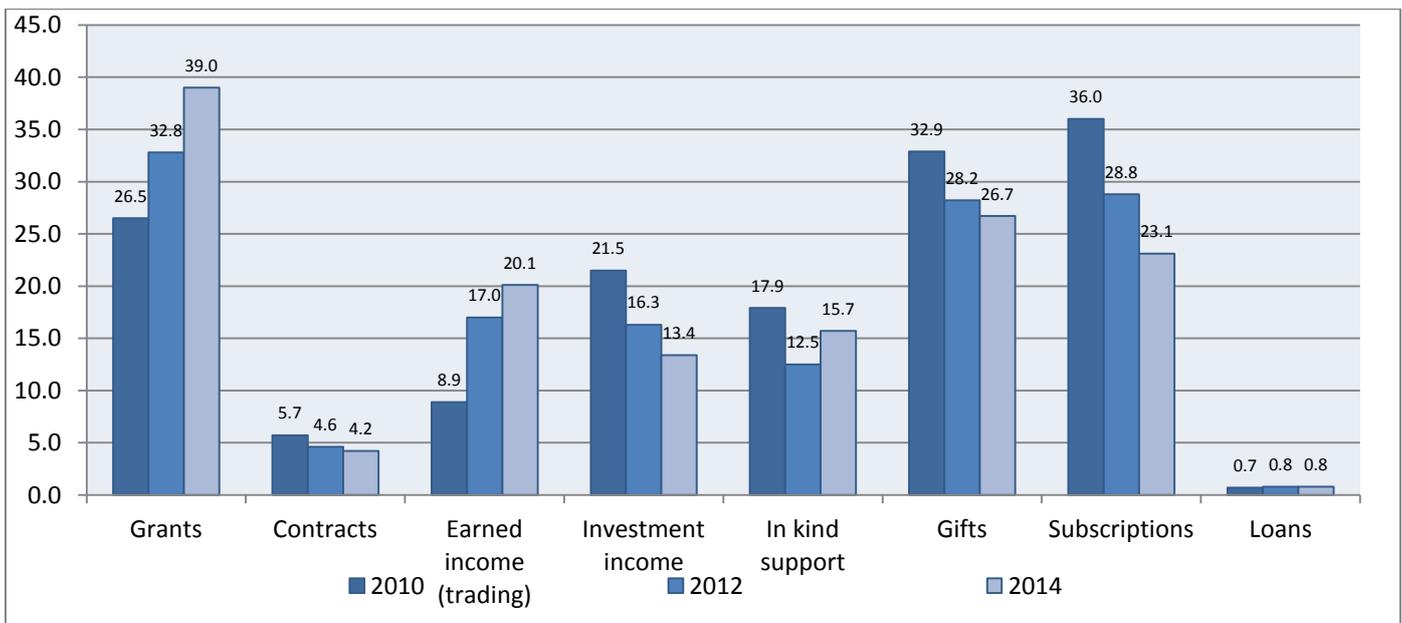
Figure 10 shows the levels of reliance on different income sources for smaller TSOs 2008-2014 (those with income lower than £50,000 in the previous financial year).

- There has been a significant growth in relative reliance upon grants rising from 27% to 39% of TSOs stating that this is an important or very important income source. A similar rise can also be noted for earned income, rising from 9% to 20%.
- Conversely, reliance on other sources has declined in relative terms including: investment income (falling from 22% to 13%); gifts (falling from 33% to 27%); and subscriptions (falling from 36% to 23%).

It needs to be restated that these percentages refer to proportions of TSOs which state that such income is important or very important to them and do not refer to the *levels of income* as such.

What is abundantly clear, however, is that the smaller TSOs rely most heavily on grants, gifts and subscriptions.

Figure 10 Percentage of smaller TSOs relying on income sources 2010-2014



<sup>18</sup> Previous attempts to collect such information have generally failed to present a convincing picture of Third Sector income, including work by the major government funded National Third Sector Studies in 2008 and 2010. The reason for this is largely to do with respondents not being willing to provide such information. This may be due to lack of easy access to such information or worries about divulging such data. In the Third Sector Trends study, a simpler approach was adopted, by asking TSOs the extent to which they valued different sources of income. Data do not therefore refer to the sum of income, but the extent of relative reliance on income sources.

Figure 11 repeats the analysis for medium sized TSOs (with income between £50,000 and £250,000 in the previous financial year).

- Medium sized TSOs show very strong and increasing levels of reliance on grants (rising from 48% in 2010 to 60% in 2014). Medium sized TSOs’ level of dependence on grants is much higher in 2014 (60%) when compared with smaller TSOs (39%).
- The importance of earned income is also rising for medium sized TSOs (from 13% to 32%).
- Delivering work to contract has fallen from 36% to 26% between 2010-2014 although this is not a continuous trend.
- The relative importance of investment income, gifts and subscriptions has fallen over time for medium sized organisations.

The overall indications, for medium sized TSOs, is an increased perception of dependence on grants and earned income in tandem with a decreased reliance on investment income, subscriptions and gifts.

Figure 11 Percentage of medium sized TSOs relying income sources 2010-2014

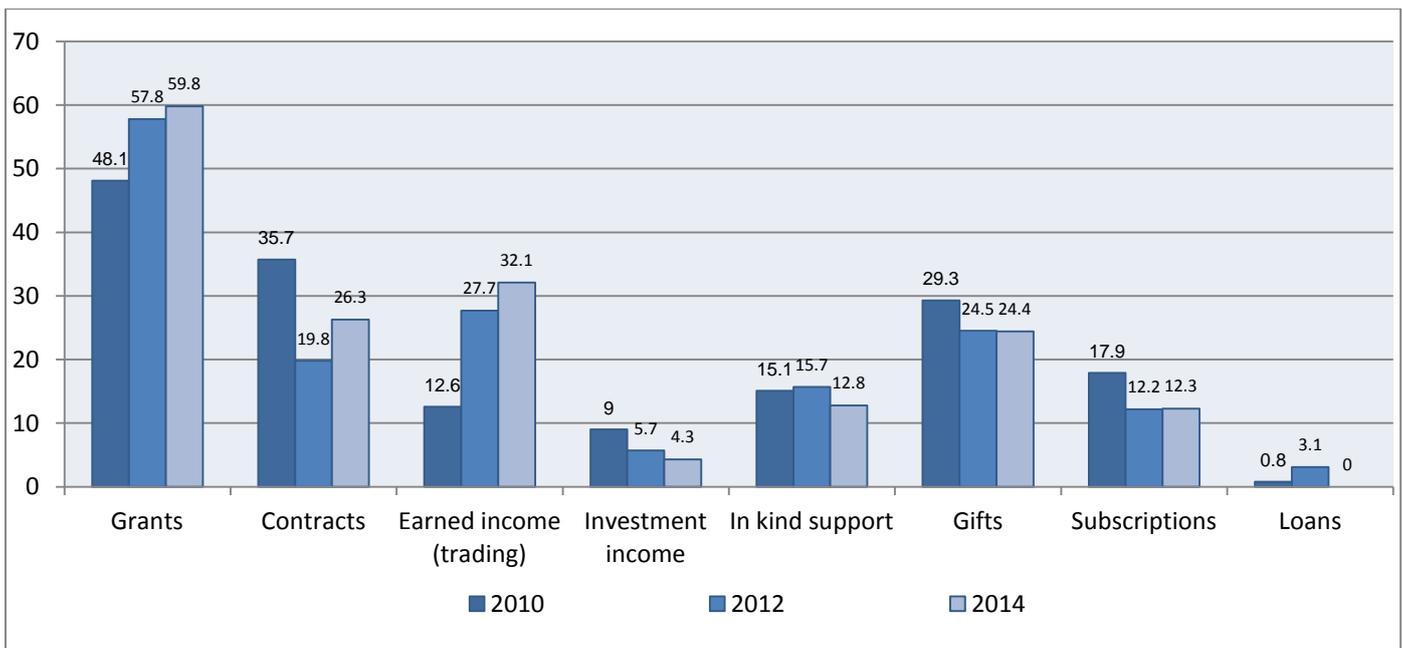


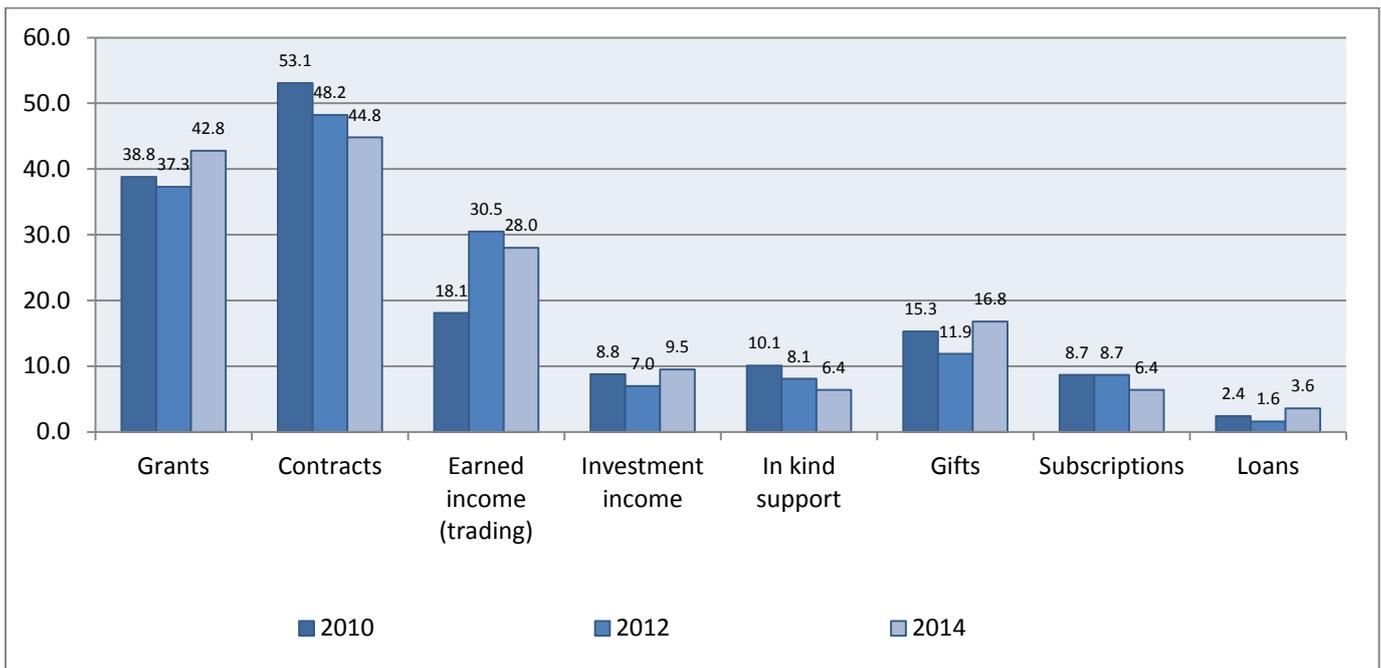
Figure 12 presents data on larger organisations (with income above £250,000 in the last financial year).

- Almost 43% of larger TSOs stated in 2014 that grants were important or very important to them – compared with about 60% for medium sized TSOs.
- Reliance on grants has increased from 39% to 43%, stemming what looked like a decline in 2012 when reliance was 37%.
- Contracts are of considerable importance to larger TSOs, but their relative importance has declined from 53% in 2010 to 46% in 2014.
- Reliance on earned income is on an upward, but not linear, trend from 18% in 2010 to 28% in 2014.

- Investment income, in-kind support, gifts and subscriptions are regarded as of lesser importance, in relative terms, by larger TSOs.
- Perceived reliance on borrowed money is minimal for larger organisations - at present at about 4%, although this is higher than in previous studies and above the level of medium and small sized TSOs.

Larger TSOs are clearly more dependent upon grants, contracts and other sources of earned income than on other sources of income or in-kind support. But it is important to note that these data indicate a likely general level of reliance on a wide range of income sources rather than a single source.

Figure 12 **Percentage of larger TSOs relying on income sources 2010-2014**



***Interplay between different sources of income***

At this stage of the analysis it is not necessary to explore the interplay between dependence upon different sources of income in any depth. However, it is useful to take the analysis one stage further by briefly exploring the extent of dependence on both grants and contracts by TSOs in the Third Sector as a whole. As Figure 13 shows,

- 42% of TSOs state that *both* grants and contracts are of importance to them.
- 39% of TSOs depend upon grants but *not* contracts.
- 18% of TSOs do not depend on either grants or contracts.
- Less than 1% of TSOs depend on contracts but *not* grants.

Figure 13 **Interplay of dependence on grants and contracts** (all TSOs in 2014)

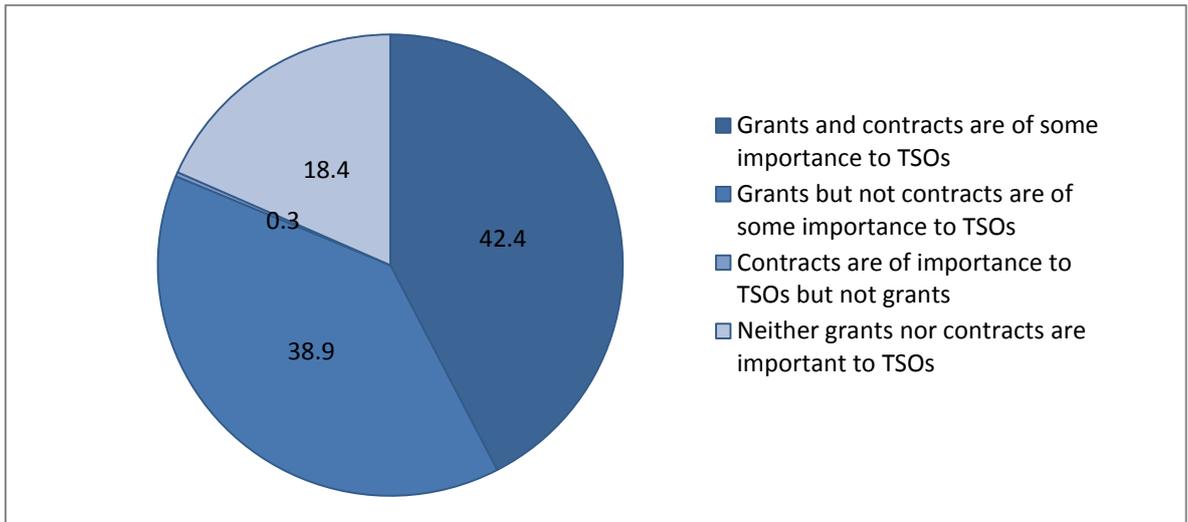


Figure 14 repeats the analysis by exploring the interplay between earned income and contracts.

- 33% of TSOs have some level of dependence on both contracts and other sources of earned income.
- 25% of TSOs have some dependence on earned income but *not* contracts.
- 8% of TSOs have some dependence on contracts but not earned income.
- 33% of TSOs have no dependence on either contracts or earned income.

Figure 14 **Interplay of dependence on earned income and contracts** (all TSOs in 2014)

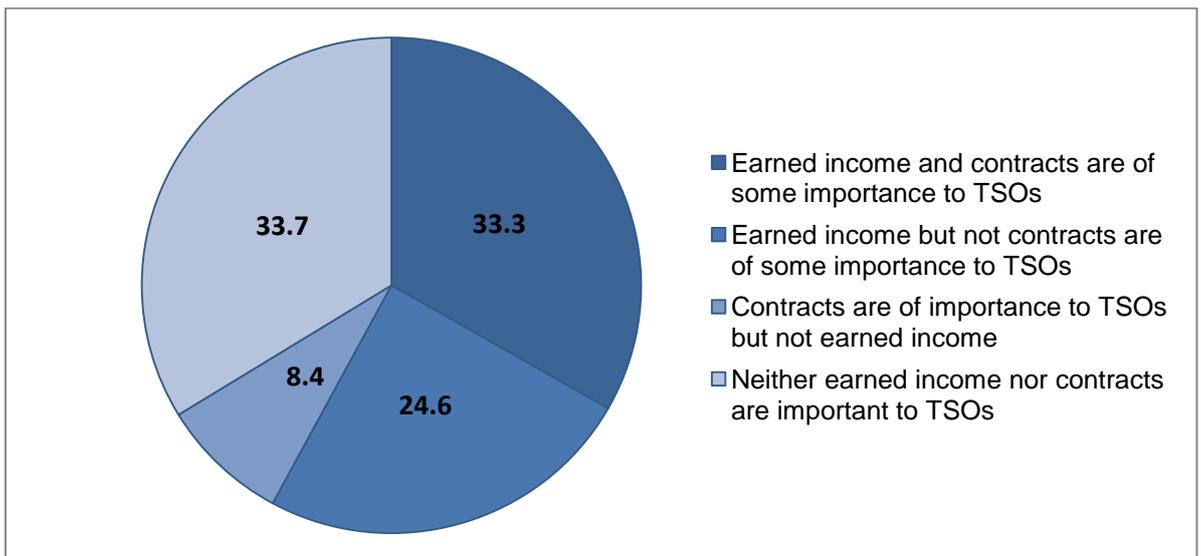
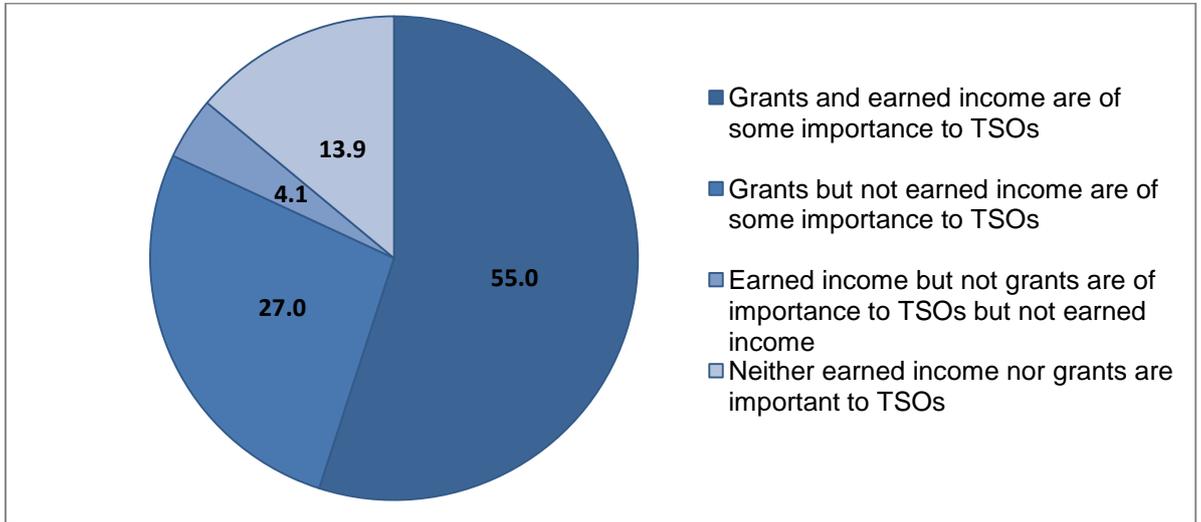


Figure 15 considers the interplay between dependence on earned income and grants.

- 55% of TSOs are dependent to some extent on both grants and earned income.

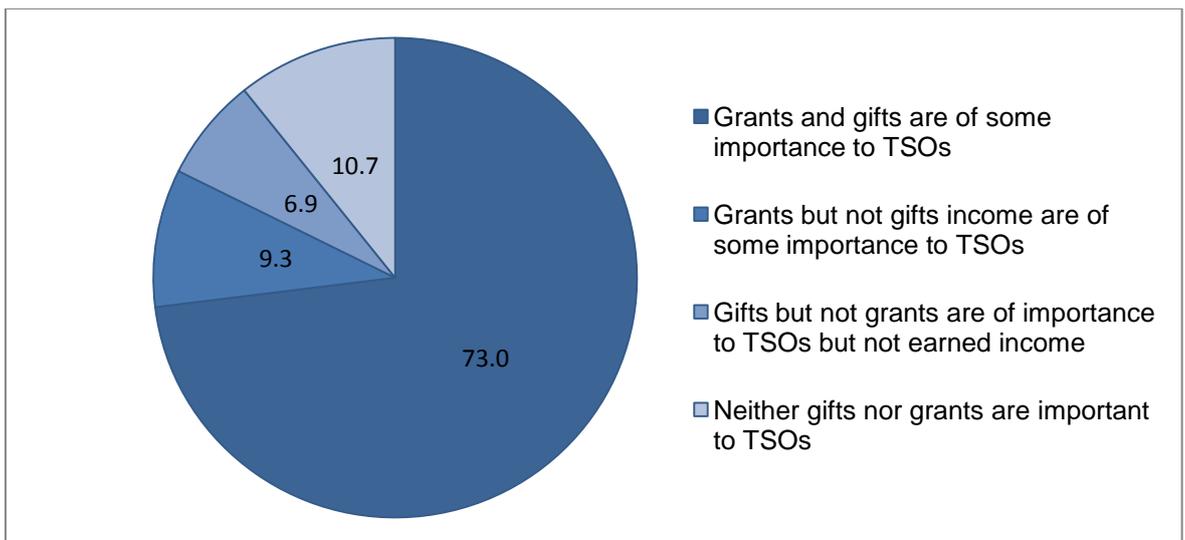
- 27% of TSOs are dependent on grants but not earned income.
- Only 4% of TSOs are dependent to some extent on earned income but not grants.
- 14% of TSOs have no dependence on grants or earned income.

Figure 15 **Interplay of dependence on earned income and grants** (all TSOs in 2014)



Finally, Figure 16 considers the interplay between income from grants and gifts. It is clear that the majority of TSOs have some level of dependence on both grants and gifts (73%) and fewer than 11% of TSOs have no dependence on either gift or grant income.

Figure 16 **Interplay of dependence on grants and gifts** (all TSOs in 2014)



## ***Summary of key points***

This section has shown that there have been some substantive changes in the economic situation of many TSOs between 2008 and 2014, but the most common experience is of income stability.

Smaller, less formal TSOs are the most likely to have experienced income stability. The number of larger TSOs which have substantively lost income has increased over time but there is evidence to suggest that the situation is not progressively worsening.

Reliance on income sources, in relative terms, varies between organisations of different sizes. Smaller TSOs are most dependent on grants, gifts and subscriptions but other sources of income and support are important too – such as earned income, investment income, and in-kind support.

Medium and large sized organisations are heavily dependent on grants and earned income, and larger TSOs rely heavily on contracts. The indications are that medium sized and larger TSOs are becoming more dependent on earned income. There is some interplay between dependence on different sources of income. While many TSOs are dependent on grants and contracts (42%), or grants alone (39%) – very few are dependent on contracts alone (below 1%).

There is also some interplay between dependence on contracts and other sources of earned income: 33% of TSOs rely on both sources of income. There is a closer association between dependence on grants and earned income: 55% of TSOs are included in this category. But the closest association is between dependence on both grant and gift income (73% of TSOs).

# 5 Enterprising activity

There are some indications from the above analysis that TSOs in general, but larger TSOs in particular, have become more enterprising in their activities over the last few years. This is indicated by a stronger propensity to earn income from trading or contracts to deliver public services.

In this section, data are presented on the extent to which TSOs rely on earned income (broadly defined to include contracts and other sources of self-generated income through trading goods and services). Following this, more specific analysis will be undertaken to see whether TSOs' attitudes towards delivering public sector contracts are changing.

Before the analysis proceeds, however, it is useful to get a general impression of the proportion of TSOs which subscribe to planning and practising in ways which might be described as 'businesslike' compared with those TSOs whose organisational values and practices are rooted in the community or public sector.

## ***Ethos of organisations***

In one of the working papers from the second phase of the Northern Rock Foundation Third Sector Trends study, *The Crystal Ball*, analysis of organisational ethos was explored in some depth. The analysis focused primarily upon the inter-relationship between values, planning and practices. In addition to this, TSOs were also asked from which sector their principal sources of income and their volunteers came from.

It is now possible to update the situation and see if there has been change in the way that TSOs' ethos is reported. Figure 16 presents these data. It is clear that there have been some significant shifts in attitudes between 2012 and 2014 which can be summarised as follows:

- There has been a shift in the way that TSOs work in practical terms, towards those of 'people in the community' – rising from 72%-77%.
- In terms of organisational values, there has been a ***strengthening of the sector's sense of identity*** as the proportion of TSOs stating that their values are close to people in the community has risen from 87%-91%..
- In planning terms, there has been a small shift towards the practices of people in the public sector (rising from 7% - 10%), but the vast majority of TSOs (75%) continue to state that they are closer in practice to people in the community.

Figure 16 Where do you think your organisation sits in relation to the following? (row percentages)	People in the community			People in the public sector			People in the private sector			2012 N=	2014 N=
	2012	2014	Variance from mean	2012	2014	Variance from mean	2012	2014	Variance from mean		
In the way that we do our work in practical terms, we are closer in style to...	72.4	77.2	4.8	11	10.9	-0.1	16.6	11.9	-4.7	1,495	1,159
Our values are matched most closely with the interests of...	87.2	91.4	4.2	7.7	6.1	-1.6	5.1	2.5	-2.6	1,496	1,161
The financial resources we use to do our work come mainly from...	61.3	60.6	-0.7	21.3	26.9	5.6	17.3	12.5	-4.8	1,420	1,099
Volunteers who support us come mainly from...	91.5	94.1	2.6	2.3	2.5	0.2	6.3	3.5	-2.8	1,405	1,100
When we are planning for the future, our approach is close to...	75.9	75.4	-0.5	7.4	10.2	2.8	16.6	14.4	-2.2	1,454	1,120

The extent of change in organisational ethos is not dramatic – but the evidence does seem to indicate a strengthening of ‘home grown’ sector values rather than a movement towards a more ‘businesslike’ ethos.

While Third Sector cultural allegiance may have become stronger, Figure 16 also shows that reliance on other sectors remains strong in resource terms.

- TSOs’ assessment of their financial reliance on the public sector appears to have risen from 21% to 27%.
- TSOs’ assessment of their financial reliance on the private sector has fallen by nearly 5%.

The extent to which attitudes vary by organisational size and purpose will be analysed in more depth at a later date, but it is useful here briefly to explore changes in the planning and practice ethos of smaller and larger TSOs.

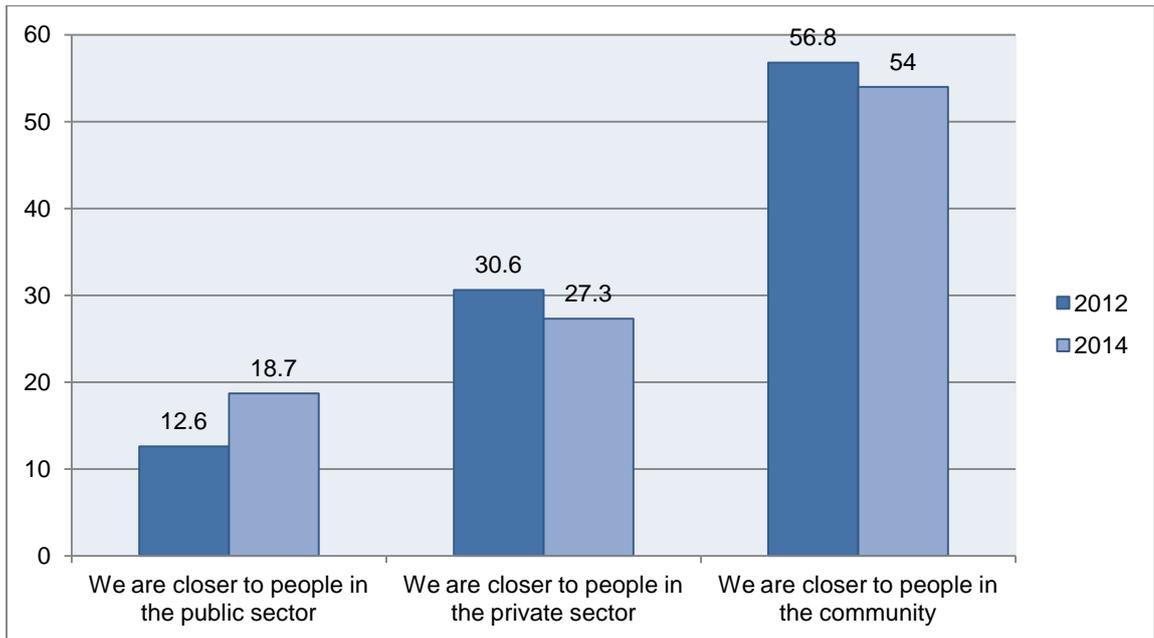
Taking larger organisations first, it is apparent from Figures 17(a) and 17(b) that there has been a significant shift away from an organisational practice ethos that is more closely related to the private sector (from 30% down to 21%). There has, instead, been a strengthening of public sector or community sector practice ethos.

Figure 17(a) **Larger TSOs’ practice ethos** (2012-2014)



In relation to organisational planning ethos, a similar pattern is shown in Figure 17(b). It is clear that the shift away from a private sector ethos is less marked (falling from 31% to 27%).

Figure 17(b) **Larger TSOs' planning ethos (2012-2014)**



As Figures 18(a) and 18(b) indicate, amongst smaller, less formal TSOs which do not generally employ people, patterns of change are less pronounced than for larger TSOs. Instead, organisational ethos has remained largely the same with strong allegiance to community values. That stated, a decline in association with the ethos of the private sector is still identifiable between 2012 and 2014.

Figure 18(a) **Smaller TSOs' practice ethos (2012-2014)**

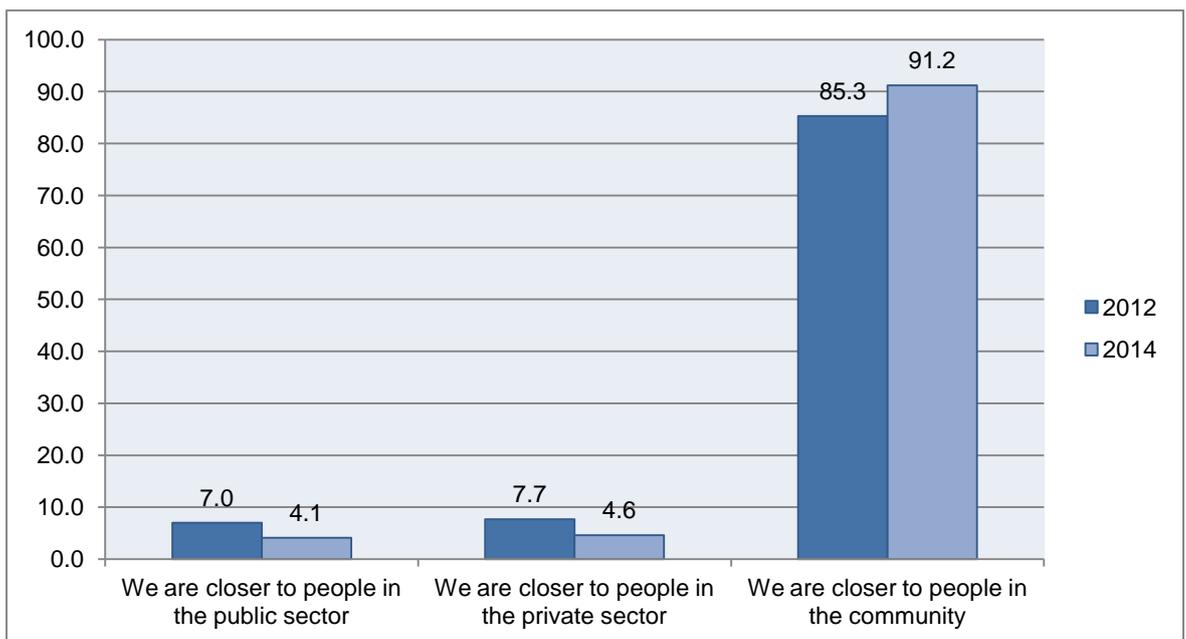
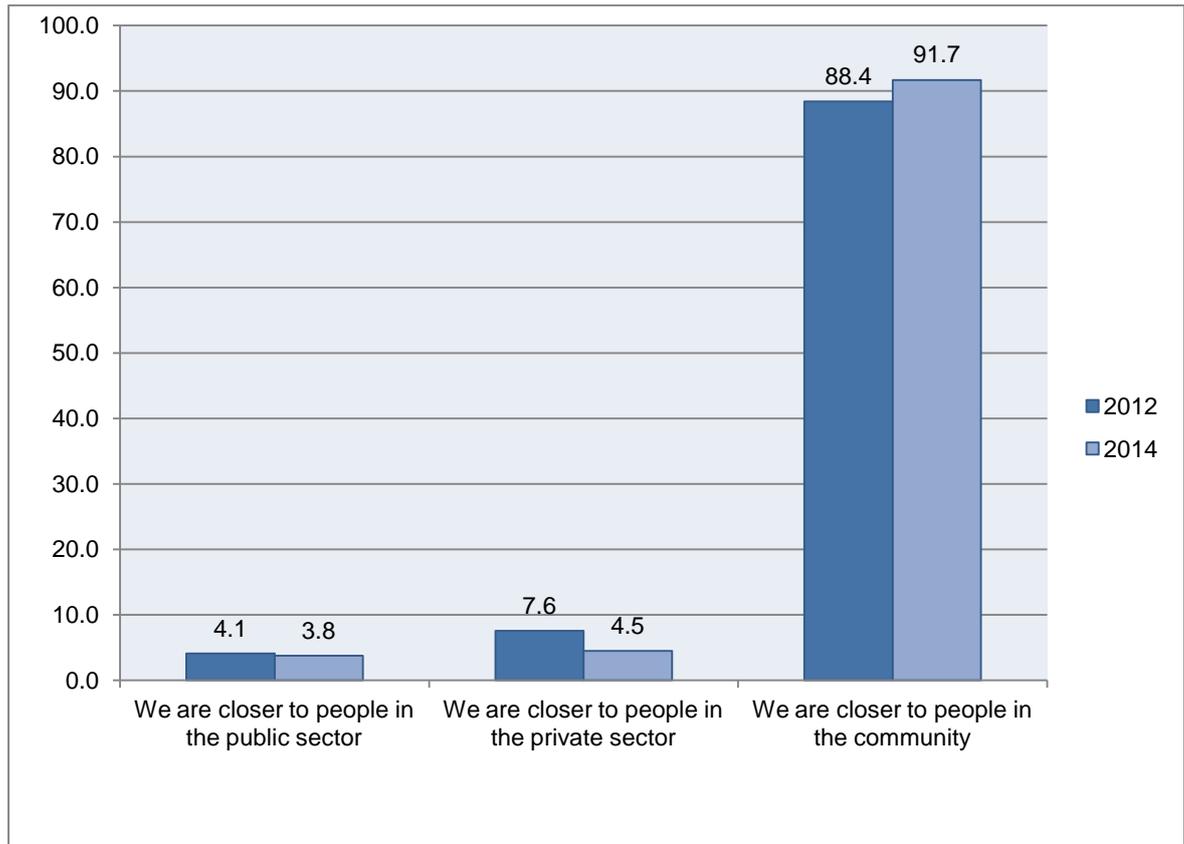


Figure 18(b) **Smaller TSOs' planning ethos** (2012-2014)

The above analysis provides some indication that the Third Sector is becoming more confident in its own identity in terms of sector values, planning and practice ethos. The next section explores whether this has been reflected in the sector's attitude towards earning income.

### ***Earned income***

In recent years there has been much encouragement from government for TSOs to assume a businesslike ethos and practices. Assessing the extent to which TSOs have increased reliance upon earned income may provide a useful indicator of a more enterprising and businesslike Third Sector.

It is useful, firstly, to find out if the propensity of TSOs to earn income has risen over time at a national level and identify the sources of such income. As Figure 19 shows, earned income from the private sector and voluntary sector has remained relatively stable over time and constitutes only a limited resource to the sector.

The trends in trading to individuals have been more turbulent, rising to a peak of £9bn in 2003. The most important change has been the substantial increase in the volume of earned income from statutory sources. This has risen from £4.5bn to £11.2bn in a decade, representing an increase of 151%.

Figure 19 Sources of earned income, UK: 2000-2011.<sup>19</sup>

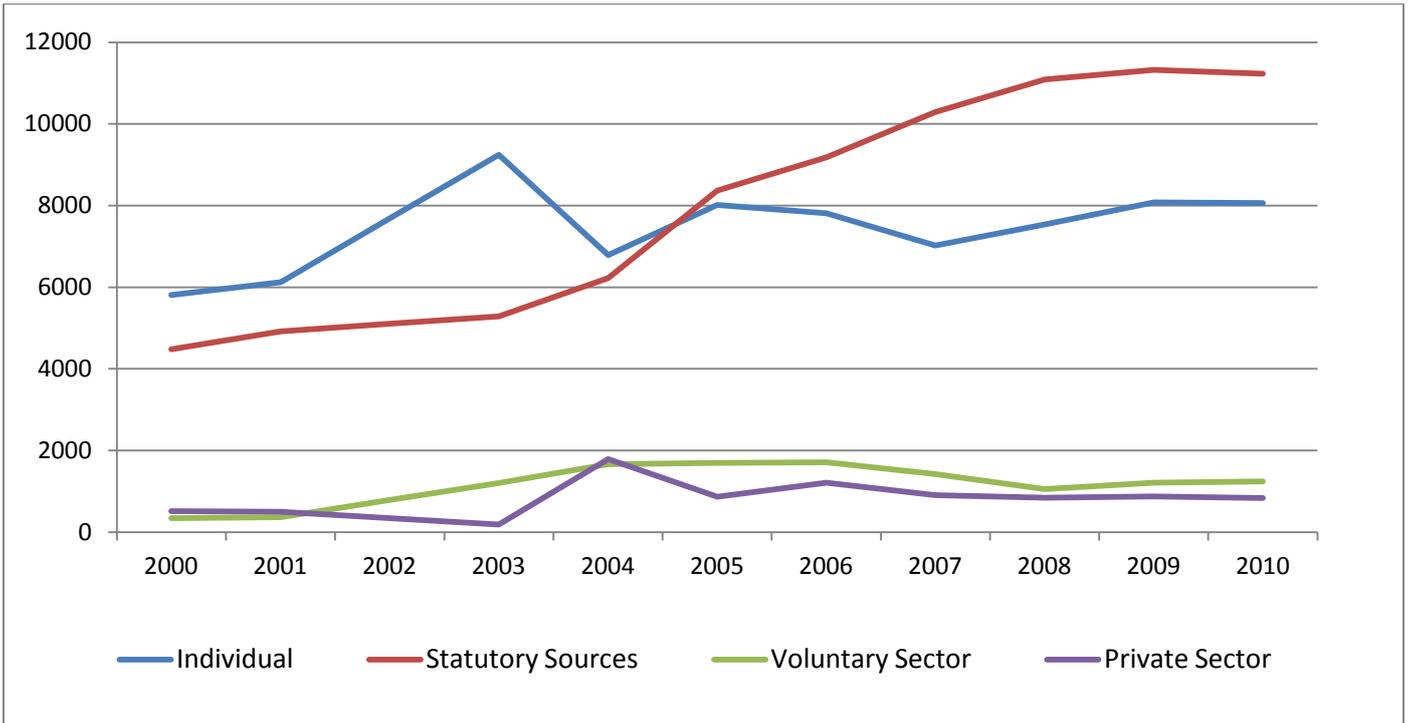
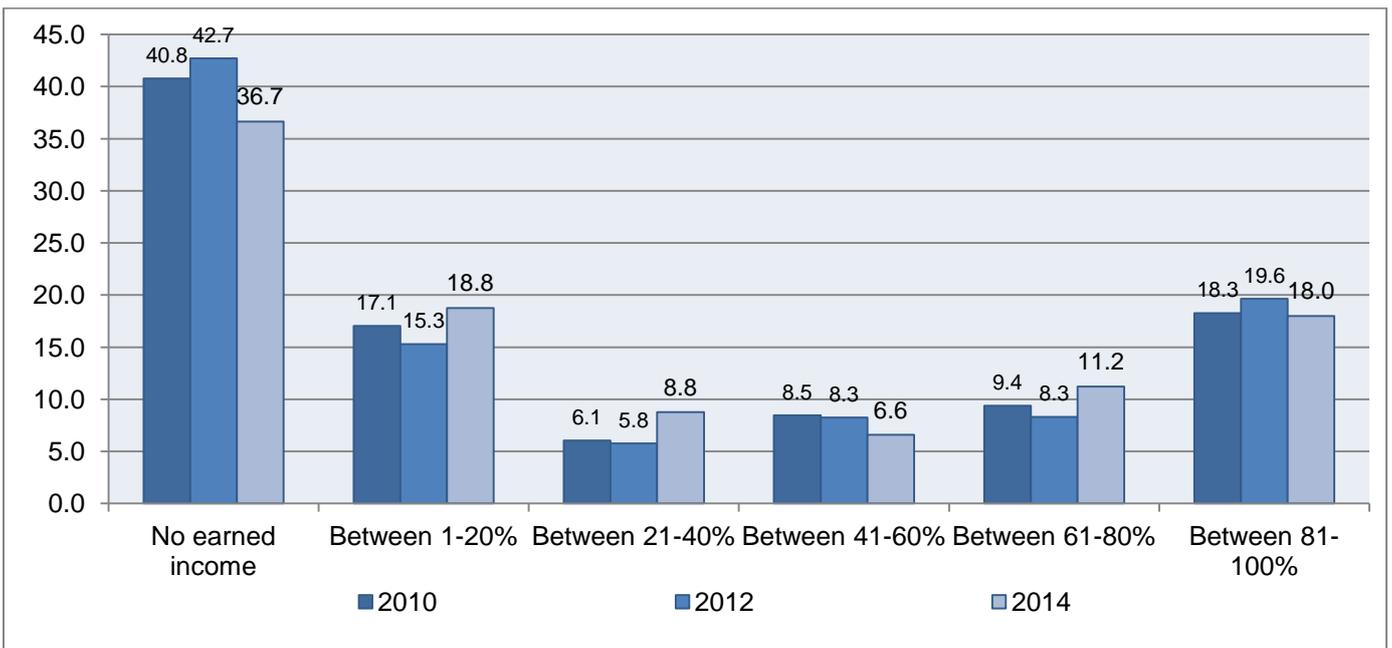


Figure 20 presents Third Sector Trends data on the proportion of TSOs’ income which was earned between 2010 and 2014. These data show that the proportions of earned income are quite ‘flat’ over time with only minor fluctuations. It is worth noting, however, that the percentage of TSOs which earn no income seems to have fallen from around 41% in 2010 to 37% in 2014 – although this is not a linear trend.

Figure 20 Percentage of earned income by TSOs 2010-2014

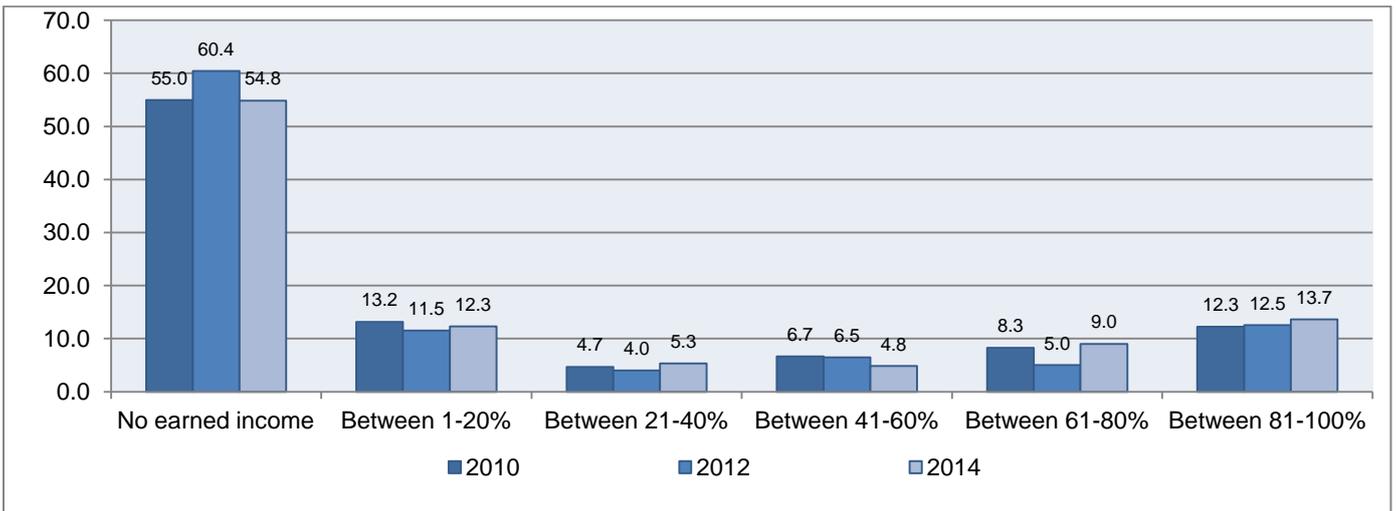


<sup>19</sup> Source: NCVO Civil Society Almanac: <http://data.ncvo.org.uk/a/almanac13/almanac/databank/income-2/>

By disaggregating smaller TSOs from larger TSOs, it is possible to discern some underlying differences. As Figures 21(a) and (b) show, between 55-60% of the smallest TSOs earn no income compared with just 15-16% of the larger TSOs.

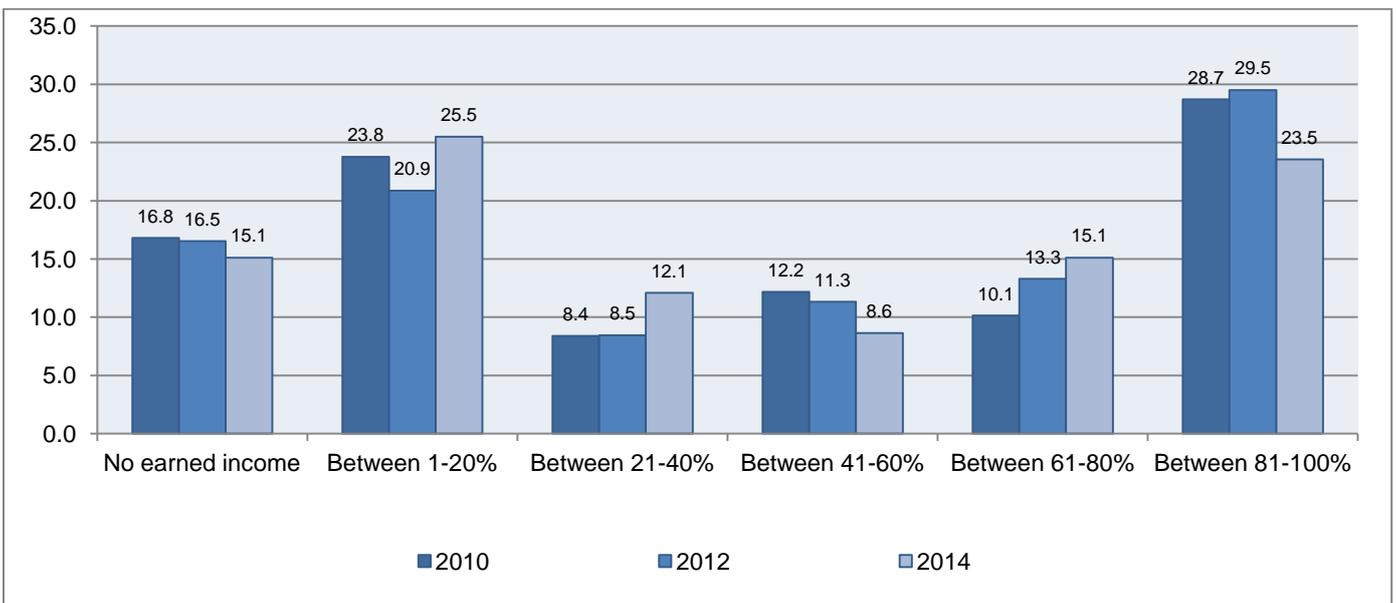
Change in the proportion of earned income by smaller TSOs is not particularly evident, suggesting that attitudes and practices have remained much the same over time.

Figure 21(a) **Earned income by smaller 'more informal' TSOs (2010-2014)**



Amongst the larger TSOs, as shown in Figure 21(b), clear trends are not apparent. The evidence shows that the number of TSOs which earn under 40% of their income has increased (from about 32% in 2010 to 37% by 2014). By contrast, the percentage of TSOs which were the most heavily reliant on earned income (80-100%) has fallen from around 29% to 24%.

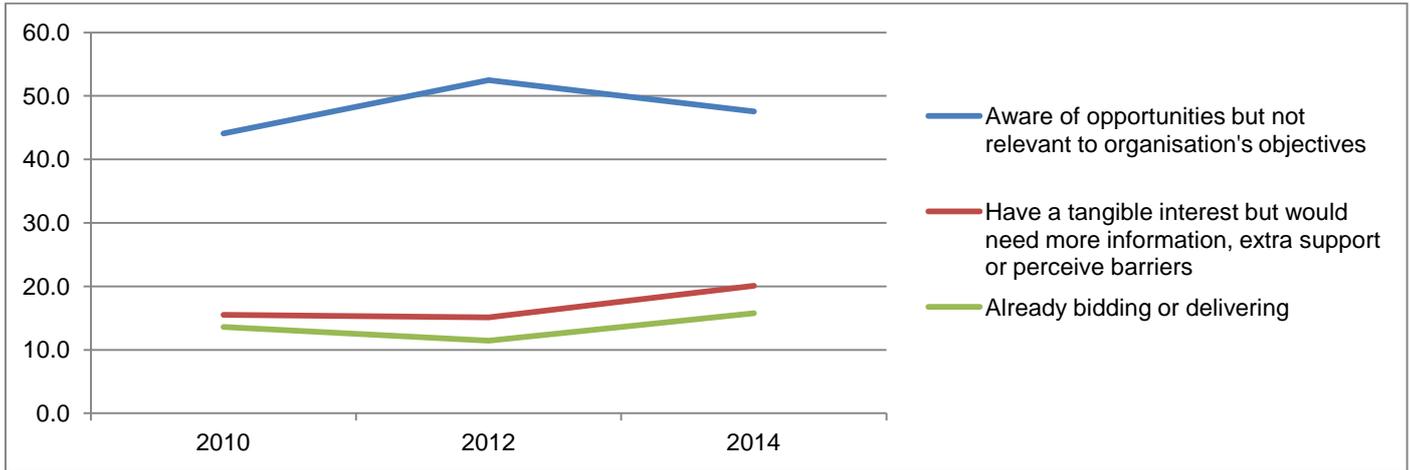
Figure 21(b) **Earned income by larger 'more formal' TSOs (2010-2014)**



## Delivering public sector contracts

For many years, government has been keen to encourage more TSOs to deliver public sector delivery contracts. Figure 22 shows the extent to which organisations have done so in North East England and Cumbria. The evidence suggests that change in organisational orientation towards delivery of public sector contracts has been quite limited over the last few years. Underlying these headline data, however, some interesting differences emerge when smaller, less formal organisations are compared with larger more formal TSOs.

Figure 22 **Interest in delivering public sector contracts (2010-2014)**



Figures 23(a) and (b) show the percentages of smaller and larger TSOs which are involved in the delivery of public sector contracts. As expected, there is no discernible evidence of increased participation in contract delivery amongst smaller TSOs – remaining at between 1% - 2%, although awareness of and interest in such opportunities has risen.

Figure 23(a) **Smaller TSOs' engagement with public sector contracts (2010-2014)**

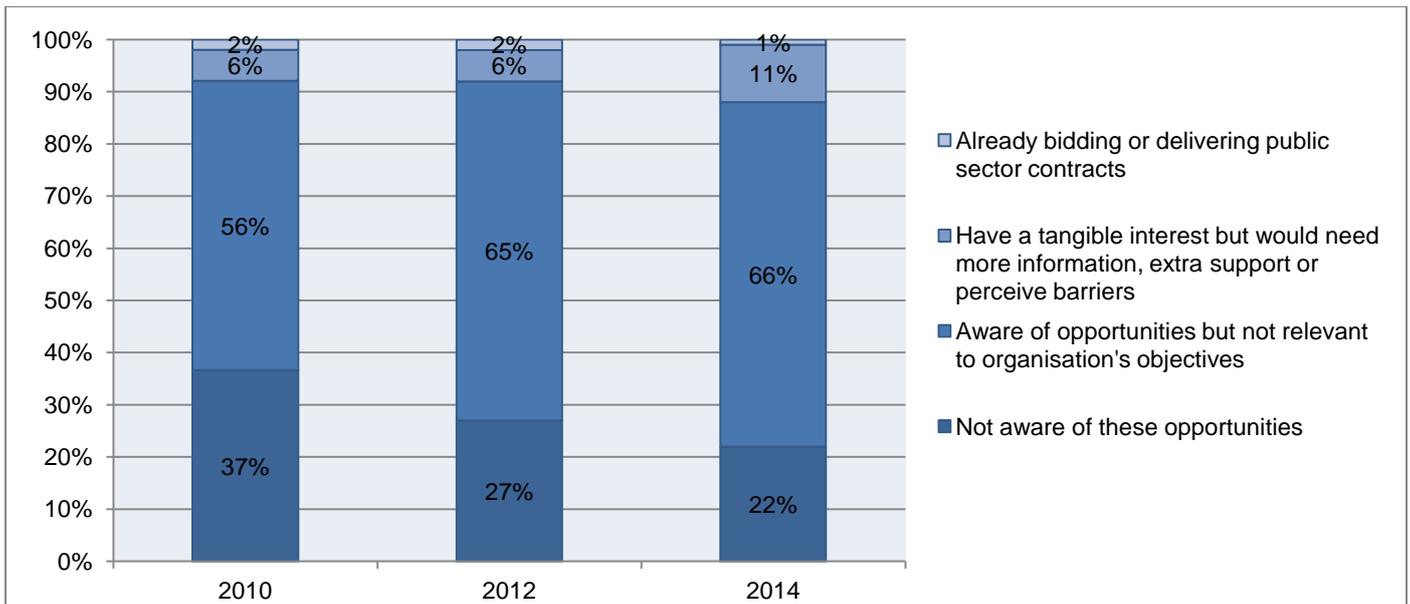


Figure 23(b) shows that larger organisations are much more likely to be involved in the delivery of contracts and the trend is for increased engagement over time (although this is not a linear trend: overall participation rises from 22% - 27% between 2010 and 2014).

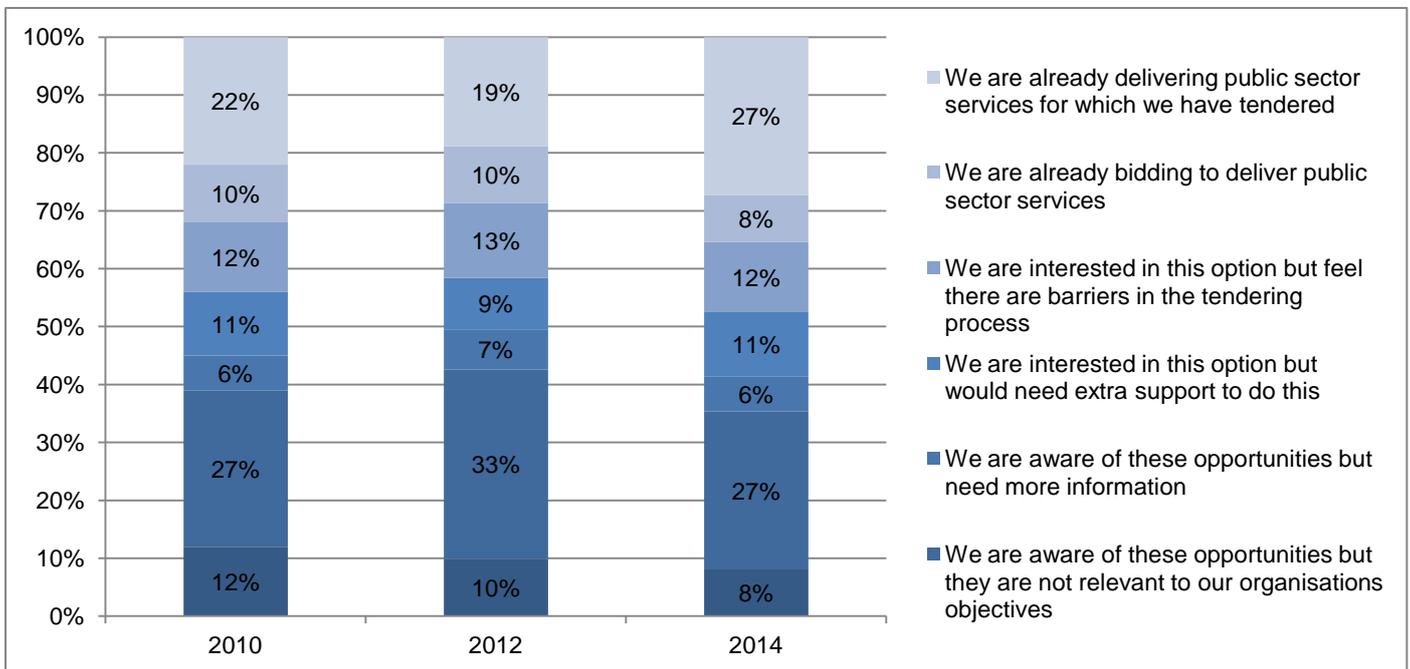
Over time, larger organisations have progressively become more aware of opportunities to engage in contracts (rising from 88% to 92%). But a sizeable proportion of TSOs feel that such opportunities are not relevant to their mission: this proportion has stayed the same at 27% in 2010 and 2014 (although the proportion rose to 33% in 2012).

The proportion of larger TSOs which have a ‘tangible’ interest in contract working (but perceive barriers, need more support or information) has remained similar over time at about 29% of larger organisations.

The evidence suggests (although this will need to be explored in more detail at a later date) that few TSOs make the journey from holding a tangible interest in undertaking contracts to bidding for or winning them. It could be the case that a perception of barriers, need for information or support may mask a fundamental lack of interest in change.

This finding may have some important implications for governmental or other organisations or agencies which seek to grow the number of TSOs with a capability to engage in contract working.<sup>20</sup> It would seem to be wise to focus mainly on those organisations which have already been bidding – even if not yet successfully – because they have begun the journey towards contract working.<sup>21</sup>

Figure 23(b) **Larger TSOs’ engagement with public sector contracts (2010-2014)**



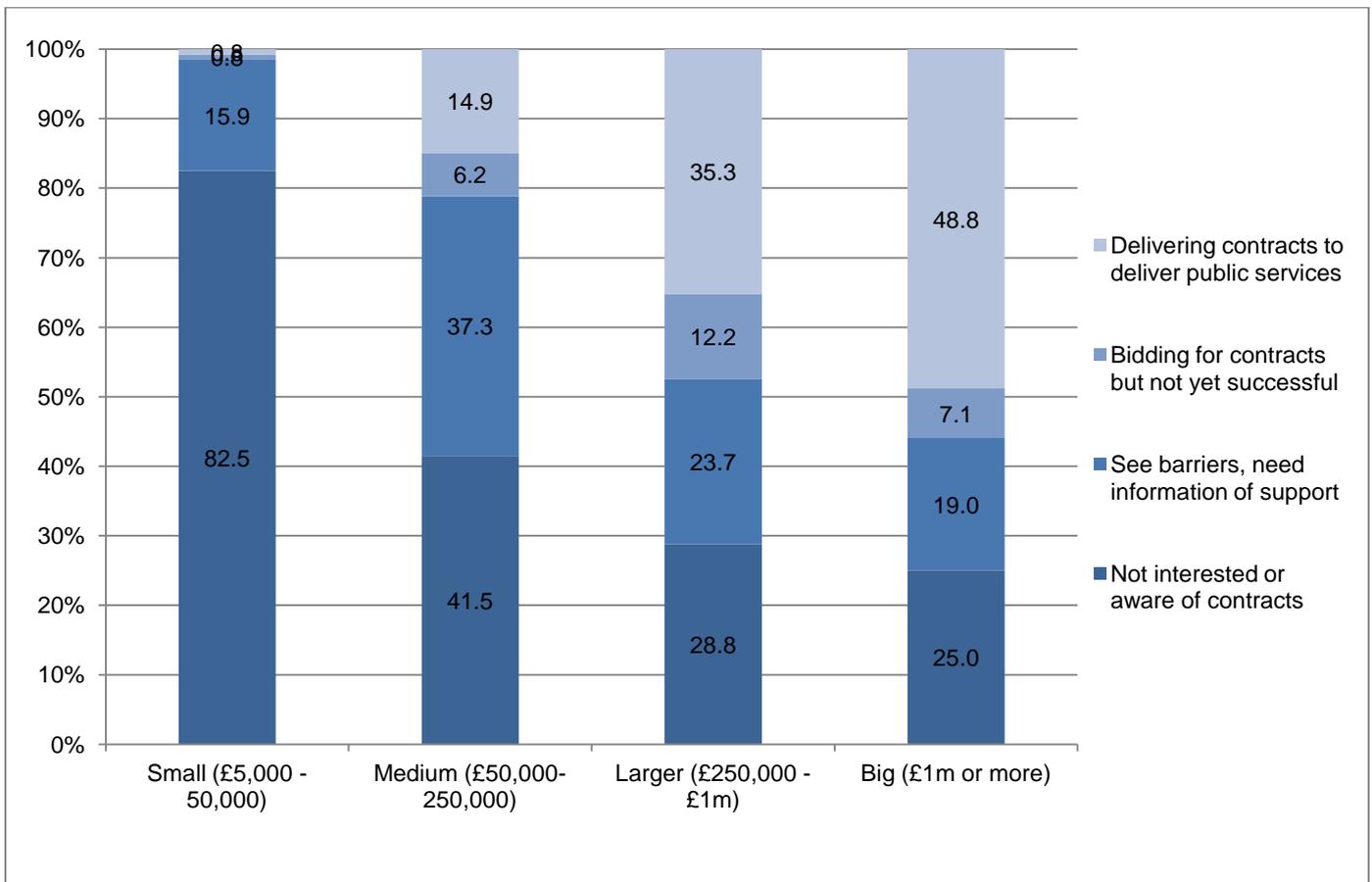
<sup>20</sup> Recent research has reviewed previous attempts significantly to grow the number of TSOs which enter the contract market place. While there is some evidence to indicate that the largest TSOs have been more eager to move into this area of work, medium sized organisations have been less eager to do so, even if capacity building funding was invested in them (see Macmillan *et al.* 2014)

<sup>21</sup> Elsewhere we have argued that commissioners of capacity building investment should adopt stress tests on TSOs which are interested in signing up for such support. See Chapman and Robinson (2014) *Keeping things Simple*.

It is worth noting that amongst larger TSOs, there is considerable variation in the levels of participation in contract working. As Figure 24 shows, in 2014 organisations were progressively more likely to engage in contract working as they grow in size: rising from less than 1% for very small TSOs to 49% for the biggest organisations.

It should, nevertheless, be noted that **even amongst the biggest TSOs, 25% consider that delivering contracts is not appropriate for their mission** and a further 19% only have a 'tangible' interest in doing such work which may never translate into bidding for or delivering contracts, even if barriers to engagement were removed.

Figure 24 **Participation in contract delivery by size of organisation (2014)**



### **Partnership bidding**

Often, public sector contracts are let on the expectation that the delivery of such work will be undertaken by TSOs in partnerships. And further, local TSOs are encouraged to organise themselves into consortia so that when big contracts come up, they are in a position to put in a partnership bid.

Often, and with the best intentions, local authorities or other public sector bodies want to strengthen the local Third Sector to maximise the impact of work undertaken by contract. Consequently, there is often an explicit or implicit expectation built into tender documentation that smaller TSOs should be

incorporated into partnership bids to ensure that their ability to reach and engage with people in communities of place or interest can capitalised upon.

To what extent have such initiatives helped to increase the level of partnership bidding in the Third Sector? As Figure 25 shows, when considering the Third Sector as a whole, partnership working to deliver public sector contracts has increased considerably between 2008-10 and 2012-14: rising from 10% to 18% of TSOs which have successfully bid to do such work.

Furthermore, the percentage of TSOs which have been bidding for such work but have not yet been successful has increased from 4% to 6%. That stated, the majority of TSOs remain disinterested in the delivery of contracts in partnership; although the proportion of TSOs which take this view has fallen from 74% to 62% since 2008-10.

Figure 25 **Participation in delivery of contracts working in partnership** (whole sample 2008-2014)

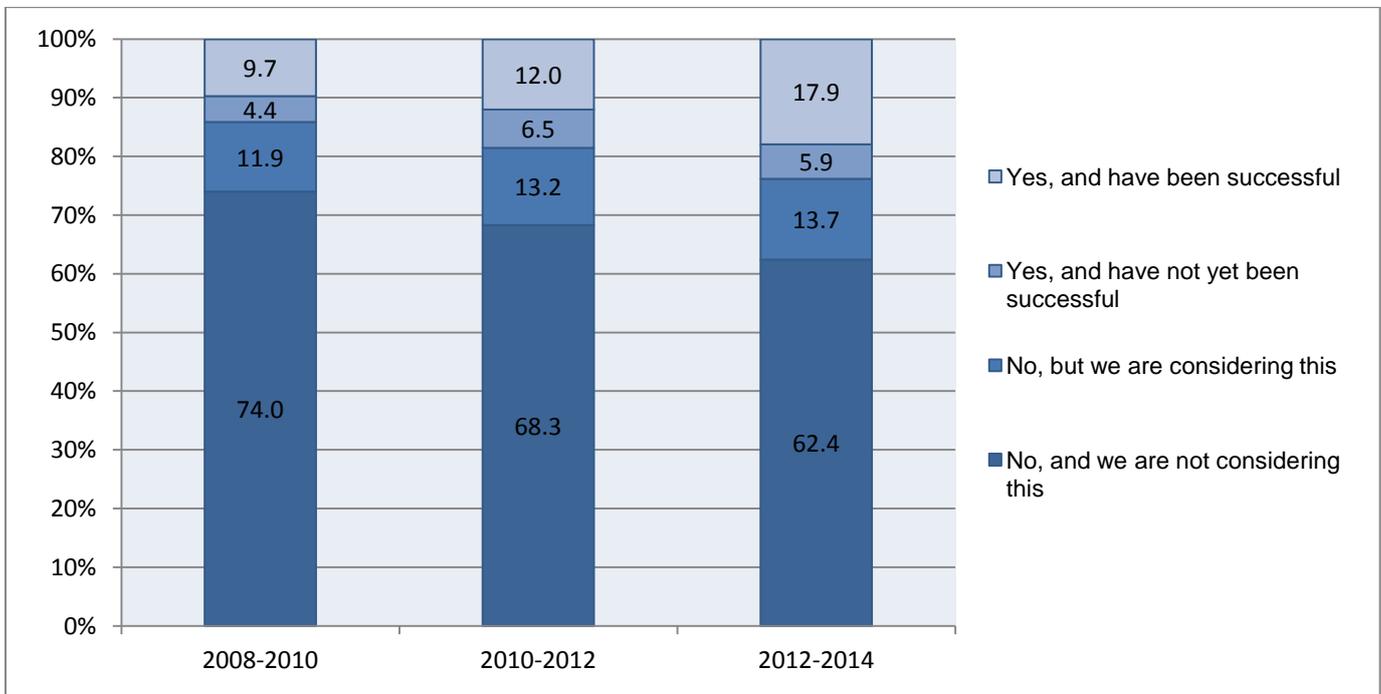


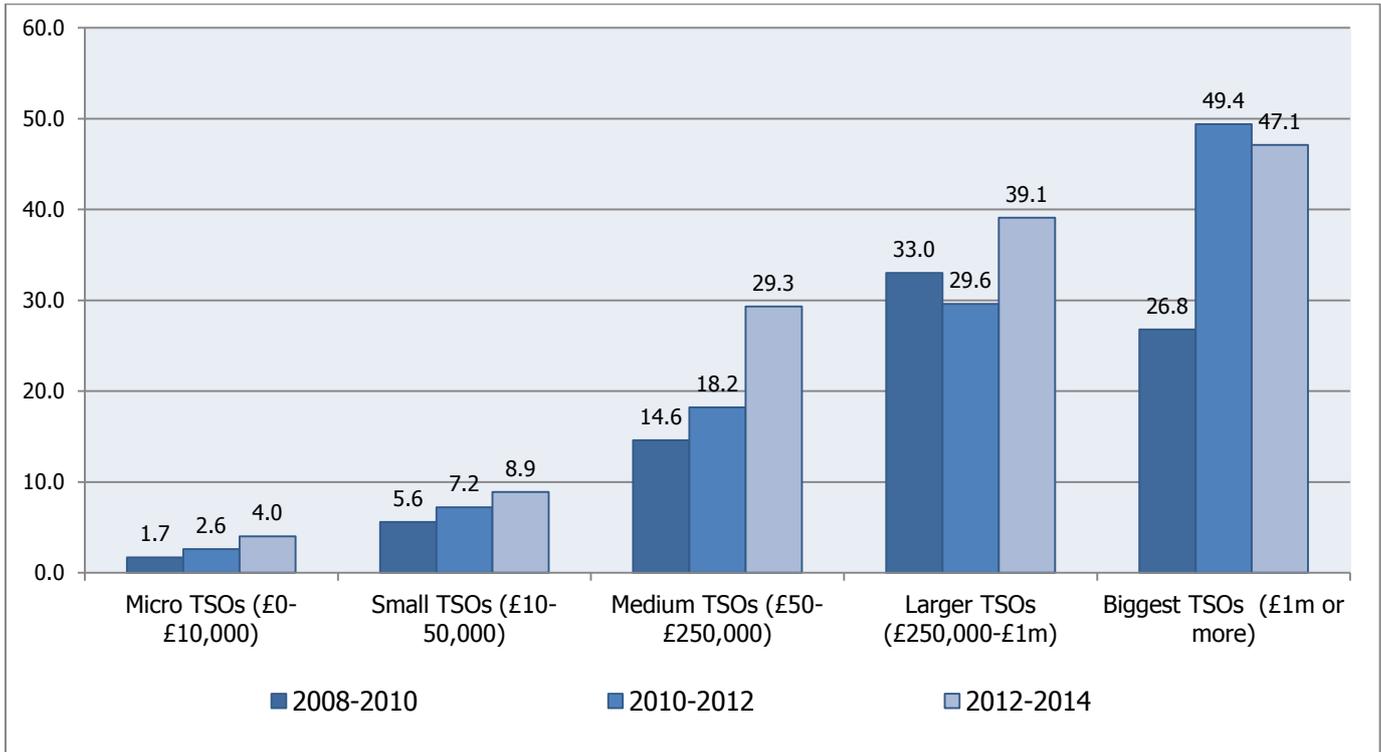
Figure 26 presents trend data on the percentage of TSOs of different sizes which have successfully tendered to deliver public sector contracts between 2008-2010 and 2012-2014.

- The proportion of micro and small TSOs delivering contracts has remained low over time, although the percentage of small TSOs engaged in contracts has risen from 6% to 9%.
- There has been an acceleration in the engagement of medium sized TSOs in contract working in partnership, particularly between 2010-2012 and 2012-2014 where the proportion rose from 18% to 29%.
- The proportion of larger TSOs which have been successfully delivering work in partnership has risen from 33% in 2008-2010 to 39% in 2012-2014 – but this

is not a linear trend as there was a decline in involvement in 2010-2012 (29%).

- The biggest TSOs, with income above £1million a year are the most likely to be engaged in contract delivery through partnerships. The proportion engaged in such work jumped from 27% in 2008-2010 to nearly 50% in 2010-12 and remained at a similar level in 2012-2014 (47%).

Figure 26 **TSOs which have been successful in bidding for contracts in partnership by size of organisation 2008-2014**

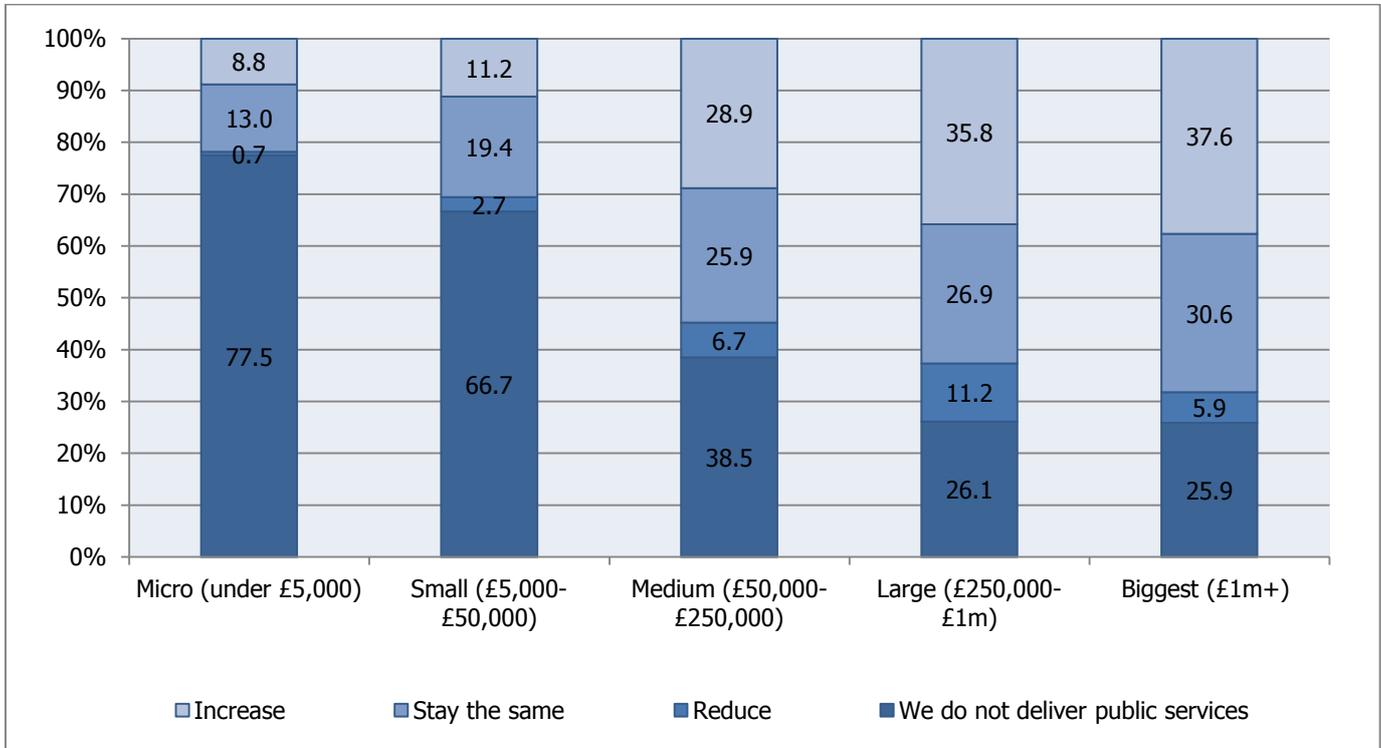


Not all contracts are delivered in partnership, of course, so it is useful to assess the proportion of TSOs which expect that any forms of contract working to deliver public services will increase over the next two years (2014-16). The evidence presented in Figure 26 shows that:

- Micro and small TSOs generally expect there to be little change. While a small proportion of smaller TSOs (11%) expect that contract working will increase, 67% do not expect to be delivering contracts.
- A majority of medium sized TSOs expect that their involvement in contract working will rise or remain about the same, 39% of medium sized TSOs do not expect to be delivering contracts.
- The expectations of the larger and the biggest TSOs are quite similar, although the biggest organisations are the more likely to believe that their contract activity will increase (38%) or remain at the same level (31%).

- Across the whole sample, few TSOs think that their involvement in contract working will decrease, although large organisations are the most likely to believe that is the case.

Figure 27 **Expectations about involvement in contract delivery over the next two years (2014)**



### Summary

It is clear that there have been some significant shifts in sector ethos between 2012 and 2014. There has been a strengthening of the sector’s sense of identity, values and worth: 91% of TSOs associate primarily with the values of their own sector in terms of organisational ethos rather than with those of the private sector or public sector. In terms of planning and practice ethos, TSOs’ association with private sector principles has diminished since 2012.

In planning terms, there has been a small shift towards the practices of people in the public sector (rising from 7% - 10%), but the vast majority of TSOs (76%) continue to state that they are closer in practice to people in the community. This section has shown that the extent of engagement in the delivery of public sector services by contract is on the increase, but many TSOs remain disinterested in such work.

Many TSOs express a tangential interest in working to contract, but perceive barriers to engagement or require more information or support before they would bid for contracts – the fact that the proportion of TSOs which have only a tangential interest

in bidding remains broadly the same over time suggests that few actually make the journey.<sup>22</sup>

Partnership working to deliver contracts seems to be on the increase – and especially so amongst medium sized TSOs. The largest TSOs are by far the most likely to be involved in contract working in partnership.

It is clear that many organisations have positive expectations about increased future engagement with contract working – and especially so amongst the larger TSOs at around 36%. That stated, significant numbers of TSOs are not interested in delivering public sector services, including a quarter of the largest TSOs (with income above £1m).

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<sup>22</sup> This assertion will require more detailed analysis in future by assessing the extent to which the same TSOs hold consistent views on contract working over time.

# 6 Relationships between sectors

The previous section has considered the situation of TSOs which are delivering public sector contracts – many of which are delivered in partnerships. Not all relationships between the public sector and the Third Sector are contractual. So this section looks at changing relationships within and between sectors in a more general way to find out about the extent, strength and quality of relationships.

## ***Relationships with the public sector***

Figure 28 shows the extent to which TSOs agree or strongly agree with a series of statements about their relationships with the public sector. This chart excludes TSOs which do not have a relationship with the public sector. It is clear from this chart that:

- Amongst TSOs which have a relationship with the public sector, the vast majority feel that their work is valued (88-92%). While confidence dipped a little in 2012, it has now risen above 2010 levels.
- The indications are that most TSOs feel that their role is understood and that their independence is respected by people in the public sector. There is, again, some evidence of a dip in confidence in 2012, but this has more than recovered in 2014.
- The evidence shows that there is a rising sense of confidence that the public sector informs TSOs about issues that interest them: rising steadily from 62% in 2010 to 70% in 2014.
- TSOs feel a growing sense of confidence that the public sector involves them in decision making and that their views are acted upon. The proportion of TSOs which felt that this was the case were in a minority in 2010 and 2012, but by 2014 a narrow *majority* now agree that their voices are heard and acted upon.

Figure 28 **Percentage of TSOs which 'agree' or 'strongly agree' with a series of statements about relationships with the public sector** (refers only to those TSOs which have a relationship with the public sector)

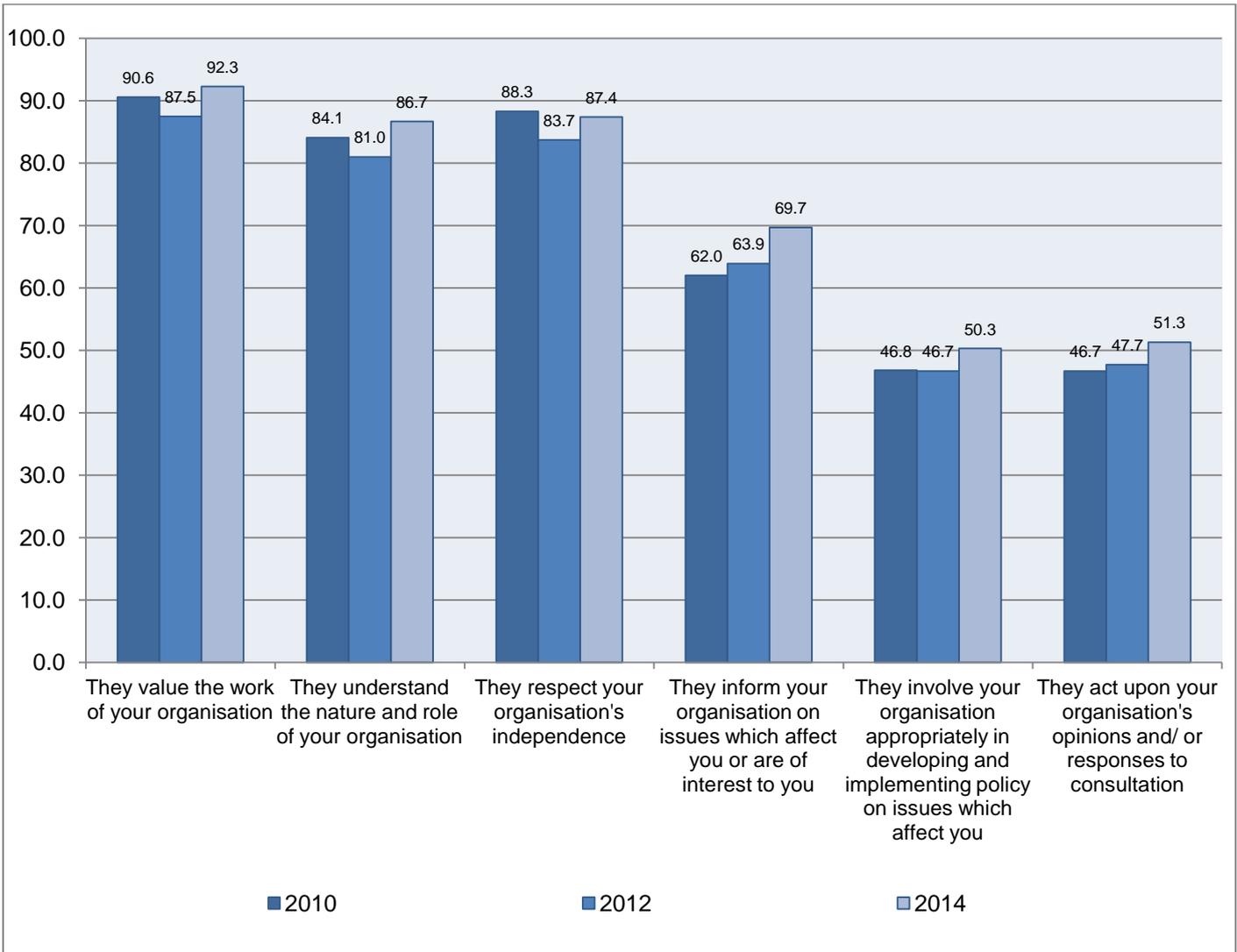


Figure 29(a) shows the views of smaller TSOs (which are less formal, have less than £25,000 income and rarely employ staff) about relationships with people in the public sector. The chart demonstrates that the vast majority of TSOs think that their work is valued, that their independence is respected and that their role is understood. There was a slight dip in confidence in 2012, but this has more than recovered in 2014.

These data also show that there is a rising sense of confidence in three categories: 'feeling informed', 'being involved' and the public sector 'taking action' on the basis of consultation. More than half of TSOs now think this is the case.

Figure 29(a) **Percentage of smaller 'less formal' TSOs which 'agree' or 'strongly agree' with a series of statements about relationships with the public sector** (refers only to those TSOs which have a relationship with the public sector)

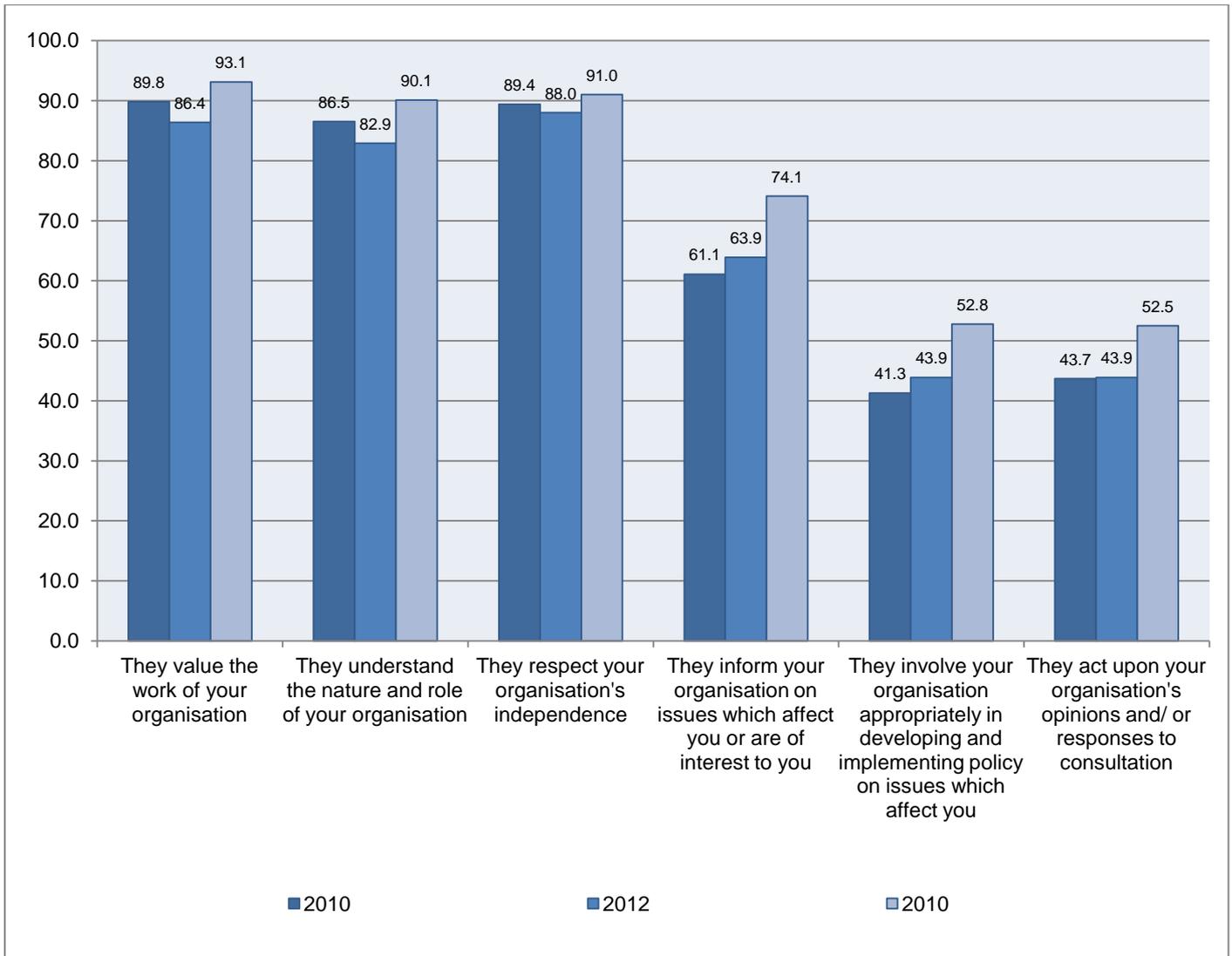
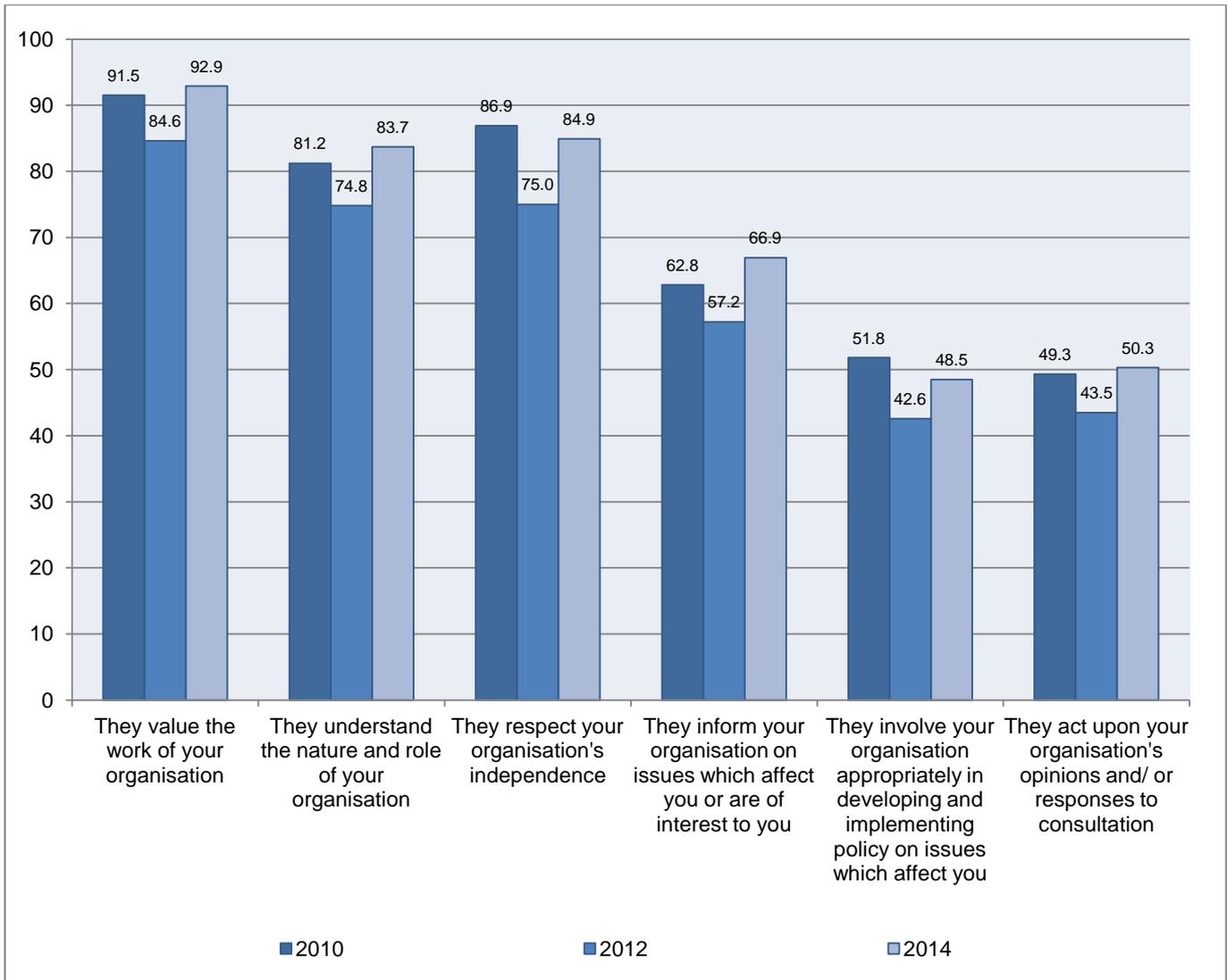


Figure 29(b) looks at the situation for larger TSOs (which have income above £50,000 per annum, generally employ staff and are more likely to be involved in contracts).

As in the previous chart, there is evidence of a bounce back in TSOs' confidence in their relationship with the public sector since 2012. In fact this effect is more pronounced for the larger TSOs. The lowered level of confidence which was expressed in 2012 may be explained by uncertainties produced at the time by significant reductions in public sector funding.

While confidence is very high in relation to TSOs' work being valued and understood and their independence respected, the proportion of TSOs which feel that they are fully involved or their opinions acted upon is still just about equal to those who disagree.

Figure 29(b) **Percentage of larger 'more formal' TSOs which 'agree' or 'strongly agree' with a series of statements about relationships with the public sector** (refers only to those TSOs which have a relationship with the public sector)



### ***Relationships within the Third Sector***

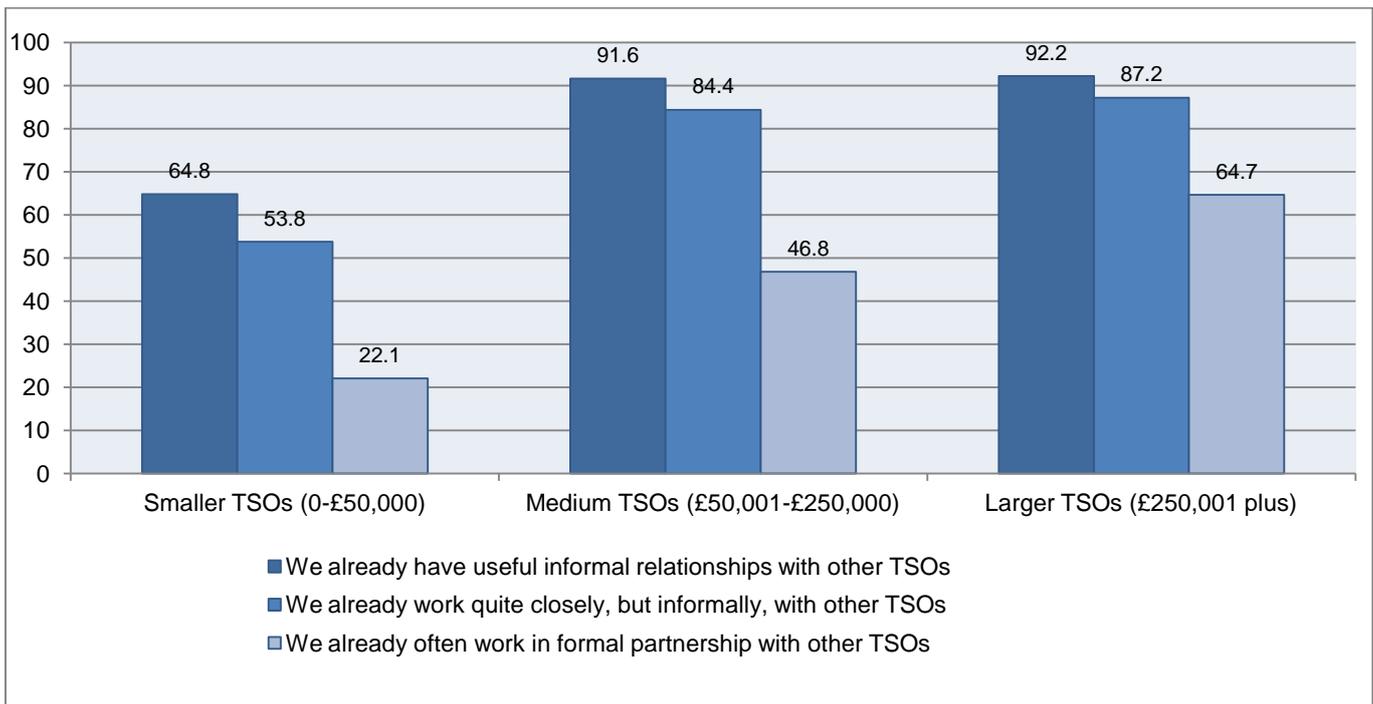
The extent to which TSOs work well together and the strength of these interactions was not explored in depth in previous rounds of the Third Sector Trends surveys. In 2014, however, a new question was introduced to assess the extent to which organisations worked together in different contexts.

Figure 30 shows the extent to which TSOs of different sizes have formed positive relationships with other organisations within the Third Sector.

- 65% of smaller TSOs have useful informal relationships, 54% work closely with and 22% work in formal partnership with other organisations in the Third Sector.

- Medium sized and larger TSOs are much more likely to have useful informal relationships with other organisations in the Third Sector (92% compared with 65% of small TSOs)
- Medium sized and larger TSOs are more likely than small TSOs to work closely or informally with other organisations in the Third Sector (84% and 87% respectively).
- Large TSOs are the most likely to have formal working relationships with other TSOs (65%) when compared with medium sized organisations (49%) or smaller organisations (22%).<sup>23</sup>

Figure 30 Relationships within the Third Sector (2014)



### ***Working with the private sector***

In 2014, a new question was introduced to the survey to find out how many TSOs work with private sector organisations and to gauge what benefits TSOs gained from such relationships.

Figure 31 presents these data comparing the situation of TSOs of different sizes. The data show that:

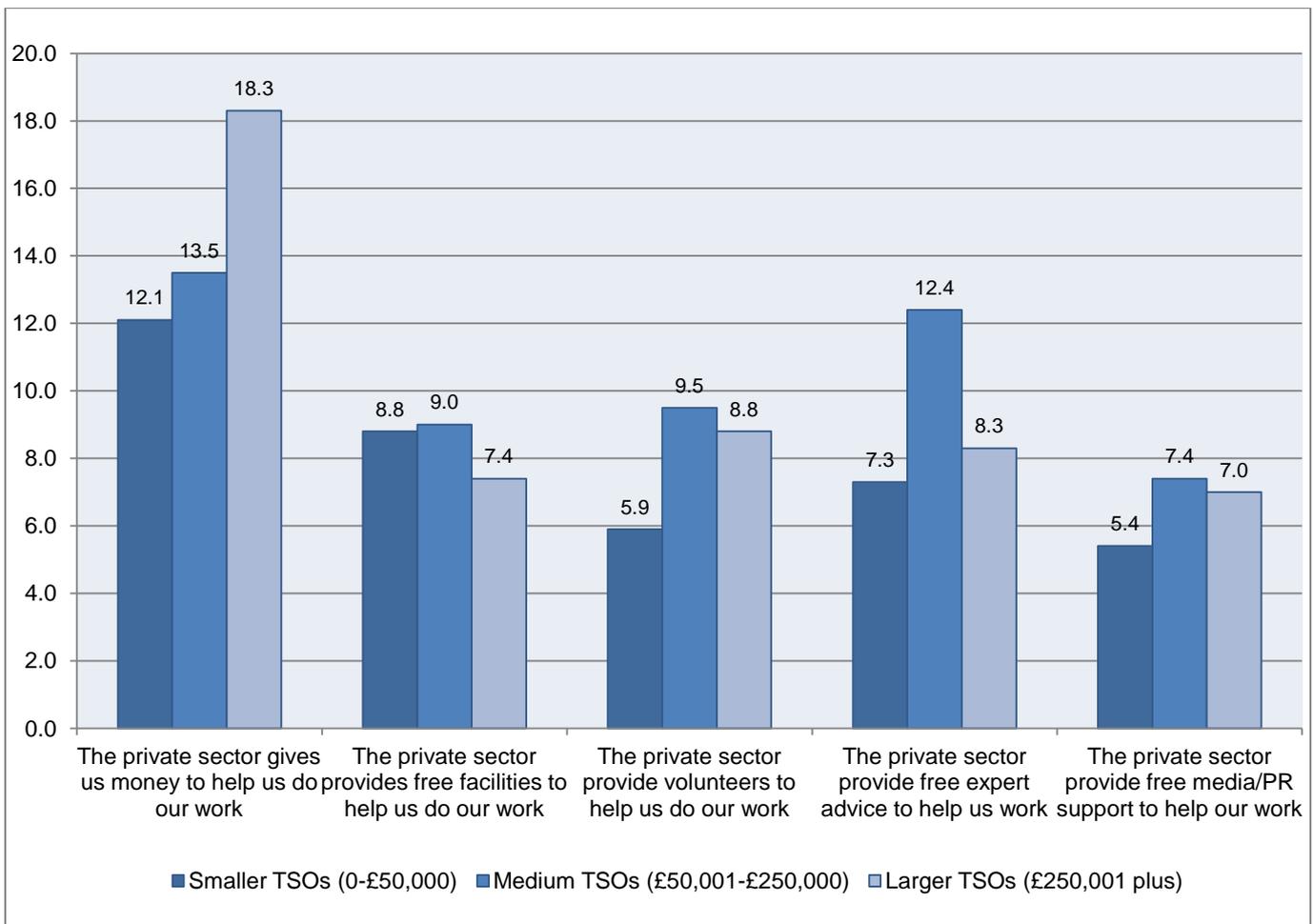
- Larger TSOs are much more likely to be the recipients of money from private sector companies to help them do their work (18%, compared with 14% of medium and 12% of small TSOs).

<sup>23</sup> The percentage of larger TSOs working in formal partnership arrangements is higher than shown in the discussion of partnership in contract working (see Figure 26). The reason for this is that not all formal partnership relationships operate within contractual terms to deliver services on the behalf of a public sector organisation.

- TSOs are more or less equally likely to benefit from the provision of free facilities to do their work by private sector companies irrespective of their size (between 7% and 9% of TSOs).
- Relatively few TSOs benefit from the provision of volunteers from private sector companies. Small organisations are the least likely to get such help (6%) compared with 9-10% of medium and larger TSOs. Smaller TSOs are less likely to get such help because they are inaccessible to companies.
- Medium sized TSOs benefit the most from the provision of expert advice from private sector companies (12%) compared with 7-8% of smaller and larger TSOs. This is likely to be due to higher demand for such support from medium sized organisations.
- Some TSOs get support from private sector companies with their communications work (such as public relations and/or media support). The level of support is low for all TSOs (at between 5-7%).

These data give some indications of the extent to which private sector companies support the Third Sector in various ways. What cannot be gleaned from these data, however, is the balance between the demand for such support and its supply and how this changes over time. This could be a fruitful line of enquiry in future should the study continue beyond 2015.

Figure 31 **Benefits gained from interactions with the private sector (2014)**



## ***Summary***

This section of the report has demonstrated that TSOs generally feel valued by the public sector in the areas where they work and that there is no sign of deterioration in their relationships – indeed, there are indications of some improvement.

It is clear that there is much informal partnership working within the Third Sector amongst organisations of all sizes – although it is the medium and larger sized TSOs that do most of this. As TSOs become larger in size, the more likely it is that they work in formal contractual partnerships with other TSOs.

Relationships with the private sector are quite patchy. While the private sector clearly does make a strong direct contribution to individual TSOs, they tend to be in quite a small minority. Larger TSOs seem to be the most likely to benefit from financial support, but medium sized TSOs are get more generalised support from people in the private sector.

This analysis does not include the contribution the private sector makes, financially, via the community foundations in the region. Nor does it include the direct contribution from foundations financed directly by individual companies in the area or beyond its boundaries.

# 7 Organisational foresight

Before we look at what TSOs are doing to prepare for the future in Section 8, it is useful briefly to examine what people in the Third Sector think will happen to their organisation in the next two years. The analysis presented here is for the sector as a whole and should, therefore, be regarded as 'headline findings'. Beneath the surface of these headlines, many underlying differences may emerge as analysis proceeds over the next few months.

Figure 32 presents data on those TSOs which expect an 'increase' or a 'significant increase' in types of activity or flows of resources over the next two years. The following findings can be noted:

- A rising proportion of TSOs expected that a rise in *demand for their services* in future: from 46% in the 2010 survey to 60% in the 2014 survey. The majority of TSOs now expect demand for their services to intensify in future.
- Over time, expectations about the extent to which TSOs will work in partnership increases from 46% in 2010 to a majority of 51% of TSOs in 2014.
- Expectations about increased organisational expenditure have not risen between 2010 and 2014. That stated, around 40% of TSOs at each stage of the study have expected that expenditure will rise.
- The sector has remained optimistic about the potential to engage volunteers in the future and this optimism has risen year on year from 23% in 2010 to 34% in 2014. As the research analysis proceeds in future, it will be possible to produce reliable estimates on how much the number of volunteers actually increased.
- In 2010, only 19% of TSOs expected income to rise in the next two years, but this has risen to 32% in 2014 suggesting considerably more optimism in the sector (but still not matching expectations about rising expenditure).

Figure 32 TSOs expecting activity or flow of resources to 'increase' or 'increase significantly' over the next two years

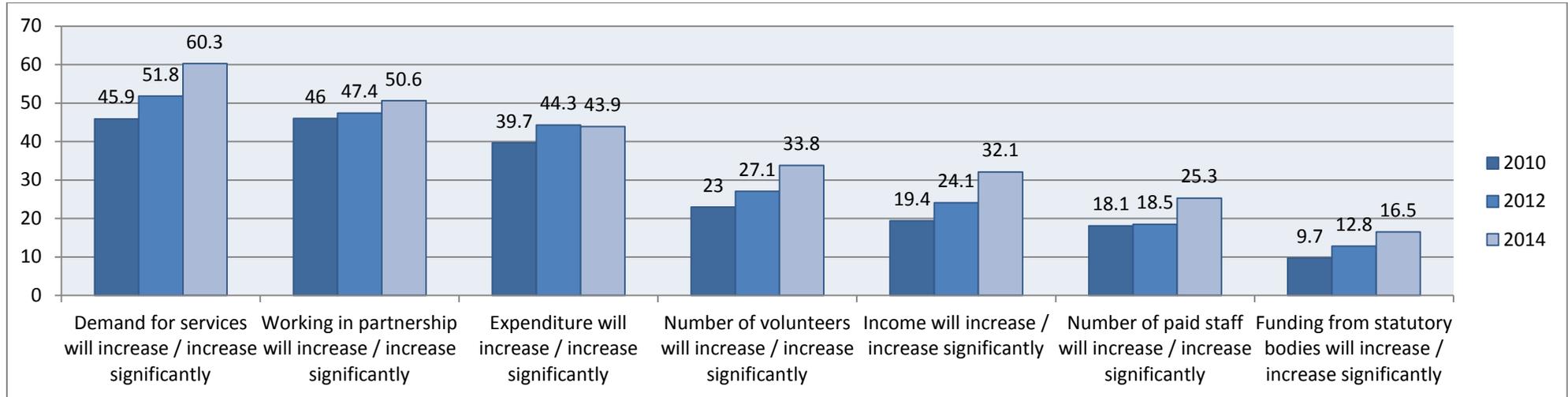
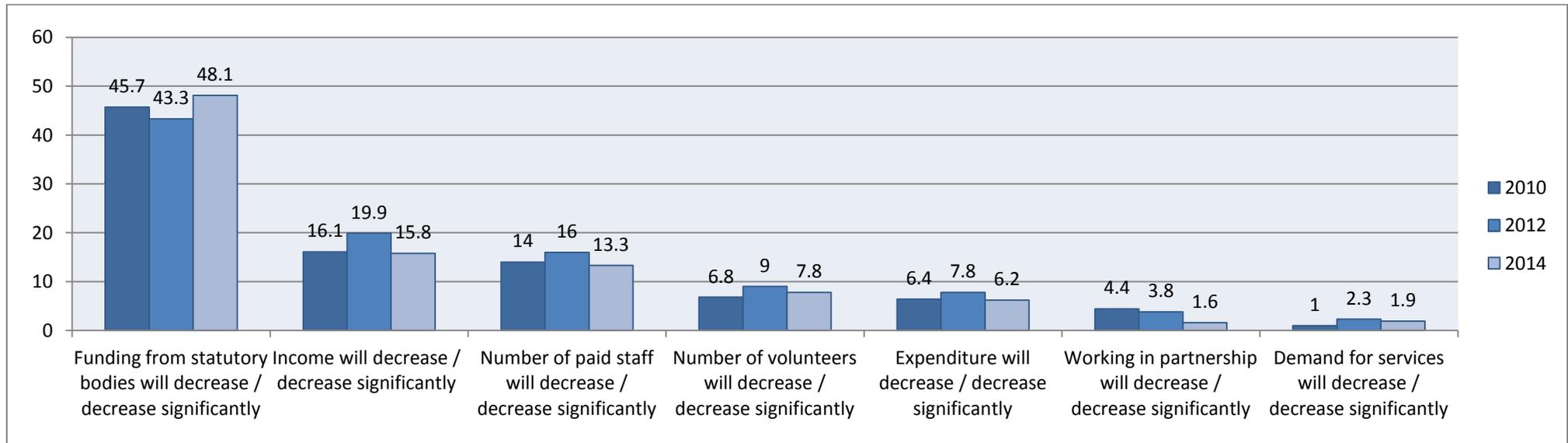


Figure 33 TSOs expecting activity or flow of resources to 'decline' or 'decline significantly' over the next two years



- Even in the depths of the recession in 2010, about a fifth of TSOs were quite confident about their prospects of increasing the number of employees. Optimism has risen over time from 18% in 2010 to 25% in 2014.
- Relatively few TSOs have been optimistic about rising funding from statutory bodies – but there is some evidence to suggest that those who do believe this will happen has increased over time from 10% of TSOs in 2010 to 17% in 2014.

The above analysis refers to those TSOs which express confidence about the future. It is notable that the proportion of TSOs which express confidence has continuously risen over time in all of the categories discussed (apart from expectations about rising expenditure).

Figure 33 takes a look at the opposite side of the coin and explores what proportion of TSOs expect decline or significant decline in relation to each of the factors. The factors are arranged in order of priority to show, on the left of the figure, which issues are worrying TSOs the most.

- TSOs have expressed worries about a decrease or significant decrease in statutory funding in each of the surveys we have undertaken. Such worries have risen from 46% of TSOs in 2010 to 48% of TSOs in 2014. This is, by far, the most important issue of concern to TSOs when compared with all other categories.
- Perhaps surprisingly, expectations about income decreasing have been relatively low throughout the period of study and have remained at reasonably similar levels (between 16-20% of TSOs). In fact expectations are not far from the reality. In 2010, 16% expected that income would fall, and as Figure 7 shows, 22% experienced such income decline. In 2012, 20% of TSOs expected income to fall and over the next two years 19% experienced such a fall in income from 2012 to 2014.
- A similar proportion of TSOs expected that the number of paid employees would fall over the next two years at each stage of the study (between 13% and 16%). What is not yet known, until further analysis is done, is whether employment actually declined at this rate.
- The proportion of TSOs which expected the number of volunteers to fall in number at each stage of the study was quite small (ranging from 6-8%). It is not yet known how many organisations actually experienced a fall in support from volunteers but this will be explored at a later date.
- Relatively few TSOs expected that their expenditure would decrease at each stage of the study (ranging from 6-7% of TSOs). Unfortunately, we have not data to compare on actual levels of expenditure over time although data were collected in 2014 on the extent to which TSOs were drawing upon reserves.<sup>24</sup>

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<sup>24</sup> This analysis which covers North East England, Cumbria and Yorkshire and Humber will be published in December 2014. See Chapman (2014) *Assessing levels of interest in borrowing money by Third Sector Organisations in Cumbria*, Durham, Policy&Practice, St Chad's College, Durham University.

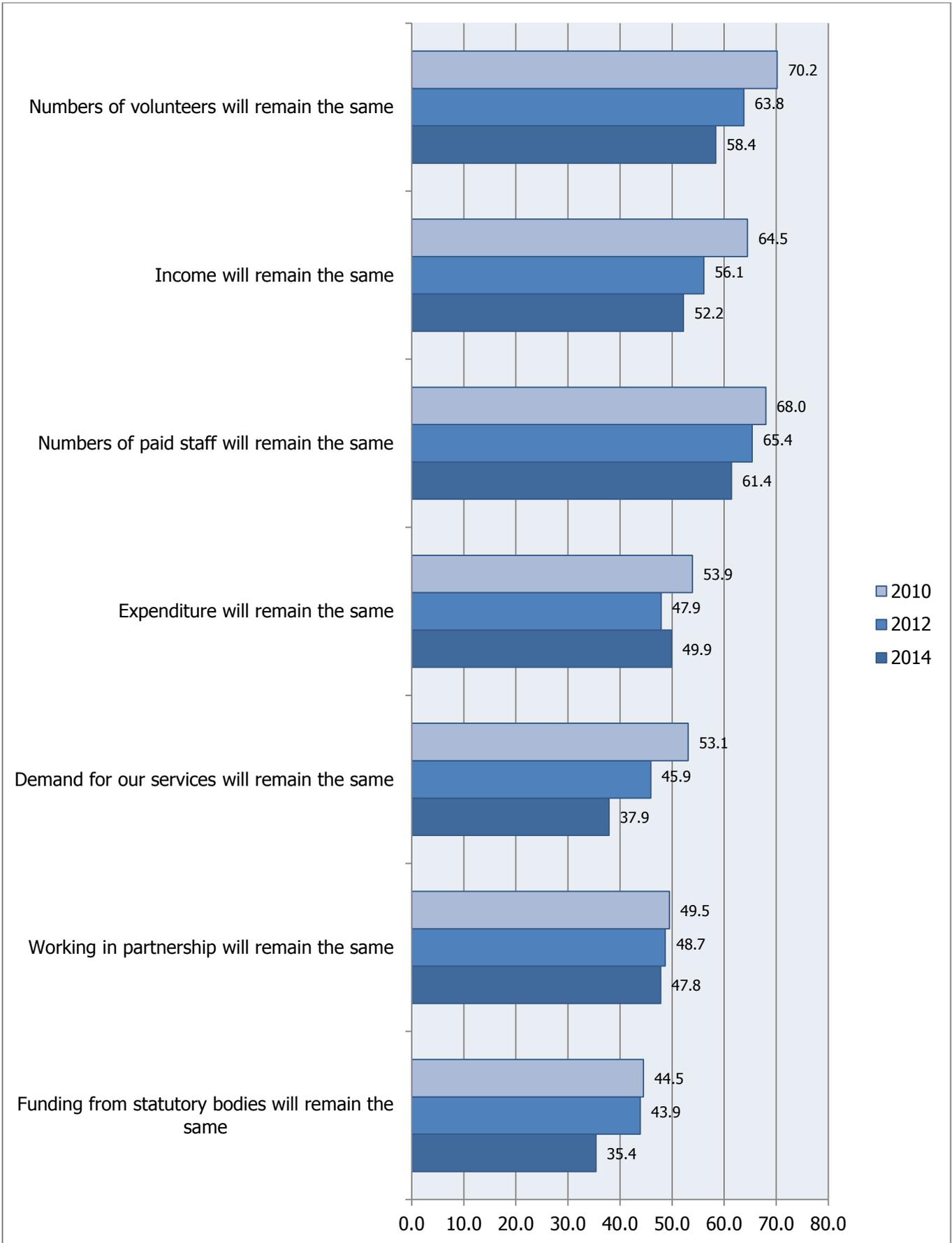
- Very few TSOs expected that levels of partnership working would decrease at each stage of the study. The evidence suggests that those TSOs which did expect this to happen declined from 4% to 2% between 2010 and 2014. This shows conclusively that the majority of TSOs expect to engage in partnership activity of some kind.
- Very few TSOs (between 1-2%) expected that the demand for their services would decrease or decrease significantly at each stage of the survey.

Taken together, Figure 32 and Figure 33 paint a clear picture about the expectations TSOs have about the future. In some cases the Third Sector as a whole expects mixed fortunes (as in the case of expectations about funding from statutory bodies, income in general and the number of volunteers and paid employees available to help TSOs do their work).

These figures have looked at rising and falling expectations, but what about those TSOs which expect that things will stay the same? As Figure 34 shows – there is a great deal of evidence to show that many TSOs thought that their situation would remain more or less the same over time. The key message is that the number of TSOs which expect stability is on the decline in all but one of the categories.

- While the majority of TSOs expect that the number of volunteers who support them will remain about the same, this has declined from 70% in 2010 to 58% in 2014.
- A small majority of TSOs continue to expect that their income will stay at about the same in 2014, but this has fallen from 65% in 2010 to 52% now.
- A majority of TSOs expect that the number of employees will remain about the same, but this has fallen over the years from 68% in 2010 to 61% now.
- About half of TSOs feel that expenditure will stay at about the same over time (between 48-54%), there is some evidence of decline in confidence over time but this is not a linear progression.
- Expectations that demand for services will remain about the same have changed markedly over time, falling from 53% expecting stability in 2010 to 38% in 2014.
- The proportion of TSOs which expect that working in partnership will stay at broadly the same level has not changed much over time, but has fallen slightly from 50% to 48%.
- Expectations that funding from statutory bodies will remain the same held up at about 44% in 2010 and 2012, but this has now fallen to 35% in 2014.

Figure 34 **Expectations of stability by TSOs (2010-2014)**



## **Summary**

The evidence presented in this section shows most TSOs expect things to improve or remain stable in the future. This counters the claim, so often voiced by sector representatives, that TSOs face a fundamental crisis in sector prospects. In fact the evidence clearly points to a good deal of optimism amongst many TSOs about their future prospects – often more than compensating for the worries of other TSOs.

Just because expectations of change (and *experiences* of change as shown in previous sections) are not as dramatic as some commentators would wish us to believe, does not mean that sector complacency is called for. TSOs do need to think about and prepare for the future to meet its challenges and capitalise on new opportunities.

But to what extent are TSOs planning for the future and changing their practices accordingly? That is the subject of the final analytical section of this report.

# 8 Preparing for the future

The final section of this report explores the extent to which TSOs are planning to change their practices to meet the challenges and opportunities of the future. Following this, we present data to show how well organisations are preparing their people for such change through training and support.

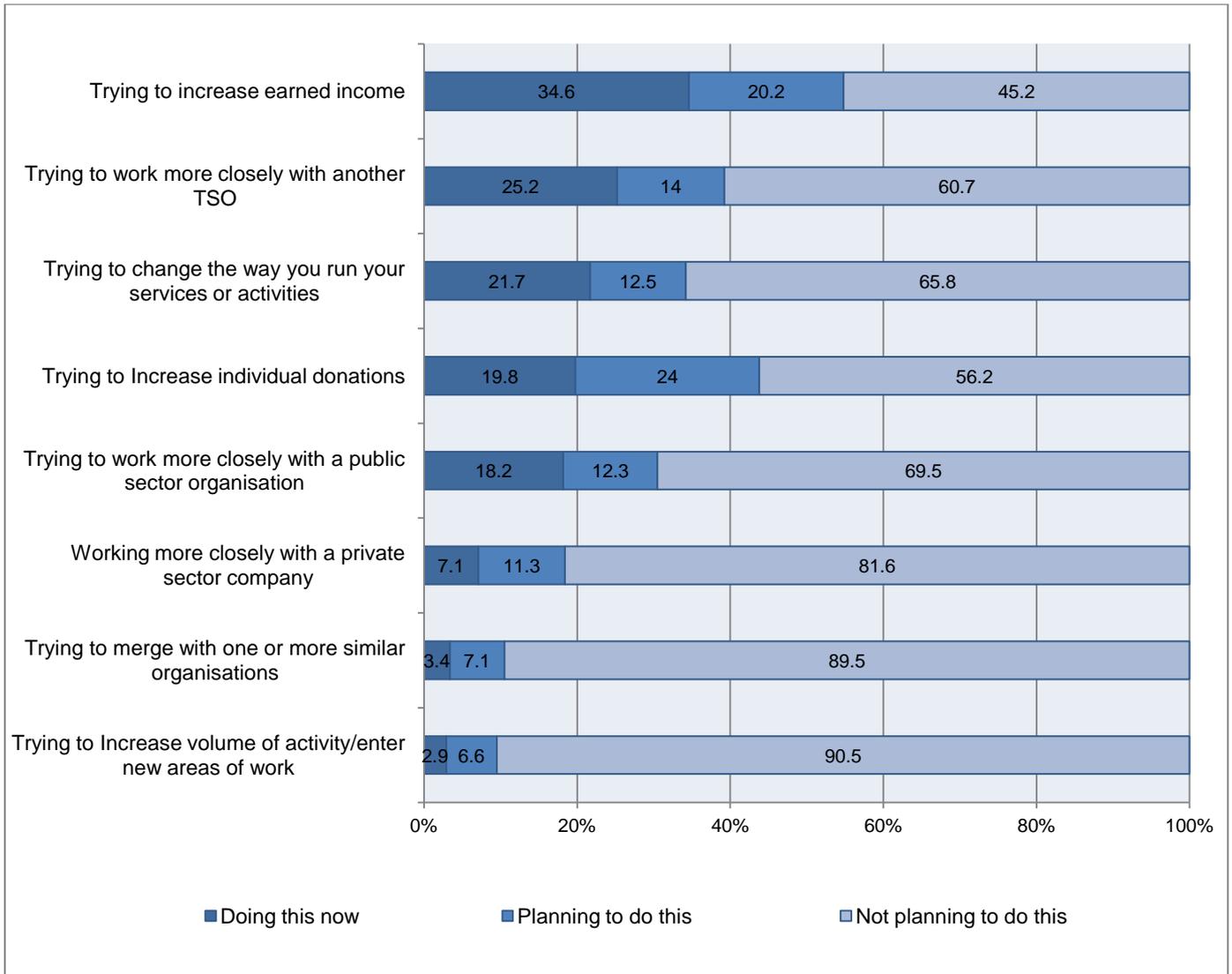
## ***The future plans of TSOs***

To what extent are TSOs planning to change or are actually changing the way they practice to tackle the challenges of the future? In 2014, organisations were asked what they were doing in relation to a number of possible activities – the headline data are presented in Figure 35.

The key findings are as follows:

- Very few TSOs are taking action *or* planning to take action in three areas of potential change:
  - *entering new areas of work/increasing volume of activity* (10%),
  - *merging with another organisation* (10%), and
  - *working more closely with a private sector company* (17%).
- The most popular form of action currently being taken is to increase earned income (35%). A further 20% of TSOs are planning to do this.
- Working more closely with another TSO is an option 25% of TSOs have taken already and 14% more TSOs are planning to do this.
- About 21% of TSOs are changing the way they run their services or activities and 13% are planning to do this. Strikingly, 66% of TSOs are not intending to change how they do things.
- About 18% of TSOs are trying to increase individual donations and a further 24% of TSOs are planning to do so. This suggests that many TSOs put as much emphasis on increasing 'given money' as they do 'earned money'.
- Over 18% of TSOs are taking action to work more closely with public sector organisations and 12% of TSOs are planning to do so. This indicates a prevalent belief that there is scope further to develop relationships with the public sector.

**Figure 35 New practices and planning for the future (2014)**



Organisational change may not be as important for smaller TSOs when compared with larger TSOs. It is useful, therefore, to examine the extent to which variations occur amongst organisations of different sizes.

Figure 36 presents data on the percentage of TSOs which are taking action now to tackle challenges and chase opportunities in the future. Organisations which are currently planning to change, but not actually doing so, are not included in this analysis.

***Largest organisations***

It is clear that the largest TSOs are the most active in attempting to increase earned income (60%), followed by changing the way they run services (52%); working more closely with another TSO (46%); and working more closely with a public sector organisation (41%).

Larger TSOs are less active in several domains: only 32% are trying to increase individual donations; and, 18% are working more closely with private sector companies.

There is little evidence of interest in increasing the volume of activity or moving into new areas of activity (9%) and very limited activity surrounding merging with another TSO (5%).

### ***Medium sized organisations***

The order of priorities to change amongst medium sized organisations is quite similar to the largest TSOs. But the intensity of activity is generally 10-15% lower than for the largest organisations.

Activity is most prevalent in increasing earned income (47%), working more closely with another TSO (36%), changing the way services are run (32%), increasing individual donations (27%) and working more closely with a public sector organisation (25%).

As with the largest TSOs, there is minimal action being undertaken to effect a merger with another TSO (5%) and rather less activity involving entering new areas of work or scaling up activity (2%). There is some activity surrounding work with the private sector (10% compared with 17% of larger TSOs).

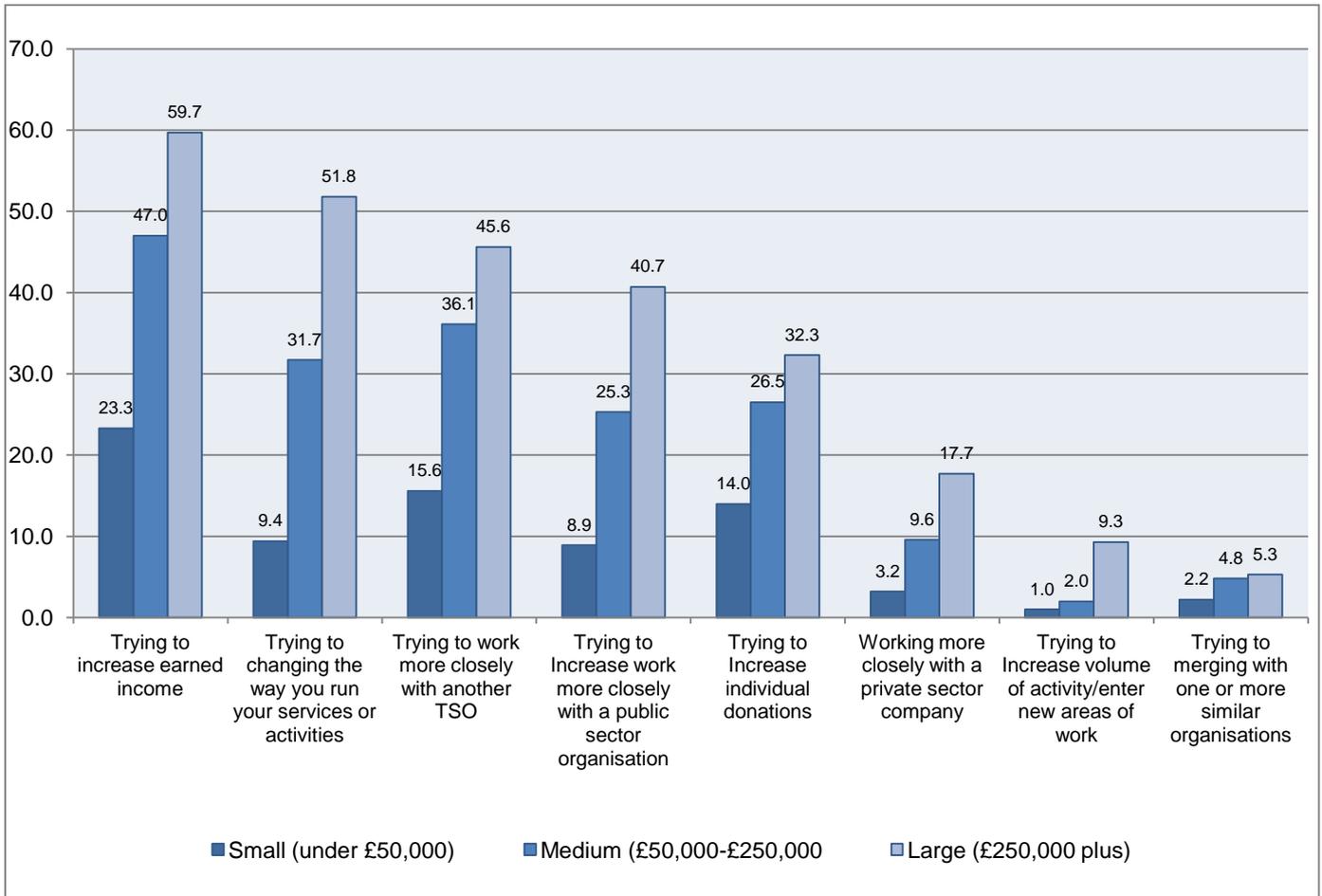
### ***Smaller organisations***

The smallest organisations are much less likely to be changing their practices. As has been shown in previous reports, small organisations tend to be quite resilient and durable as they depend almost completely on voluntary contributions of time to keep running. Money is a lesser concern, in short, than is the case for larger TSOs and therefore, less attention has to be given to strategic thinking to address change.

The evidence presented in Figure 35 shows that small TSOs are much less likely to be taking action to earn income (23%) when compared with larger organisations (60%): and less likely still actively to be changing the way they run their services (9% of small organisations or groups compared with 52% of the largest TSOs).

The most likely areas of new activity are, in order of priority: increasing earned income (23%), working more closely with another TSO (16%) and increasing donations (14%). Taking action to work more closely with the public sector, or change the way they do things, is a priority for only about 9% of smaller TSOs. Action to enter new areas of work is very rare (1% of small TSOs) and there is virtually no active interest in merging with another organisation (2%).

**Figure 36 Levels of current activity to change practices and strategies to tackle future challenges and opportunities by organisational size (2014)**



### **Organisational capability**

In previous reports from the Third Sector Trends Study, it has been shown that organisations which invest in training and development are generally better prepared to tackle the challenges and meet the opportunities of the future.

This is not to say that training in itself changes the way an organisation works, but rather, this indicates that the organisation is well governed, is clear about its mission and knows how to develop its capability to deliver its objectives.

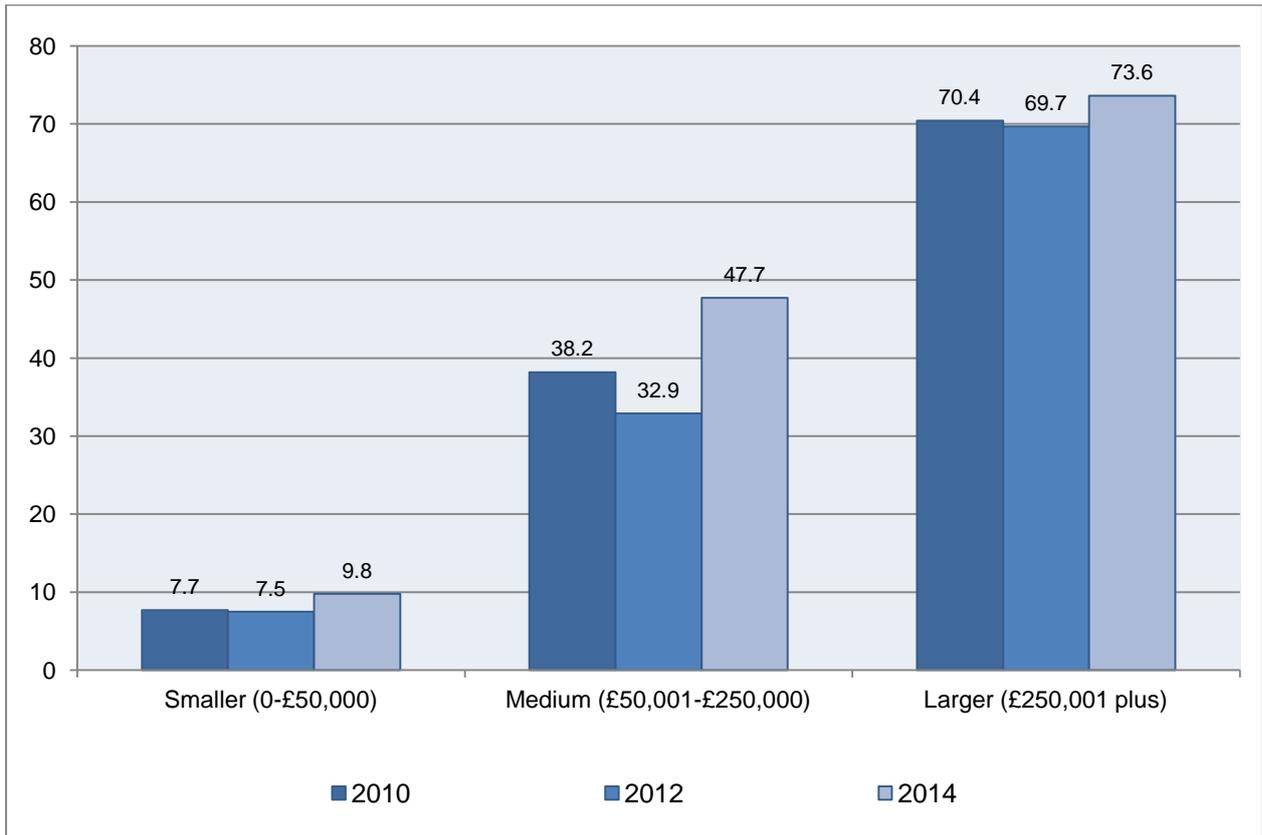
The percentage of TSOs that invest in a training budget is shown in Figure 37.

- Small organisations do not generally need a training budget given the scale of their activities and lack of paid employees. Furthermore, much of the training and support gained by small TSOs is provided free by infrastructure organisations, local councils or other TSOs. It is not surprising therefore that the percentage of these TSOs with a budget is small, but rising a little from 8% in 2010 to 10% in 2014.
- Medium sized organisations are more likely to have a training budget, but fewer than a half of TSOs did so in 2014. There is some evidence to suggest increased investment in training between 2010 and 2014, but it is not a linear trend. TSOs with a training budget fell to 33% in 2012 but has more than recovered in 2014: rising from 38% in 2010 to 47% now.

- The largest organisations are much more likely to invest in training, as would be expected from more complex organisations with greater resources. There has been a small increase in the number of TSOs with a training budget – rising from 70% in 2010 to 74% in 2014.

These data show that training has become more of a priority for organisations of all sizes, albeit, a relatively small shift in that direction.

**Figure 37 Percentage of TSOs with a training budget 2010-2014 by size of organisation**

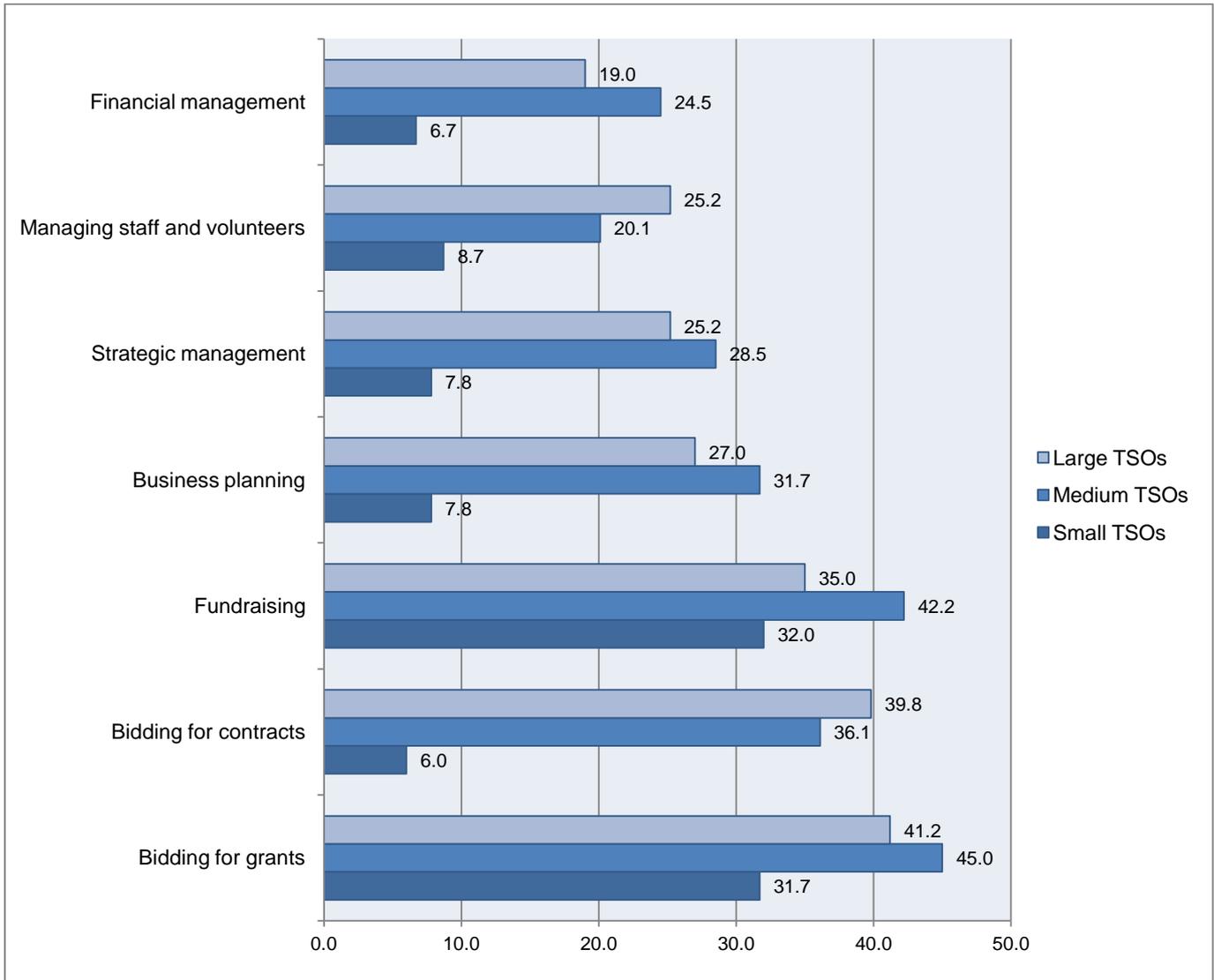


To what extent are training *priorities* of organisations changing over time? Figure 38 presents data on the highest priorities for TSOs of different sizes in 2014. Taking an overview of these data it is apparent that the order of priorities for medium and larger sized organisations is broadly similar, but it is also evident that medium sized TSOs express a higher level of priority on many of these issues.

- Training to support organisations in bidding for grants is the top priority for all TSOs.
- Training to support organisations to bid for contracts is a higher priority for large TSOs (40%) but less so for medium sized TSOs (36%).
- Training to support organisations in fundraising is a high priority for organisations of all sizes, but especially so for medium sized TSOs (42%).
- Business planning, strategic planning, financial management and managing staff and volunteers is a low training priority for small TSOs (generally below 8%).

- The largest TSOs put the strongest priority on training to support them in managing staff and volunteers (25%). Medium sized TSOs tend to put a higher priority on support to develop their strategic management (29%), financial management (25%) and business planning capability (32%)

Figure 38 **High training priorities for TSOs of different sizes (2014)**

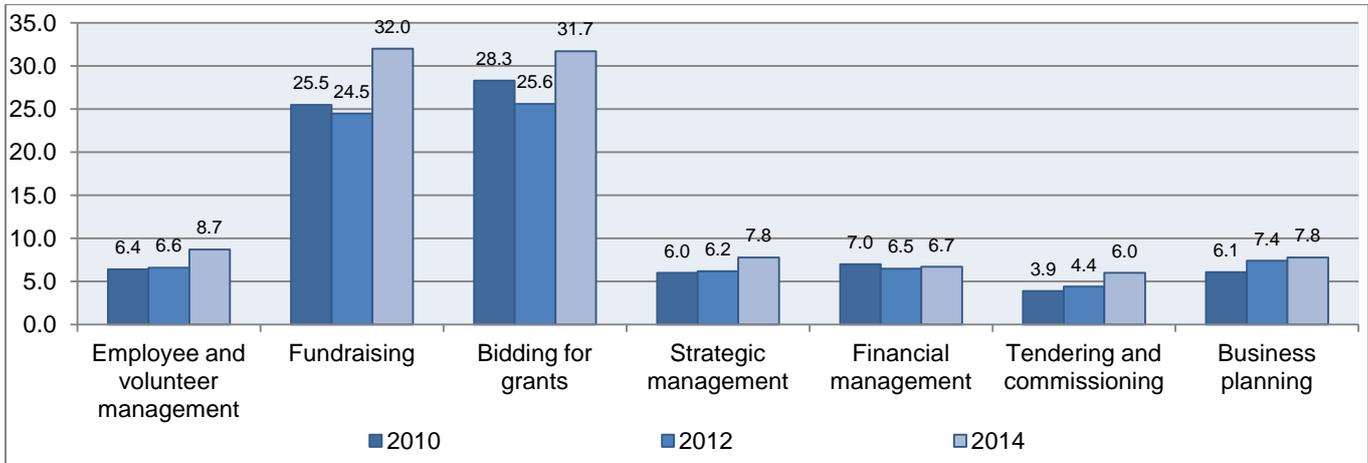


The stronger emphasis on training and support to win more resources from fundraising, grants and contracts by larger and medium sized TSOs is understood. But questions may be raised about whether 'getting the money in' should always be the most important priority - as discussed in our recent working paper *On the Money*.

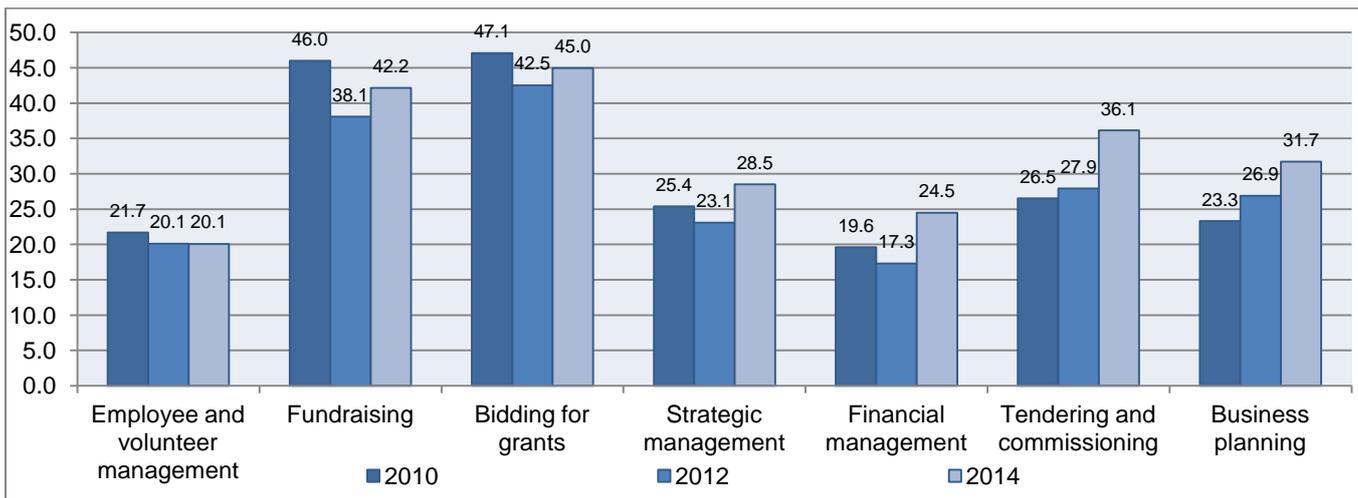
We argue there, essentially, that the cost of neglecting some areas of organisational development can be substantive – and especially so if money is brought in from grants or contracts to achieve things where staff and volunteers have insufficient interest, belief or capability to undertake the work.

To what extent have organisational priorities for capability development been changing in recent years? Figures 39(a), (b) and (c) consider this question using trend data for organisations of different sizes.

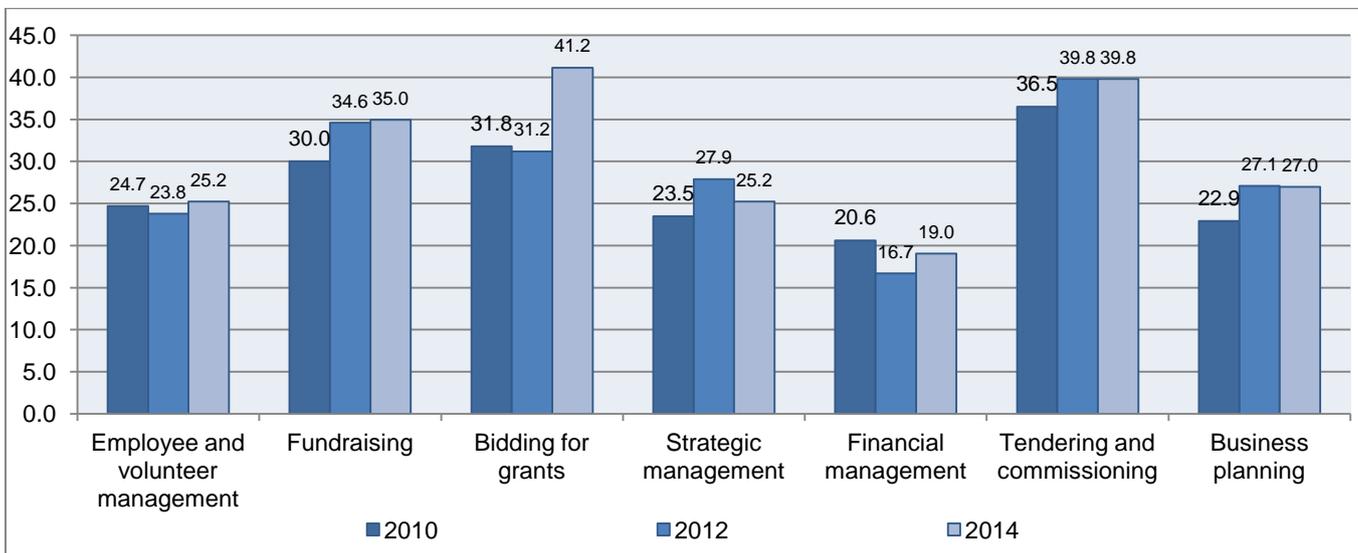
**Figure 39(a) Smaller sized organisations' changing training priorities: 2010-2014**



**Figure 39(b) Medium sized organisations' changing training priorities: 2010-2014**



**Figure 39(c) Larger sized organisations' changing training priorities: 2010-2014**



## ***Summary***

Many organisations in the Third Sector are changing the way they do things in anticipation of a changing operating environment – but the majority are only ‘thinking about’ this or not planning to change what they do. It is the largest TSOs which are making the biggest efforts. Most of this effort surrounds increasing or maintaining income rather than organisational development or working in new ways.

Very few organisations, no matter what their size, are much interested in moving into new areas of activity – which may be a good thing as it shows that they are clear about their mission. But the fact that very few will consider merging or working very closely with other TSOs suggest that competition within the Third Sector may intensify over the coming years if overall sector funding declines.

There is much evidence to show that many TSOs are working hard to tackle the challenges of the future or capitalise upon opportunities they identify. But the extent to which TSOs invest in organisational capability to ensure that they are ready for change is patchy.

Smaller TSOs generally do not need to change what they do very much and so it is explicable that they invest little in the development of their people or organisational capability.

Medium sized TSOs seem to put most emphasis on developing their skills in earning income, fundraising, applying for grants and bidding for contracts. But most tend to neglect other key areas of capability development such as strategic planning, business planning, people management and financial planning.

Larger TSOs also put much emphasis on developing their income generation practices, possibly at the expense of developing their people and organisational governance. Such practices may not be beneficial in the long term – but the current picture is that ‘getting the money in’ is the top priority for most medium sized and larger organisations.

# 9 Conclusions and implications

The analysis presented in this report is based on a large-scale longitudinal quantitative study of Third Sector Trends covering the period 2008-2014. The data have been shown to be fully comparable and it has been demonstrated that the sample structure of the study is broadly in line with national estimates of sector structure. This means that the extrapolation of general findings about TSOs may be of considerable interest to audiences beyond the study region.

## ***Income***

The report shows that there have been some substantive changes in the economic situation of many TSOs between 2008 and 2014, but the most common experience is of income stability.

Smaller, less formal TSOs are the most likely to have experienced income stability. The percentage of larger TSOs which have substantively lost income has increased over time but there is evidence to suggest that the situation is not progressively worsening.

Many TSOs have continued to experience reduced income over the last two years but the trend evidence suggests that the decline in sector income is not accelerating.

Reliance on income sources, in relative terms, varies between organisations of different sizes. Smaller TSOs are most dependent on grants, gifts and subscriptions but other sources of income and support are important too – such as earned income, investment income, and in-kind support.

Medium and large sized organisations remain heavily dependent on grants and earned income, and larger TSOs rely heavily on contracts. The indications are that medium sized and larger TSOs feel that they are becoming more dependent on earned income – but the proportion of income earned does not actually seem to be changing much. There is some interplay between dependence on different sources of income. While many TSOs are dependent on grants and contracts (42%), or grants alone (39%) – very few are dependent on contracts alone (below 1%).

There is some interplay between dependence on contracts and other sources of earned income: 33% of TSOs rely on both sources of income. There a closer association between dependence on grants and earned income: 55% of TSOs are included in this category. But the closest association is between dependence on both grant and gift income (73% of TSOs).

## ***Enterprising attitudes***

It is clear that there have been some significant shifts in sector ethos between 2012 and 2014. There has been a strengthening of the sector's sense of identity, values and worth: 91% of TSOs associate primarily with the values of their own sector in terms of organisational ethos rather than with those of the private sector or public sector. In terms of planning and practice ethos, TSOs' association with private sector principles has diminished since 2012.

Engagement in the delivery of public sector services by contract is on the increase, but many TSOs remain disinterested in such work.

Many TSOs express some interest in working on contracts, but perceive barriers to engagement or require more information or support before they would bid for contracts. The fact that the proportion of TSOs which have only a tangential interest in bidding has stayed the same since 2010 suggests that few have actually make the journey towards bidding for contracts.

Partnership working to deliver contracts seems to be on the increase – and especially so amongst medium sized TSOs. The largest TSOs are by far the most likely to be involved in contract working in partnership.

It is clear that many organisations have positive expectations about increased future engagement with contract working – and especially so amongst the larger TSOs at around 36%. That stated, a significant proportion of TSOs are not interested in delivering public sector services: including a quarter of the largest TSOs (with income above £1m).

## ***Partnership working***

TSOs generally feel valued by the public sector in the areas where they work and that there is no sign of deterioration in their relationships with the public sector – indeed, there are indications of some improvement.

It is clear that there is much informal partnership working within the Third Sector amongst organisations of all sizes – although it is the medium and larger sized TSOs that do most of this. As TSOs become larger in size, the more likely it is that they work in formal contractual partnerships with other TSOs.

Relationships with the private sector are quite limited. While the private sector clearly does make a strong direct contribution to individual TSOs, they tend to be in quite a small minority. Larger TSOs seem to be the most likely to benefit from financial support, but medium sized TSOs get more generalised support from people in the private sector.

This analysis includes neither the grant contributions the private sector makes, financially, via the community foundations in the region, nor the direct contribution from foundations financed by individual companies in the area or beyond its boundaries.

## ***Foresight***

When looking to the future, it is apparent that a sizeable percentage of TSOs are quite optimistic about their prospects. But the evidence shows that most TSOs expect things to remain more or less as they are now. These findings counter the claims, so often voiced by sector representatives, that the Third Sector is facing a fundamental crisis.

Just because experience of change are not as dramatic as some commentators suggest, does not mean that sector complacency is called for. TSOs do need to think about and prepare for the future to meet its challenges and capitalise on new opportunities.

## ***Organisational development***

Many organisations in the Third Sector are changing the way they do things in anticipation of a changing operating environment – but the majority are only thinking about this or not planning to change what they do. It is the largest TSOs which are making the biggest efforts. Most of this effort surrounds increasing or maintaining income rather than organisational development or working in new ways.

Few organisations, no matter what their size, are interested in moving into new areas of activity. This could be a good thing as it shows that TSOs are clear about their mission. But the fact that very few will consider merging or working very closely with other TSOs suggest that competition within the Third Sector may intensify over the coming years if overall sector funding declines.

There is much evidence to show that TSOs are working to tackle the challenges of the future or to capitalise upon opportunities they identify. But the extent to which TSOs invest in organisational capability to ensure that they are ready for change is limited.

Smaller TSOs generally do not need to change what they do very much and so it is understandable that they invest little in the development of their people or organisational capability.

Medium sized TSOs seem to put most emphasis on developing their skills in earning income, fundraising, applying for grants and bidding for contracts. But most tend to neglect other key areas of capability development such as strategic planning, business planning, people development and financial planning.

Larger TSOs also put much emphasis on developing their income generation practices, possibly at the expense of developing their people and organisational governance. Such practices may not be beneficial in the long term – but the current picture is that 'getting the money in' is the top priority for most medium sized and larger organisations.

## ***Conclusions and implications***

The findings presented in this working paper are preliminary. There is much work yet to be done to explore the detail. This will be done over the next few months – resulting in the publication of two more reports in 2015. The first of these reports will assess the situation of the Third Sector as a whole, providing reliable estimates of change in levels of employment, volunteering and income. The second report will compare the situation in each of the four sub-regions of North East England together with Cumbria.

We find a sector which is much more robust than the sector itself believes to be the case. And we now have a much better understanding of why this is so. On a day to day basis, organisations do have to ‘struggle against the odds’ to keep going: especially so in the case of middle sized TSOs. We know that leaders of these TSOs lose sleep worrying about how to meet their financial obligations to keep staff in employment and maintain services to their beneficiaries.

Some of these struggles are due to external forces, such as the current period of economic austerity which is reducing the flow of money into parts of the Third Sector (although in some areas more money is coming their way). Some of the struggle arises from the practices and attitudes of the sector itself, such as the proliferation of TSOs doing similar things in the same areas for the same beneficiaries – so producing competition over a finite (and often, but not always, diminishing) pot of money.

What can be done about this? An economically rational argument, produced from the ‘outside’ may well run along these lines: work more closely together with each other; merge organisations to achieve economies of scale and reduce competition; borrow money so that you can enter into bigger contracts which demand payment by results, and so on.

The truth of it is that TSOs are autonomous entities which vigorously defend their independence and difference from other TSOs. It’s not just explicable – it makes a lot of sense too in the realm of civil society where so many people freely give their time to set up, run and govern TSOs so that they can achieve a social mission which they have devised by themselves and passionately believe in.

So it’s hardly surprising that some things don’t change that much in the Third Sector – because the cultural landscape within which TSOs operate is fairly continuous. And whether there is a dearth of money or money galore – that cultural landscape doesn’t actually change very much.

There’s a message here for ‘outsiders’ too - those people in national or local government organisations and departments, think tanks, social investors, philanthropists, charitable foundations, private sector businesses and so on who have an interest in changing the practices of the Third Sector to suit their own priorities. Put simply, it is this: you will find a sector which does things pretty much its own way. Some TSOs will get on board with your initiatives, but the majority won’t – and even those which do, will do so with some conditions attached.

If we were impressed by the Third Sector at the start of this study, we’re more impressed now. We are impressed by the sector’s belief in itself, belief in what it can and does do for its beneficiaries, and we’re impressed by the resourcefulness, optimism and resilience of the people who continue to make things happen – sometimes against the odds.

Nevertheless, it is clear that the financial situation for the sector as a whole is likely to put it under considerable pressure over the next two years. While it is not possible to predict with certainty what will happen with, it is clear that pressure on public spending will continue.<sup>25</sup> Furthermore, in North East England and Cumbria, it is apparent that the volume of grant funding to the Third Sector will reduce to a significant extent due to the closure of the Northern Rock Foundation's grant funding programmes in December 2014.

These pressures will not exert themselves upon all TSOs in the same way. The smallest TSOs may be the most likely to experience income stability, but they are by no means invulnerable – they need grant funding and in-kind support to keep going. They form the majority of organisations in the Third Sector and make a massive contribution to the maintenance of social wellbeing in communities of interest or place. The work of such organisations and groups may not result in the kinds of 'transformational changes' that governments at national and local level often hope for. But they hold things together – purposefully to neglect them would be a perilous strategy.

Medium sized TSOs are often under the greatest financial pressure and tend to be the most vulnerable to changes in the funding environment. Often they are not in a position successfully to bid to undertake public sector contracts, either individually or in partnership – and often they do not want to. Those medium sized TSOs which deliver front-line services may find it increasingly hard to fund their work – which is worrying because they may provide essential support to beneficiaries. This may be happening when the demand for their services is rising – which may partly be due to the reduction or closure of equivalent or complementary services by local authorities or other public sector bodies.

Larger TSOs are amongst the most resilient in the Third Sector. This is because they have a stronger asset base and work across larger areas. Larger TSOs tend to prepare well for future challenges and opportunities because they have the resources to do so, while medium sized organisations can struggle in this respect – further threatening their stability.

But larger TSOs are not immune to pressure. As public sector organisations seek better value for money from the contracts they let, the pressure to do more for less grows. Similarly, larger TSOs can sometimes be locked out from funding opportunities if preference is given to local grass roots organisations, or when it is simply assumed that they are better resourced than is actually the case.

While the future looks uncertain, it is clear that most TSOs are adept at survival. We find very little evidence to suggest that organisations in the Third Sector feel that they are on a 'knife edge'. On the contrary, we get a strong sense that many organisations are adapting quite well to the 'new normal'. Optimism about the future is relatively high, and indeed it has become more pronounced since we started studying the sector in 2008.

Some organisations will grow and many will keep things going in much the same way as they do now. But what we do not yet know, is whether some organisations are suffering from recurrent set-backs over the period we have been studying them. In future reports we will explore this using our survey data and from evidence collected in the final wave of our qualitative longitudinal TSO50 study which we hope to complete in 2015.

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<sup>25</sup> See Chapman and Robinson (2014) *Keeping it Simple*.

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The Old Chapel, Woodbine Road  
Gosforth, Newcastle upon Tyne NE3 1DD

Tel: 0191 284 8412

Fax: 0191 284 8413

Minicom: 0191 284 5411

Email: [generaloffice@nr-foundation.org.uk](mailto:generaloffice@nr-foundation.org.uk)

Website: [www.nr-foundation.org.uk](http://www.nr-foundation.org.uk)

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