# People, Places and Policy

## Third Sector Trends 2023

Community Foundation
Tyne & Wear and Northumberland

Durham University

# Making a difference for people and places

**There are about 200,000 registered Third Sector Organisations (TSOs) in England and Wales. This is, essentially, a local sector. Over 60% of organisations concentrate attention exclusively within the boundaries of the local authority where they are based (and half of these TSOs just work at neighbourhood or village level).**

Excluding major national or international charities with income above £25 million, sector income is about £48 billion. But sector finance is spread unevenly. TSOs with income between £1 million and £25 million command over 70% of sector finance even though they constitute just 5% of the organisations. Micro and small organisations, by contrast, have only a 3% share of income even though they form over 70% of the sector.

The work-time the sector has at its disposal is enormous. There are about 1.1 million employees and 4.3 million regular volunteers. Sector energy can be calculated by the number of days people work.  Employees produce most of the work-time – about 243 million days while regular volunteers work about 42 million days. But most organisations have very few or no employees – meaning that without volunteers, 85% of the sector could not keep going. And given that the Third Sector is governed by trustees, sector leadership would collapse without voluntarily given time.



Northumberland County Blind Association receiving The Queen's Award for Voluntary Service.
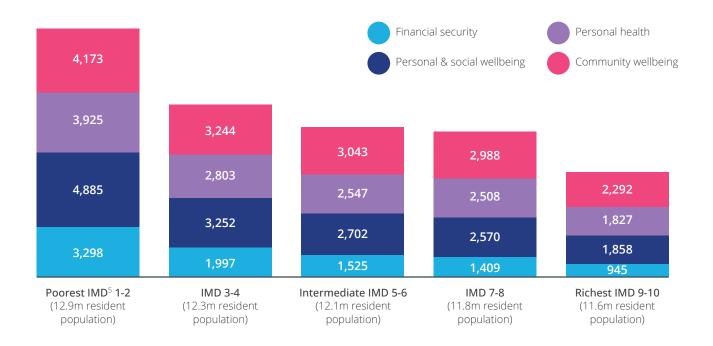
The Third Sector has so much energy at its disposal that it is undoubtedly a force to be reckoned with. But its resource base must be set in context. In England, for example, the local authority budget for social issues was £106bn in 2020-21 (for children's social care, adult social care, public health. cultural and housing services).[1]  Even these sums are outstripped by the budget for the NHS (£160.4bn[2]) and pensions and social welfare spending by the Department for Work and Pensions (£212bn[3]).  On average, in English local authority areas, around £1.2bn of public sector funding was allocated for pensions, health, welfare and social spending - compared with an average of just £163m by the Third Sector. And some of that money comes from the public purse to deliver services on the state's behalf under contract (NCVO's most recent estimates on state-funded spending in the Third Sector was around £15.4bn[4]).

Assuming that the Third Sector in England and Wales had at least £40bn to £45bn at its own disposal to invest in good causes in 2022, it is vital to know how it was used. That is a hard question to answer, because the objectives of Third Sector activity cannot be disaggregated. TSOs rarely serve a single purpose. Instead, they work to serve many beneficiaries, in many ways to achieve a wide range of impacts – and often do so across spatial boundaries. Nailing, precisely, who does what and what value that produces is not possible at a sector level.

Third Sector Trends identifies four broad areas of local impact: **personal health** (including mental health, physical conditions, physical and learning difficulties), **personal and social wellbeing** (such as building confidence and tackling isolation), **financial security** (such as employability, financial inclusion, access to services) and **community wellbeing** (such as pride in place, community cohesion, community empowerment). Investment of sector energy across these four clusters of social impact is quite evenly balanced; but its spatial distribution is not: more energy is devoted to less affluent areas where social need is the greatest.

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## Figure 1: Distribution of sector energy by purpose in England and Wales area of affluence (Third Sector Trends 2022, £millions, includes public sector funded activity)



| | Financial security | | Personal health |
|---|---|---|---|
| | Personal & social wellbeing | | Community wellbeing |

**Poorest IMD[5] 1-2** (12.9m resident population)
- Community wellbeing: 4,173
- Personal health: 3,925
- Personal & social wellbeing: 4,885
- Financial security: 3,298

**IMD 3-4** (12.3m resident population)
- Community wellbeing: 3,244
- Personal health: 2,803
- Personal & social wellbeing: 3,252
- Financial security: 1,997

**Intermediate IMD 5-6** (12.1m resident population)
- Community wellbeing: 3,043
- Personal health: 2,547
- Personal & social wellbeing: 2,702
- Financial security: 1,525

**IMD 7-8** (11.8m resident population)
- Community wellbeing: 2,988
- Personal health: 2,508
- Personal & social wellbeing: 2,570
- Financial security: 1,409

**Richest IMD 9-10** (11.6m resident population)
- Community wellbeing: 2,292
- Personal health: 1,827
- Personal & social wellbeing: 1,858
- Financial security: 945

The evidence presented in Figure 1 is revealing, but it tells only part of the story. Most of the energy which is invested in poorer areas is devoted to service delivery – often paid for by the state in the form of contracts or by big grants to address pernicious and urgent social need by charitable trusts and foundations. Most of this energy is expended by bigger TSOs.

When the distribution of organisations by size is compared across areas a different picture emerges. As Figure 2 shows, there are 1.2 micro or smaller TSOs per 1,000 resident population in the poorest areas, but in the richest areas there are 2.7. By population, there are two-and-a-half times as many small organisations in the richest areas compared with the poorest.

These findings can be interpreted in a variety of ways. It could be, and often is claimed that the dearth of local organisations in poor areas amount to 'charity deserts' and that something should be done to 'unleash' an untapped reservoir of potential in poorer areas. But by using comparative analysis, Third Sector Trends' more nuanced appraisal indicates that in affluent areas, local people are much more likely to be interested in, see the personal value of, and have the available resources to set up organisations which serve social purposes that they judge to be important.

[1] Department for Levelling Up, Housing and Communities (2021) Local authority revenue expenditure and financing 2020-21: updated provisional outturn – England, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1039427/Local_authority_revenue_expenditure_and_financing_England_2020_to_2021_Provisional_Outturn_Update.pdf

[2] BMA (2023) Health funding data analysis: https://www.bma.org.uk/advice-and-support/nhs-delivery-and-workforce/funding/health-funding-data-analysis#:~:text=NHS%20England%20budget,on%20directly%20to%20the%20NHS

[3] DWP (2022) DWP annual report and accounts 2021-22, https://www.gov.uk/government/publications/dwp-annual-report-and-accounts-2021-to-2022/dwp-annual-report-and-accounts-2021-to-2022#:~:text=The%20cost%20of%20running%20our,Social%20Fund%20payments%20from%20AME

[4] NCVO UK Civil Society Almanac 2022, https://www.ncvo.org.uk/news-and-insights/news-index/uk-civil-society-almanac-2022/financials/what-are-the-trends-in-income-from-government/#/putting-it-into-context
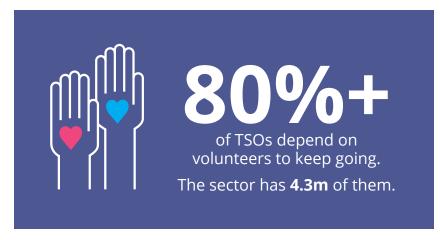
[5] IMD - Indices of multiple deprivation

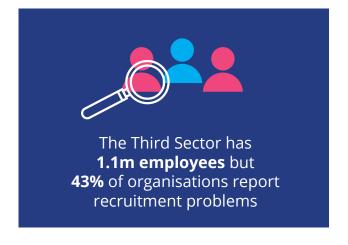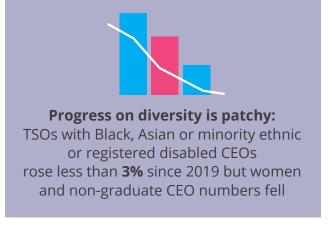# 200,000 third sector organisations are based in England and Wales

## The distribution and impact of TSOs varies considerably across England and Wales
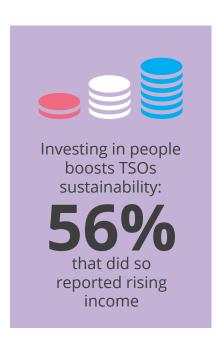
| | | TSOs per 1,000 population | Contribution to social and economic wellbeing (£millions) |
|---|---|---|---|
| 1 | North East England | 2.7 | 5,860 |
| 2 | North West England | 2.7 | 16,660 |
| 3 | Yorkshire and Humber | 2.6 | 10,920 |
| 4 | East Midlands of England | 3.0 | 8,880 |
| 5 | West Midlands of England | 2.8 | 13,370 |
| 6 | East of England | 3.4 | 15,730 |
| 7 | London | 4.4 | 65,860 |
| 8 | South East England | 3.6 | 31,030 |
| 9 | South West England | 4.2 | 16,020 |
| 10 | Wales | 3.2 | 6,630 |

## 64%
of TSOs work exclusively at a local level

## 80%+
of TSOs depend on volunteers to keep going.
The sector has **4.3m** of them.

The Third Sector has **1.1m employees** but **43%** of organisations report recruitment problems

**Progress on diversity is patchy:** TSOs with Black, Asian or minority ethnic or registered disabled CEOs rose less than **3%** since 2019 but women and non-graduate CEO numbers fell

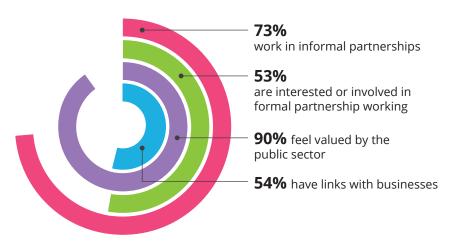Investing in people boosts TSOs sustainability:

## 56%

that did so reported rising income

## Collaboration is the norm for TSOs

**73%** work in informal partnerships

**53%** are interested or involved in formal partnership working

**90%** feel valued by the public sector

**54%** have links with businesses

TSOs with income less than **£250,000** account for **86%** of the sector, but just **13%** of its income

**14%**

Funders seem to have adopted a "lighter touch": TSOs receiving unrestricted or core funding **increased by 14%** in 2019-2022

## 22%

of TSOs reported using reserves for essential expenditure
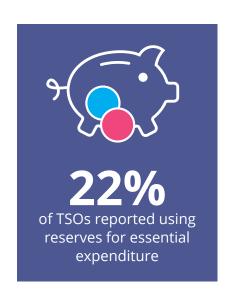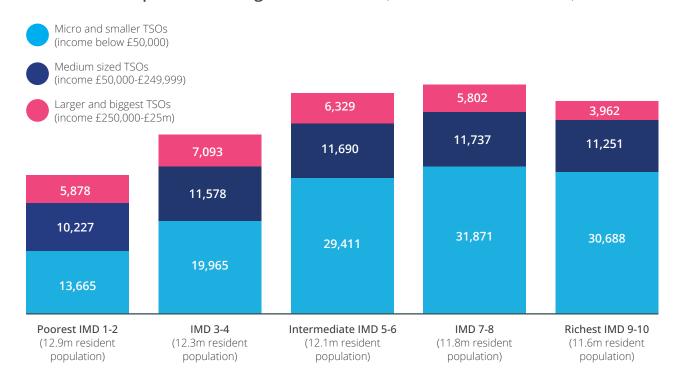
## Influencing local social and public policy by size of TSOs

(Percentage 'agree' or 'strongly agree', average n=5,764)

- Micro - income below £10,000
- Small - income £10,000 - £49,999
- Medium - income £50,000 - £249,999
- Large - income £250,000 - £999,999
- Big - income £1million - £25million

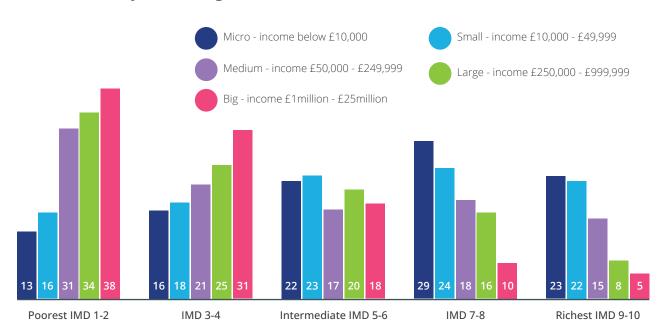| | We tend to steer well clear of political issues | We campaign to further the interests of our beneficiaries | We trust a local third sector support agency to do this on our behalf (eg a CVS) | We tend to work behind the scenes to influence policy |
|---|---|---|---|---|
| Micro | 80 | 36 | 26 | 32 |
| Small | 78 | 40 | 32 | 35 |
| Medium | 68 | 53 | 36 | 48 |
| Large | 55 | 65 | 42 | 64 |
| Big | 57 | 71 | 40 | 68 |

## Figure 2: Number of organisations operating in areas of relative affluence or deprivation in England and Wales (Third Sector Trends 2022)

Micro and smaller TSOs
(income below £50,000)

Medium sized TSOs
(income £50,000-£249,999)

Larger and biggest TSOs
(income £250,000-£25m)

| | Poorest IMD 1-2 (12.9m resident population) | IMD 3-4 (12.3m resident population) | Intermediate IMD 5-6 (12.1m resident population) | IMD 7-8 (11.8m resident population) | Richest IMD 9-10 (11.6m resident population) |
|---|---|---|---|---|---|
| Larger and biggest TSOs | 5,878 | 7,093 | 6,329 | 5,802 | 3,962 |
| Medium sized TSOs | 10,227 | 11,578 | 11,690 | 11,737 | 11,251 |
| Micro and smaller TSOs | 13,665 | 19,965 | 29,411 | 31,871 | 30,688 |

The density of micro and smaller organisations is much lower in poorer areas. Consequently, demand for smaller grants is skewed towards wealthier areas. The likelihood is that people in small organisations in richer areas will have higher levels of confidence, skills and the social connections to help spot opportunities, bid for and win grants – and so their chances of success are higher.

In the extraordinary circumstances surrounding the Coronavirus pandemic, many trusts and foundations, and local public authorities relaxed their approach to grant making. The evidence shows that smaller organisations in more affluent areas were more likely to capitalise on relatively free flowing funding. As Figure 3 shows that in the poorest areas only 12% of micro-organisations substantially increased their income during this period compared with 22% in the richest areas. At the other end of the spectrum, 38% of the biggest organisations in the poorest areas substantially increased income compared with 5% in the richest areas.

## Figure 3: Percent of organisations which increased income significantly in the last two years in England and Wales (Third Sector Trends 2022)[6]

Micro - income below £10,000

Small - income £10,000 - £49,999

Medium - income £50,000 - £249,999

Large - income £250,000 - £999,999

Big - income £1million - £25million

| | Micro | Small | Medium | Large | Big |
|---|---|---|---|---|---|
| Poorest IMD 1-2 | 13 | 16 | 31 | 34 | 38 |
| IMD 3-4 | 16 | 18 | 21 | 25 | 31 |
| Intermediate IMD 5-6 | 22 | 23 | 17 | 20 | 18 |
| IMD 7-8 | 29 | 24 | 18 | 16 | 10 |
| Richest IMD 9-10 | 23 | 22 | 15 | 8 | 5 |

When comparing the situation, pre- and post-pandemic, it is clear that many grant makers shifted from restricted to unrestricted funding. In 2019 only 46% of TSOs reported that they received unrestricted funding compared with 60 per cent in 2022. Now, grant makers face a conundrum. Should they continue to rely on trust in the way they offer grants – or refocus attention on specifics so that they can account for the impact they achieve?

During the pandemic, many grant makers were thinking hard about future strategy, suggesting that unrestricted funding may become less common again when objectives are closely aligned with specified social goals. In such circumstances, grant makers tend to be more stringent when stipulating the purpose of funding and inviting applications from TSOs. Often strings are attached about approaches to practice, the extent of need, assessment of impact, evidence of innovation, expectations about sustainability and such like.

For other trusts and foundations, when deciding how to allocate grants, the issue often boils down to questions surrounding whether to 'trust' that charities and social enterprises are experts in their field and have a deep understanding of the social dynamics of the localities where they work. Trust and confidence are often built by forming relationships with TSOs so that grant makers feel secure that money has been spent well.

Without some checks and balances, trust can be abused. During the pandemic, direct contact between funders and TSOs was more limited (the percentage of TSOs reporting that grant funders 'took the time to get to know us' fell from 57% in 2019 to 48% in 2022). It is hard to say how many TSOs were 'gaming' grant makers during the pandemic – but certainly, more organisations held reserves after the pandemic (83% in 2022) than they did before (76% in 2019).

Our own in-depth longitudinal study of 50 organisations over the last 15 years suggests very few organisations gamed grant makers. Analysis via 360Giving demonstrated that only one of the organisations applied to several funders for, ostensibly, the same purpose or made grant requests for things that had recently been grant funded. Certainly, it is not advisable to build a grant-making system around the possibility that fewer than 5% of organisations bend the rules when it is known that most TSOs can be trusted.

Arguably, the debate amongst trusts and foundations needs to move beyond questions of trust or attribution and turn to the issue of balance. Third Sector Trends shows that grant makers are already doing a good job of distributing grants quite evenly between regions and across areas of wealth and disadvantage. This happens because most grant makers take a holistic view by keeping an eye out on what is going on at ground level. So there is no real need to systematise this (and why would grant makers want to lose the rare autonomy they have to do things their own way?). Nevertheless, there is a need to maintain a 'watching brief' where trusts and foundations engage in 'informed debate' based on decent evidence from 360Giving, NCVO's Civil Society Almanac and Third Sector Trends about funding distribution.

After all, TSOs cannot and should not be expected to sort this out themselves by agreeing shared priorities. Civil society is not driven by principles surrounding fair distribution of services for all, as is the case in a welfare state. Instead, organisations focus on particulars, not universals and defend their corners vigorously. And while there will be alliances on specific issues from time to time, there can never be a fully shared set of values (beyond the legal right for such organisations to exist) on issues surrounding purpose, practice, need or social benefit. In a sector that is enormously ambitious to make a difference, this means that there is intense rivalry to highlight the importance of causes and fierce competition over resources.

The Third Sector, ultimately, exists to respond to or elicit change. Some organisations want to protect privilege, some want to challenge it. Change in social mores and personal expectations are often led or cemented by the work of campaigning charities. Political parties, arguably, more often follow suit, rather than initiate change.

Often governments are perturbed by this campaigning aspect of the Third Sector. But taking a long view, it is clear that the state is adept at accommodating to change when public opinion has shifted. The range of issues is vast, from practical issues surrounding public health (such as campaigns on smoking or seat belts) to individual rights (such as same-sex marriages and statutory action on disability discrimination)[7].

On the other side of the coin, charities can also be effective at resisting change. Sometimes this is to do with preserving privilege and the status quo – but on other occasions it is about protecting people and places from the ravages of 'progress'. It is a sign of the times when government takes exception to the activities of national charitable institutions such as the National Trust[8], for being over-zealous in their eagerness to protect properties, landscape, wildlife and ecosystems.

The workings of the Third Sector might not be neat, but it knows what it is good at. And as champions of causes in need of financial support which, often, only grant funders can provide – it helps if the funding environment remains pluralistic. And while the resources available to the Third Sector may always be dwarfed by business and the state – charities and social enterprises continue to pack a punch that brings about – sometimes welcome, sometimes not depending upon the onlookers' point of view - social change.

6   Resident population in each quintile for England and Wales was calculated from ONS data provided in response to a Freedom of Information request (not by the report's author) which are available at this address: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/adhocs/13773populationsbyindexofmultipledeprivationimddecileenglandandwales2020

7   ACEVO (2017) Speaking frankly, acting boldly: the legacy and achievements of charity campaigning, London: ACEVO, https://www.acevo.org.uk/reports/speaking-frankly-acting-boldly/

8   The Economist (2022) Why is everyone so cross about the National Trust? (November 10th), https://www.economist.com/britain/2022/11/10/why-is-everyone-so-cross-about-the-national-trust

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The contents of the report express the views of the author and do not necessarily reflect the views or policies of the commissioning partners.