Third Sector Trends in England and Wales 2022:

finances, assets and organisational wellbeing

Community Foundation

About the author

Tony Chapman is Director of Policy&Practice, St Chad's College, Durham University and Honorary Professor in the Department of Sociology, Durham University.

Third Sector Trends Study

Data in this report are drawn from the Third Sector Trends study which was conceived and originally commissioned by Northern Rock Foundation with research conducted by the universities of Southampton, Teesside and Durham. The Community Foundation Tyne & Wear and Northumberland was a co-founder of the research and is now responsible for its legacy.

The Community Foundation and St Chad's College are now collaborating with partners including: Power to Change, Barrow Cadbury Trust and Millfield House Foundation to undertake the Third Sector Trends Study survey in 2022-23

All publications from the Third Sector Trends study are available free to download at this address: https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/

Front and rear cover design

Tower Design Workshop
Photo: West Northumberland Food Bank

Published by

Community Foundation serving Tyne & Wear and Northumberland
Philanthropy House
Woodbine Road
Gosforth
Newcastle upon Tyne NE3 1DD

https://www.communityfoundation.org.uk/

January 2023

Contents

Acknowledgements

Third Sector Trends is a joint effort involving thousands of people and organisations. The study could not continue without the enormous amount of support it receives.

I would like to thank all the participants in the study who took the time to do the survey and to write to us about their experiences. Many of the people who responded will have been involved in the study for many years now. So my thanks go to them for sticking with it this far and hopefully continuing to take part in 2025.

Help to get people to respond to the survey has come from many local infrastructure organisations, community foundations and grant-making trusts across the country by sending invitations to their lists of members or grantees, putting stories in their newsletters or promoting the study via social media. My thanks go to them for helping build the sample.

I am enormously grateful to the organisations which have funded the study in 2022: Community Foundation Tyne & Wear and Northumberland, Power to Change, Barrow Cadbury Trust and Millfield House Foundation.

This is a long running study and it has benefitted enormously from the support of my colleagues Rob Williamson, Mark Pierce and Adam Lopardo at the Community Foundation in Newcastle. Their enthusiasm, advice and assistance is invaluable and much appreciated.

Executive summary

This is the third report from the Third Sector Trends study of England and Wales in 2022. The first report examined the structure, purpose, energy and impact of the voluntary, community and social enterprise sector and laid down the foundations for subsequent analysis.

The second report looked at people in the sector: focusing on employees, volunteers, diversity in leadership and investment in people. This report covers the changing configuration of income sources; grants, contracts and trading; property assets and financial reserves and organisational wellbeing.

Third Sector Trends research includes all types of registered organisations with income below £25million. There are about 200,000 registered organisations, but their population is not evenly spread across English regions and Wales. Income and expenditure by English regions and Wales are shown in Figure 1.

Figure 1 **Third Sector income and expenditure in England and Wales 2022**

	Number of Third Sector organisations	**Third Sector organisations per 1,000 population**	**Estimated Third Sector income** (£millions)	**Estimated Third Sector expenditure** (£millions)
North East England	6,900	2.7	1,480	1,420
North West England	20,000	2.7	4,180	3,990
Yorkshire and Humber	14,600	2.6	2,710	2,590
East Midlands of England	14,500	3.0	2,150	2,050
West Midlands of England	16,800	2.8	3,360	3,220
East of England	21,600	3.4	3,870	3,710
London[1]	*38,500*	*4.4*	*17,080*	*16,350*
South East England	33,400	3.6	7,790	7,460
South West England	23,700	4.2	3,920	3,750
Wales	10,000	3.2	1,590	1,530
England and Wales	200,000	3.4	48,130	46,070

Third Sector Trends explores how income sources are valued by TSOs. Time-series analysis shows how perceptions of the value of income sources changes. Figure 2 indicates that attitudes about the 'relative' importance of income sources have shifted significantly since 2010.[2]

Perceptions of the value of grant funding have changed since 2010, reflecting a shift away from narratives about 'grant dependency' in policy circles. Subscriptions and investments are valued much less now than in 2010. Perceived value of earned income, contracts, contributions in kind and borrowed money has changed little.

[1] Organisations in London do not fit the regional analytical model as well because nearly 50 per cent of organisations work beyond the boundaries of the capital. See the first report on sector structure, purpose, energy and impact for further explanation, https://www.stchads.ac.uk/research/research-news/third-sector-trends-2022-first-report-published-on-sector-structure-purpose-energy-and-impact/

[2] Data do not refer to the 'actual' sum of income, but 'perceptions of reliance' upon a range of resources which can be compared over time. The bar graphs show relative importance of each type of income source in each year of study: hence the percentages add up to 100 each year to ensure that the data are intelligible and comparable.

Figure 2 **Relative importance of income and in-kind support 2010-2022**
(North of England)

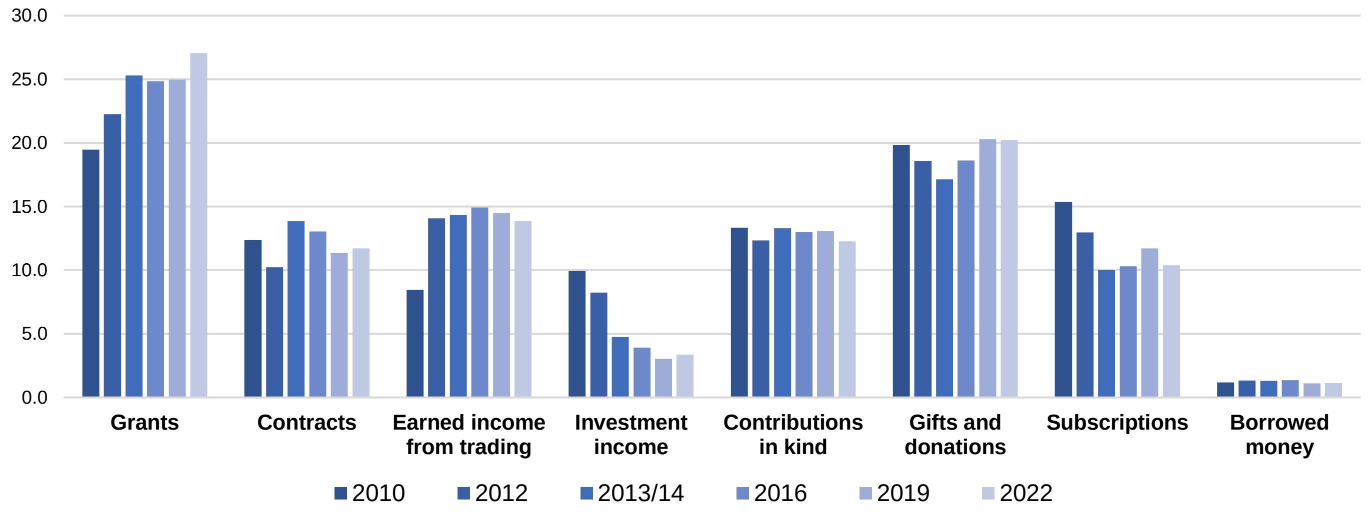
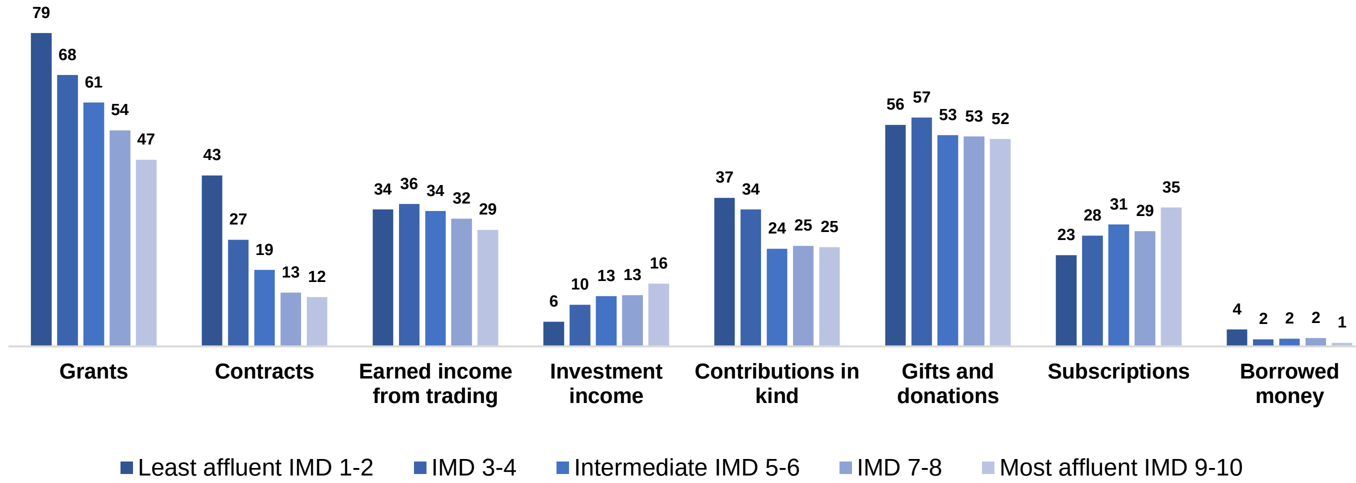


Figure 3 shows that area affluence affects the extent to which financial and non-financial resources are valued. Grants, contracts and in-kind support are more highly valued in the poorest areas (where organisations are more likely to be tackling issues of critical and/or pernicious need) than in the wealthiest areas.

To a lesser degree, earned income and borrowing are more highly valued in less affluent areas. Investment income and subscriptions are most highly valued in the richest areas. Gifts and donations are valued more or less equally, irrespective of levels of local affluence.

Figure 3 **How sources of income are valued by affluence of area within which TSOs are based**
(Percent 'most important' or 'important', England and Wales 2022, average n=5,641)



Grants

Relationships with grant funders have changed a great deal since 2019. Percentages refer to TSOs which 'agree' or 'strongly' agree with each statement.

- In 2019 only 46 per cent of TSOs stated that they received unrestricted or 'core funding' compared with 60 per cent in 2022.
- In 2019 only a quarter of TSOs reported that grant funders had approached them to see if they needed support. This rose to 40 per cent in 2022.

There is also good evidence to show that grant funders have taken a 'lighter touch' approach during the pandemic.

- Pressure to provide evidence of impact fell from 55 per cent to 32 per cent. Expectations that practice should be innovative, similarly, fell from 74 per cent to 50 per cent.
- Fewer TSOs reported that grant makers took the time to get to know them in 2022 (48%) than in 2019 (57%).

Some aspects of inter-relationships with grant-making trusts and foundations were less positive

- The percentage of organisations stating that grant makers made a long-term investment in their work remained about the same at 31-32 per cent.
- Support to develop skills reduced from 34 per cent to 27 per cent.

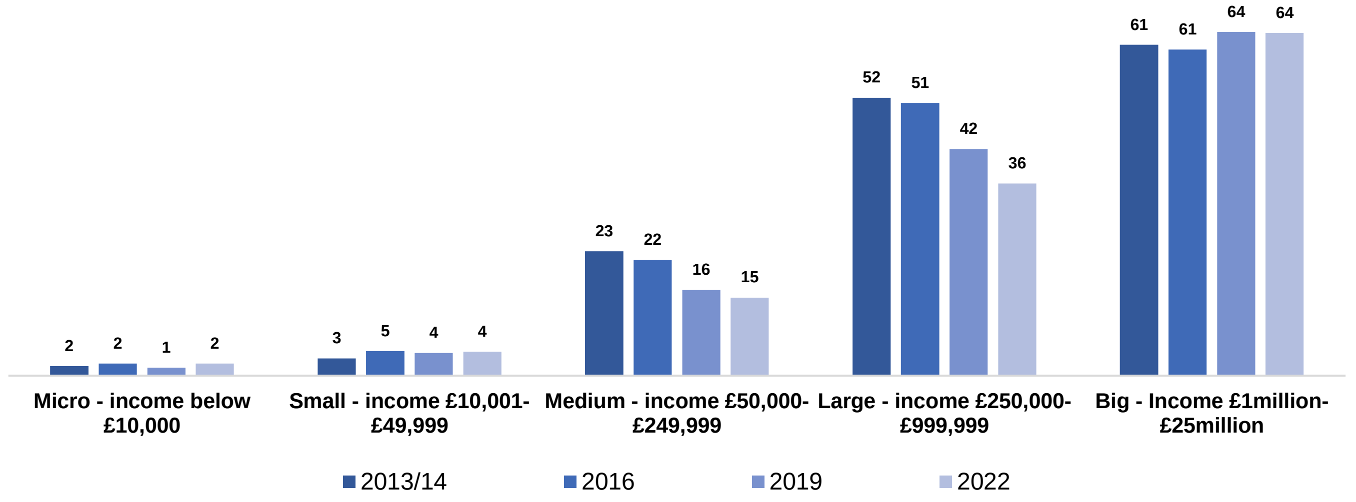
Contracts

Political enthusiasm for engaging the Third Sector in the delivery of public service contracts was at its strongest in the first decade of this century. This policy drive derived from an assumption that TSOs could be incentivised to undertake work for government at local and national level in a 'mixed economy of welfare'.

Despite government efforts to incentivise and help prepare TSOs to engage in the delivery of contracts, such opportunities attract only a small section of organisations in the Third Sector (Figure 4).

Micro and small organisations, given the purpose and scale of their activities, have remained disinterested in public-service delivery contracts since 2013. Medium-sized and larger organisations have become progressively less likely to engage in bidding for or delivering contracts. Only the biggest TSOs (with income above £1million) have sustained involvement in such work – although a third of the biggest organisations do not.

Figure 4 **Engagement with public service delivery contracts 2010-2022**
(Percent of organisations bidding for or delivering contracts in the North of England: 2013/14 n=2,110, 2016, n=3,491, 2019 n=3,085, 2022, n=5,928)

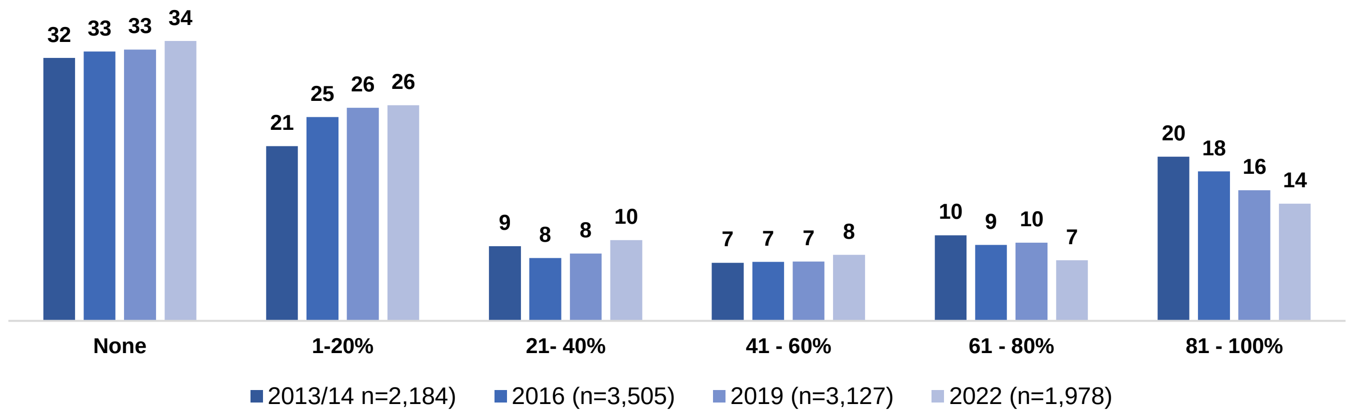


Earned income

About 60 per cent of organisations in the Third Sector earn a proportion of their income by delivering contracts or self-generated trading of goods or services.

As Figure 5 shows, the proportion of TSOs which earn more than 80 per cent of their income from trading has fallen since 2013 (from 20% to 14%), while the percentage of organisations earning less than a fifth of their income has risen (from 21% to 26%). The overall proportion of organisations trading has not increased. In fact it has fallen slightly, but steadily, from 68 per cent in 2013 to 66 per cent in 2022.

Figure 5 **Change in the patterns of earned income 2013-2022** (North of England)



Property assets and financial reserves

Little is currently known about property ownership in the Third Sector as there are no easily accessible summaries of national data. Figure 6 presents estimates on the number of organisations which own, rent or have free use of properties in England and Wales.

Figure 6 **Tenure of property usage by TSOs in England and Wales 2022**

	Yes	No - but we're looking into this	No - and we have no plans to do this	N=	*TSOs nationally which have property usage by type of tenure*	
					Base estimate	***Adjusted estimate*[3]**
We own a property that we can use	29.6	6.7	63.7	5,386	*59,200*	*52,500*
We rent a property to use	45.7	3.0	51.3	5,408	*91,400*	*81,400*
We have a property via community asset transfer of a public building	5.9	6.0	88.1	4,983	*11,800*	*9,600*
We are allowed to use space in a property without charge	29.0	6.6	64.4	5,134	*58,000*	*49,000*

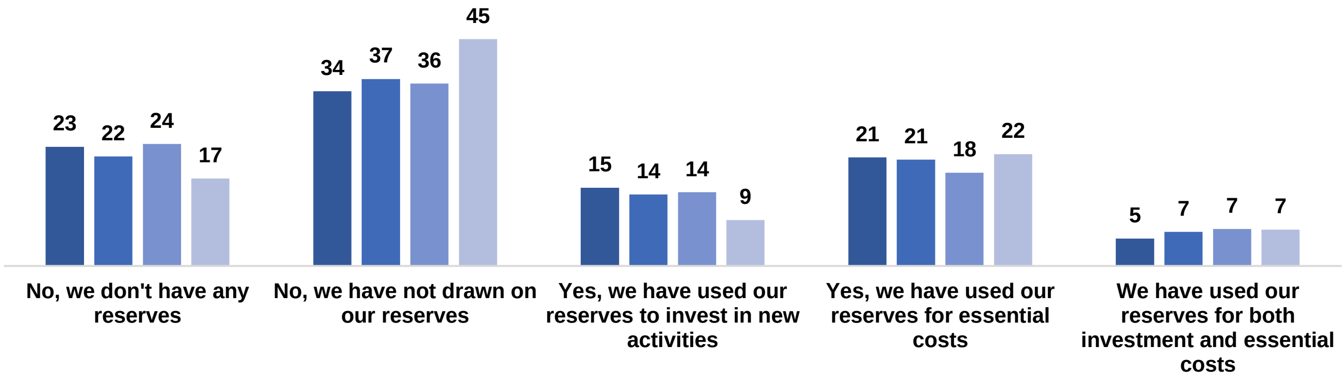
Financial reserves

Most organisations in the Third Sector hold reserves (83%). Around 45 per cent of TSOs have not drawn on their reserves in the last year. About 16 per cent of organisations have invested reserves in new activities, while about 32 per cent have used reserves for essential purposes such as rent or wages.

In 2022 many fewer organisations had no reserves (17 per cent compared with 22-24% between 2013 and 2019). Many more organisations seem to have built reserves in 2022 (45%) but are not using them for developmental or essential purposes.

[3] This is a new question for Third Sector Trends and, unlike most other questions, the response rate was below the usual threshold of 95% of in-survey respondents. Response rates for each of the four categories were 88.7, 89.1, 82.1 and 84.6, respectively. If it is presumed that non respondents did not, for example, own a property this lowers the percentage of TSOs which own a property. The adjusted estimate of the number of TSOs in each category of tenure is listed. The adjusted estimate is closer to 2013, 2016 and 2019 survey data on property tenures where a different question was used but was 'rested' in 2022 to incorporate more detail on renters, free use of space and asset transfer. On balance, it is felt that the 'adjusted' estimate is more likely to be accurate than the 'base' estimate.

Figure 7 **Ownership and use of reserves 2013-2022**
(North of England, 2013/14 n=2162, 2016 n=3,318, 2019 n=3,122, 2022 n=1,978)



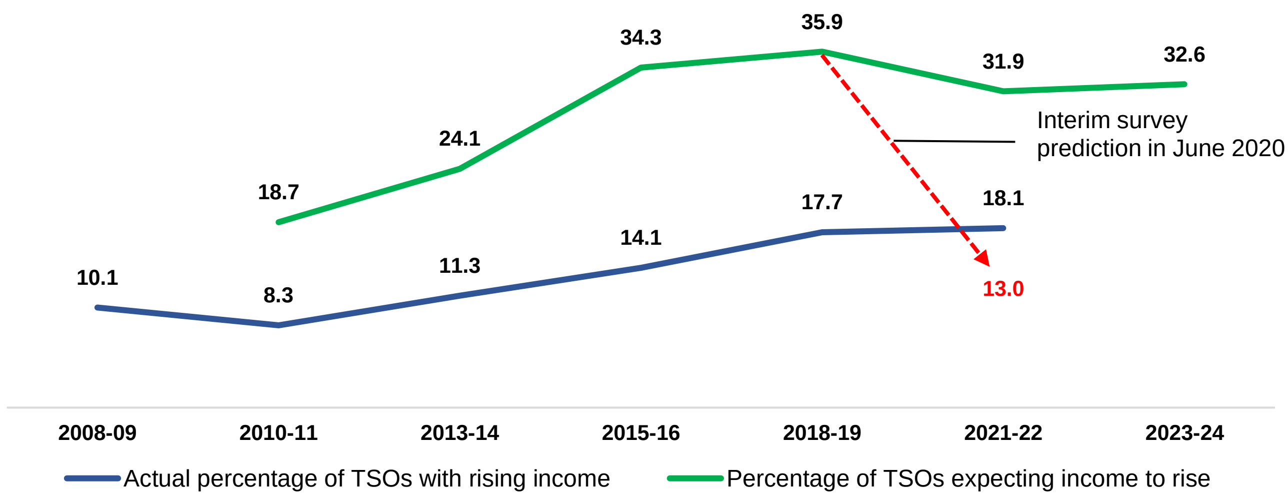
Financial outlook

Figure 8 presents trend data on how many TSOs thought that their income would rise over the next two years (green line) and the percentage of TSOs which actually saw their income rise in the previous two years (blue line).

The proportion of TSOs which were optimistic about rising income in 2022 is lower (32%) than prior to the pandemic in 2019 (36%), but a good deal higher than when there was deep anxiety about the consequences of government austerity policies following the global economic crash in 2008 (only19% of TSOs felt optimistic about rising income in 2010-11).

The blue line shows that the actual percentage of TSOs reporting rising income is always much lower than turns out to be the case two years later. Nevertheless, the evidence demonstrates that the percentage of TSOs with rising income has grown from a low point of 8 per cent in 2010-11 to 18 per cent in 2021-22.

Figure 8 **Tracking expectations and reality on TSOs' rising income**



Section 1

Introduction

1.1 The Third Sector Trends study

Third Sector Trends was initiated in 2008 in North East England and Cumbria as a longitudinal study to explore the structure and dynamics of the voluntary, community and social enterprise sector in the context of change.

The field of study has widened over the years to include Yorkshire and Humber in 2010, the remainder of North West England in 2016 and across England and Wales in 2019. The longitudinal survey work has been repeated six times so far, which produces unique opportunities for trend analysis.

The study examines how Third Sector organisations (TSOs) with a wide range of characteristics and working in different local contexts fare over time. This is the only long-running study of its kind in the UK and is designed to complement parallel long-term studies by NCVO and 360Giving.

1.2 Purpose of this report

This is the third report from the Third Sector Trends study of England and Wales in 2022. The first report examined the structure, purpose, energy and impact of the voluntary, community and social enterprise sector and laid down the foundations for subsequent analysis. The second report looked at people in the sector: focusing on employees, volunteers, diversity in leadership and investment in people.

This report explores the Third Sector's finances and is divided into four substantive sections which will present findings on the following topics:

- Section 2 – provides a resume of findings from the first report on sector income and expenditure. It then details how organisations value a wide-range of financial and non-financial resources.
- Section 3 – looks at relationships with grant funders, engagement with public sector service delivery contracts and the extent to which organisations earn income. This will be followed by an appraisal of future funding expectations.
- Section 4 – explores the extent to which property assets and financial reserves are held by organisations. The distribution of assets and reserves is then examined by organisational and area characteristics.
- Section 5 – considers patterns of financial wellbeing by focusing on organisational and area variations. The use of digital technologies to increase income and manage finances are then considered.

These sections on statistical findings will be followed by a brief summary of key conclusions and their implications. An outline of the content of subsequent reports which will be released over the next few months will also be provided.

1.3 Research methods and survey sample[4]

Third Sector Trends undertakes large-scale on-line surveys every three years. In 2022, the survey opened on June 6th, When the survey closed on 1st October, 6,070 responses had been received across England and Wales. The majority of responses were collected by sending direct email invitations to listings of charity leaders drawn from the Charity Commission Register (4,809 returns representing a 4.3% response

[4] A separate report is available which details the research methodology employed in the Third Sector Trends surveys. This can be accessed here: [Technical paper on research methodologies, October 2022](#).

rate from a sample frame of 110,930 charities). This was supplemented by appeals to join the survey by local infrastructure organisations (such as councils for voluntary service), community foundations and charitable trusts and foundations – producing an additional 1,263 returns.

The large volume of survey respondents provides a strong basis for in-depth analysis of sector dynamics. As a sample survey, however, there are insufficient data to make reliable assessments of sector structure, purpose and impact. Consequently, the study established a database of Third Sector organisations in England and Wales drawn from the full range of available registers. This data set includes 187,000 organisations.[5]

Using evidence from the Third Sector Trends registers database, it is possible to show how representative survey data are. As shown in Figure 1.1 there is a close match between the sample data and register data in most English regions and in Wales. The exceptions are North East England and Cumbria, where the study began and where there is a much stronger local commitment to invest in the process. In London, by contrast, the response rate was much lower than other regions.

Survey samples are also compared by size of organisation in Figure 1.2. This shows that while there is a slight over-representation of larger and big TSOs, survey sample structure is broadly representative.

Figure 1.1 **Percentage distribution of survey sample and register data**

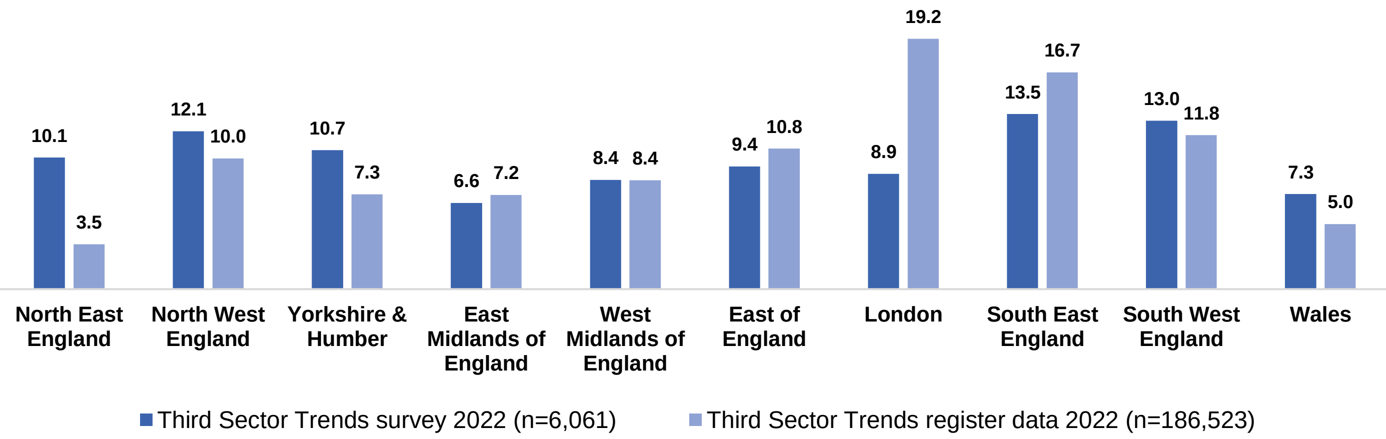
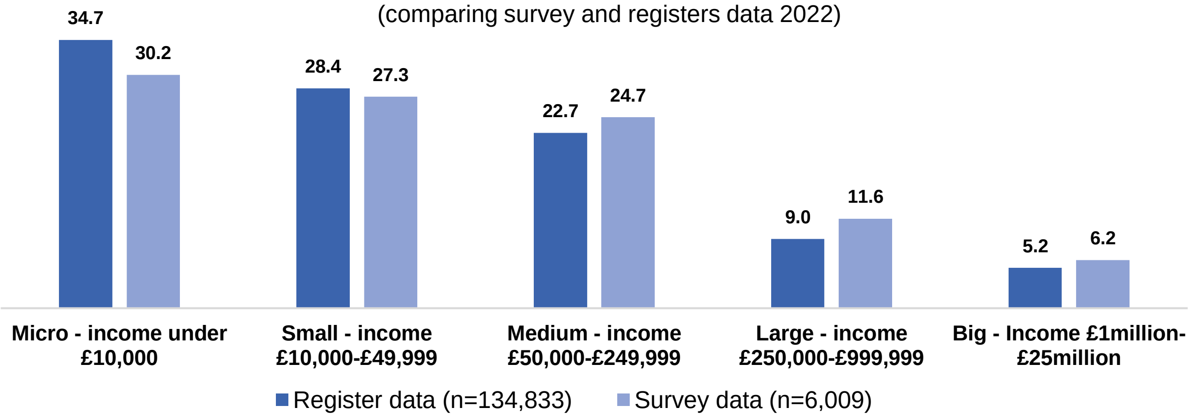


Figure 1.2 **Percentage distribution of samples by size of TSOs**
(comparing survey and registers data 2022)



[5] See Appendix for breakdown of registers and survey data by urban form, area affluence and region by size of TSOs. Full details on this database and how it was constructed is available in a technical paper on analytical techniques adopted in the Third Sector Trends study which can be found here: Technical working paper on analytical techniques.

Section 2

Income sources

2.1 Income and expenditure[6]

Third Sector Trends research includes all types of registered organisations with income below £25million. As Table 2.1 shows, there are about 200,000 organisations in England and Wales, but they are not distributed evenly. There are more TSOs per 1,000 population in the affluent south of England than elsewhere. Sector income amounts to about £48billion. The indications are that, in general terms, sector finances are managed carefully as expenditure is lower at £46billion.

Figure 2.1 **Third Sector income and expenditure in England and Wales 2022**

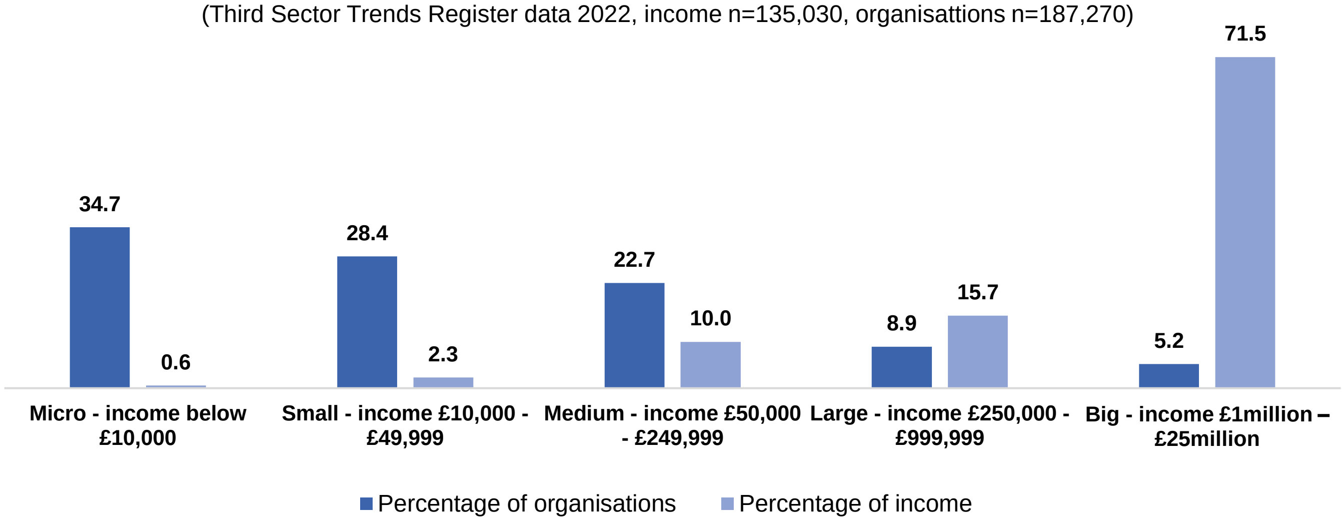
	Number of Third Sector organisations	**Third Sector organisations per 1,000 population**	**Estimated Third Sector income** (£millions)	**Estimated Third Sector expenditure** (£millions)
North East England	6,900	2.7	1,480	1,420
North West England	20,000	2.7	4,180	3,990
Yorkshire and Humber	14,600	2.6	2,710	2,590
East Midlands of England	14,500	3.0	2,150	2,050
West Midlands of England	16,800	2.8	3,360	3,220
East of England	21,600	3.4	3,870	3,710
London[7]	*38,500*	*4.4*	*17,080*	*16,350*
South East England	33,400	3.6	7,790	7,460
South West England	23,700	4.2	3,920	3,750
Wales	10,000	3.2	1,590	1,530
England and Wales	200,000	3.4	48,130	46,070

Income is not evenly distributed. Micro organisations constitute 35 per cent of the Third Sector, but they receive less than 1 per cent of sector income. By contrast, the largest organisations command 72 per cent of sector income, but only constitute 5 per cent of organisations (Figure 2.1).

[6] The analysis in this section is taken from the first report from this year's study: Third Sector Trends in England and Wales 2022: structure, purpose, energy and impact, see Section 2.4, pp. 22-24. https://www.stchads.ac.uk/research/research-news/third-sector-trends-2022-first-report-published-on-sector-structure-purpose-energy-and-impact/

[7] Organisations in London do not fit the regional analytical model as well because nearly 50 per cent of organisations work beyond the boundaries of the capital. See the first report on sector structure, purpose, energy and impact for further explanation, *ibid*.

Figure 2.1 **Distribution of organisations by distribution of Third Sector income**
(Third Sector Trends Register data 2022, income n=135,030, organisattions n=187,270)



2.2 How sources of income are valued

NCVO *UK Civil Society Almanac* produces an annual digest of statistics on sector income which is based on intensive analysis of Charity Commission Register data on organisational accounts. Their analysis is invaluable because detail is provided on the breakdown of sources of sector income (from, for example, public giving, the private sector, trusts and foundations and the state) and is tracked over time.[8]

Consequently, Third Sector Trends study does not need to replicate these data on ‘actual’ levels of income TSOs receive from various sources.[9] Instead, this study looks at how income sources are ‘valued’ by TSOs by exploring perceptions of reliance on various sources of income.

TSOs are asked to state how important each source of income is to them on the following scale: ‘most important’, ‘important’, ‘of some importance’, ‘least important’ and ‘not important’. This is a useful source of information, when used in the context of a longitudinal study, because it helps to track how ‘perceptions’ of the balance of reliance on income sources changes over time.

Table 2.3 presents basic data on how TSOs assess the relative value of a range of resources. From a sector-wide perspective, it is shown that grant income is by far the most valued source of income, followed by gifts and donations. Borrowed money is the least valued source of finance – for over 90 per cent of TSOs, loans are of no importance.

[8] See: NCVO UK Civil Society Almanac 2022: Financials

[9] With the exception of NCVO’s UK Civil Society Almanac research which is based on published financial accounts of a sample of TSOs from across the UK, 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 Study 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 the amount of time it would take, 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 various sources of income. Data do not therefore refer to the sum of income, but the extent of relative reliance on income sources.

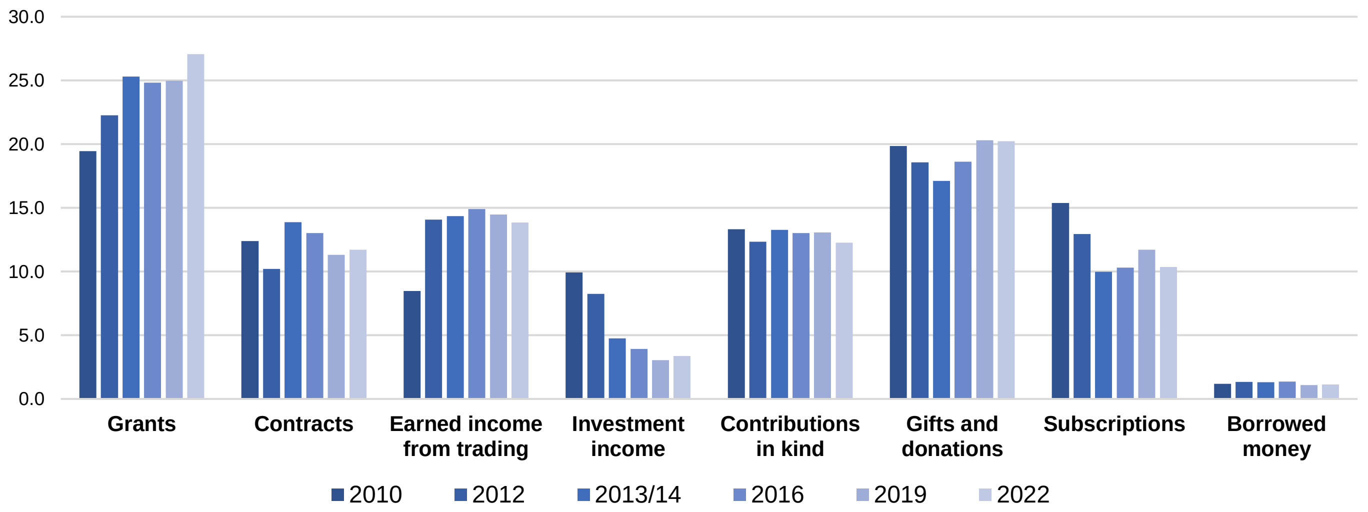
Table 2.2 **How sources of financial and in-kind support are valued** (England and Wales. 2022)								
	Grants	**Contracts**	**Earned income from trading**	**Investment income**	**Contri--butions in kind**	**Gifts and donations**	**Subscrip-tions**	**Borrowed money**
Most important	40.4	12.5	17.5	6.8	11.1	29.1	17.6	0.6
Important	21.5	10.6	15.6	4.8	18.0	24.7	11.4	1.6
Of some importance	14.0	7.6	12.7	7.2	22.8	19.4	8.4	2.7
Least important	4.6	6.1	8.7	10.3	10.2	8.8	6.1	3.5
Not important	19.5	63.3	45.5	70.8	37.9	18.0	56.6	91.6
N=	5,896	5,582	5,770	5,745	5,772	5,904	5,735	5,661

Time-series analysis shows how perceptions of the value of income sources change. As Figure 2.2 indicates (for the North of England only) attitudes about the 'relative' importance of income sources have shifted significantly since 2010.[10]

The analysis indicates that perceptions of the value of grant funding (relative to other funding sources) have changed since 2010. This may reflect a shift in narratives about grant funding from that of negative view of 'grant dependency' in policy circles in 2010 to a more positive outlook on the value of grants in 2022.[11]

Perceptions of the value of some types of resources have barely changed – such as earned income, contracts, contributions in kind and borrowed money. Only income from subscriptions and investments have seen their value plummet in relative terms.

Figure 2.2 **Relative importance of income and in-kind support 2010-2022**
(North of England)



[10] Data do not refer to the 'actual' sum of income, but perceptions of reliance upon a range of resources which can be compared over time. The bar graphs show relative importance of each type of income source in each year of study: hence the percentages add up to 100 each year to ensure that the data are intelligible and comparable.

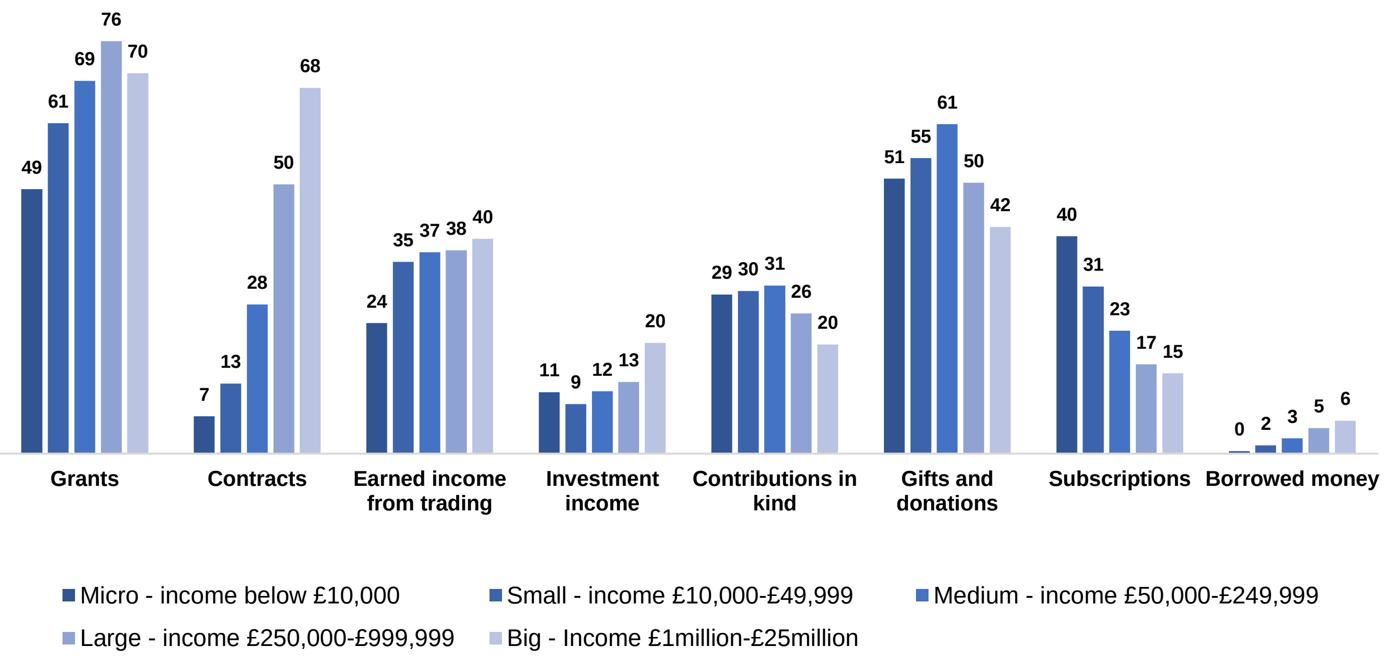
[11] For a discussion of rhetoric surrounding grant dependency see: Macmillan, R. (2007) 'Understanding the idea of "grant dependency" in the voluntary and community sector', *People, Place & Policy Online,* 1(1), pp. 30-38.

2.3 Organisational variations

Headline data on income sources conceal variations below the surface. Figure 2.3 compares perceptions of the value of income sources by size of organisations.

- Grant funding is generally regarded as a 'most important' or 'important' source of income, but this varies by size of TSOs. Only about half of micro organisations feel that grants are of importance to them compared with 76 per cent of larger organisations.
- Income from contracts to deliver services is valued by 68 per cent of the biggest organisations, but only by 7 per cent of the smallest.
- Earned income is valued fairly equally by organisations with income above £10,000: ranging from 35-40 per cent. But only a quarter of micro TSOs regard earned income as of importance.
- Few organisations highly value income from investments - ranging from 9% of small to 13% of large TSOs. A fifth of the biggest organisations value investments as a part of their income portfolios.
- Contributions in-kind are perceived to be of greater value by micro, small and medium-sized organisations (29-31%). In-kind support is regarded as less valuable by larger (26%) and the biggest TSOs (20%).
- Gifts and donations are most highly valued by medium-sized organisations (61%). Perceived importance of these sources of income decreases amongst large (50%) and the biggest organisations (42%).
- The smallest organisations are most likely to value subscription income (40%). The value of subscriptions is considered to be much lower as organisations become larger (falling from 31% of small TSOs to 15% of the biggest).
- Loaned money is regarded as of no real importance by most TSOs: only 6 per cent of the largest organisations say that borrowed money is of importance to them and fewer than 1 per cent of the smallest TSOs do so.

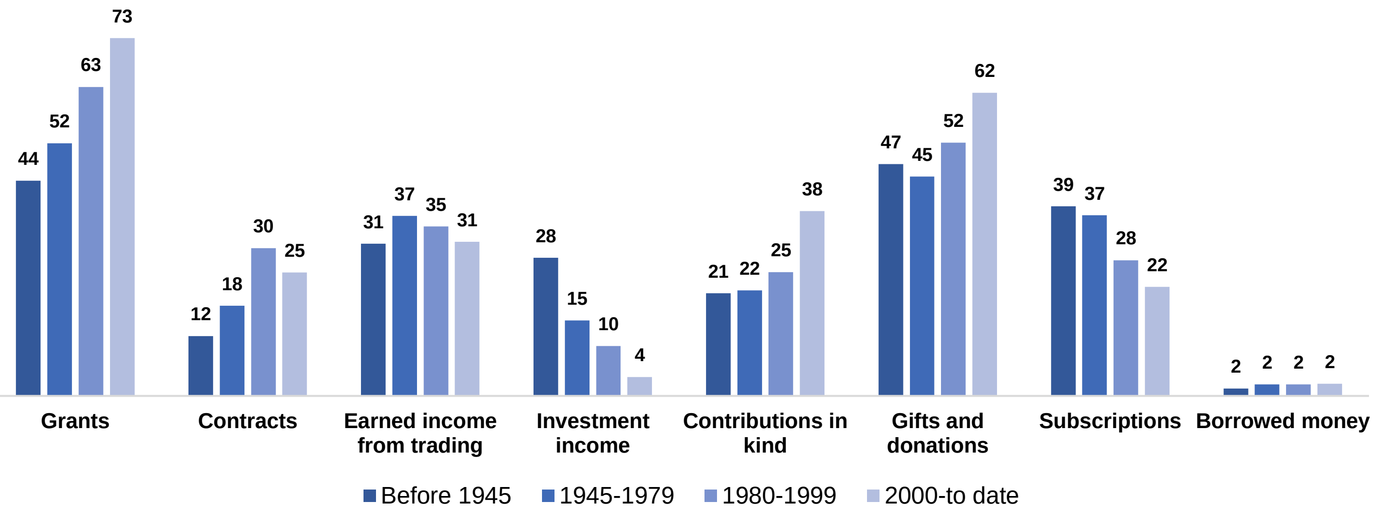
Figure 2.3 **How sources of income are value by organisational size**
(Percent 'most important' or 'important', England and Wales, average n=5,718)



The age of organisations has a bearing on how financial or non-financial resources are valued (Figure 2.4). The longest-established TSOs clearly value investment income and subscriptions more highly than organisations that have been set up more recently.

Newly-established organisations attach more value to grants, contracts, contributions in kind and gifts than their older counterparts. Earned income is valued fairly equally irrespective of the age of organisations (31-37%). Borrowed money is of no real value to most organisations – irrespective of their age.

Figure 2.4 **How sources of income are valued by age of TSOs**
(Percent 'most important' or 'important', England and Wales 2022, average n=5,758)



2.4 Area variations

The structure, purpose, energy and impact of the Third Sector varies depending upon the types of areas within which TSOs work (see the first report from Third Sector Trends 2022[12]). Area variations are compared in three ways: by urban form, area affluence and by region/nation.

To help interpret national level findings, three types of urban areas have been defined.[13]

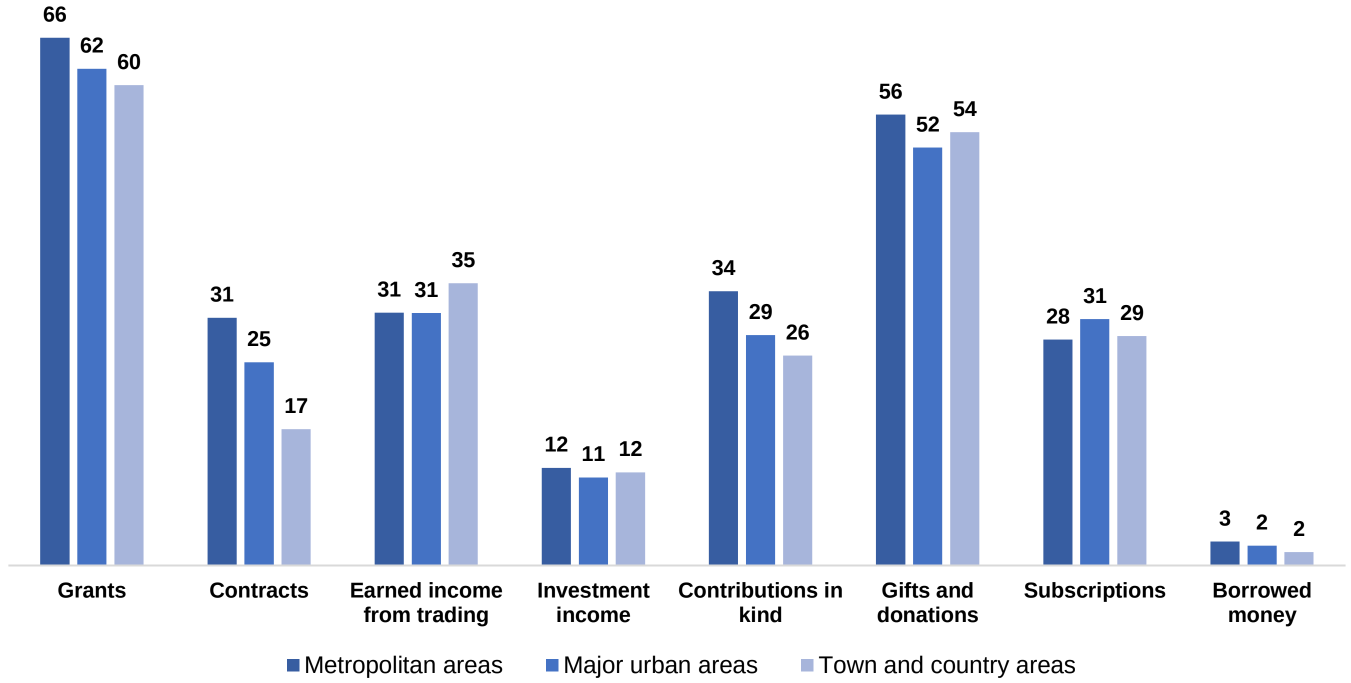
- ***Metropolitan areas***: including Tyne and Wear, West Yorkshire, South Yorkshire, Greater Manchester, Merseyside, West Midlands, Bristol and London.
- ***Major urban areas***: includes larger cities (such as Portsmouth, Nottingham, Swansea and Reading) and polycentric urban areas (such as Tees Valley or the Potteries conurbations).
- ***Town and country areas****:* includes county towns, market towns and rural areas based in less-urban unitary authorities and counties such as Northumberland, Cornwall and Suffolk).

[12] It should be borne in mind that the structure of the sector varies in each type of urban form and that this will affect interpretation. See Appendix Table A.1 which shows the breakdown of organisations by size of TSOs using both Third Sector Trends 2022 register and survey datasets. There tends to be a larger proportion of micro and small organisations in town and country areas compared with metropolitan areas. But the proportion of bigger organisations is greater in metropolitan areas. Major urban areas fall somewhere between these two positions.

[13] A full explanation of how this variable was constructed is available in the Technical Paper on approaches to analysis, 2022 *ibid.*

As Figure 2.5 shows, urban form has an effect on perceptions about the value of income sources – this may be driven to some extent by variations in the structure of the local sector (for example, in metropolitan areas there are more bigger organisations). Grants, contracts, in-kind support and borrowing seem to be more valued in metropolitan districts than in town and country areas. Earned income, by contrast, is most highly valued in town and country areas. There are no obvious patterns in the case of investment income, gifts and donations, and subscriptions.

Figure 2.5 How sources of income are valued by type of area within which TSOs are based
(Percent 'most important' or 'important', England and Wales 2022, average n=5,732)



Interpreting variations by urban form is complex because there can be disparities in local conditions. To examine the impact of locality further, Figure 2.6 shows variations by area affluence using indices of multiple deprivation.[14]

Area affluence has a strong effect on how financial and non-financial resources are valued by TSOs. Grants, contracts and in-kind support are much more highly valued in the poorest areas (where organisations are more likely to be tackling issues of critical and/or pernicious need) than in the wealthiest areas.

To a more limited degree, earned income and borrowing tend to be more highly valued in less affluent areas. Investment income and subscriptions are much more highly valued in the most affluent areas. Gifts and donations are more or less equally valued irrespective of levels of local affluence.

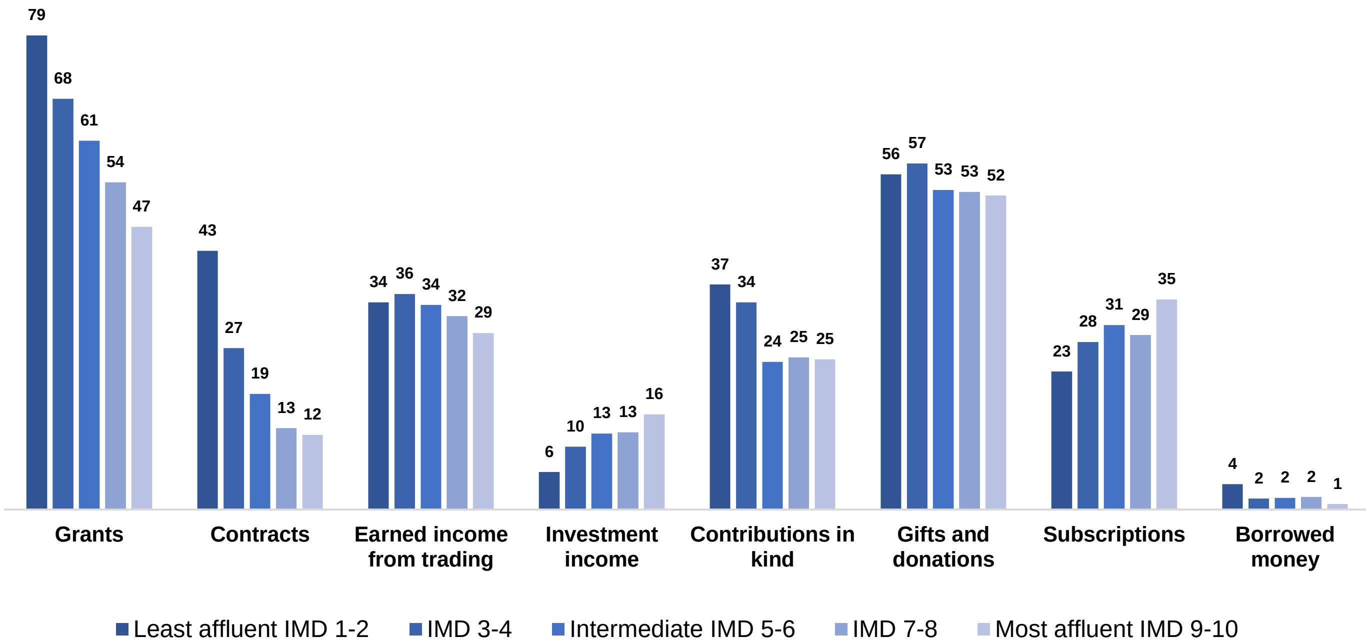
As shown in the first report from Third Sector Trends in 2022[15], sector structure and dynamics differ in richer and poorer areas. Poorer areas have a bigger proportion of larger organisations which tackle critical or pernicious local issues with support from grants and contracts. In the richest areas, the density of smaller organisations is

[14] Area affluence and deprivation is defined using both the English Indices of Deprivation English indices of deprivation 2019 - GOV.UK (www.gov.uk) and the Wales Indices of Deprivation https://gov.wales/welsh-index-multiple-deprivation-full-index-update-ranks-2019. The indices are not constructed in exactly the same way, but the use of quintiles alleviates the impact of these variations.

[15] See: https://www.stchads.ac.uk/research/research-news/third-sector-trends-2022-first-report-published-on-sector-structure-purpose-energy-and-impact/

much greater. These factors have a bearing on organisational demand for resources and how they are used.

Figure 2.6 **How sources of income are valued by affluence of area within which TSOs are based**
(Percent 'most important' or 'important', England and Wales 2022, average n=5,641)



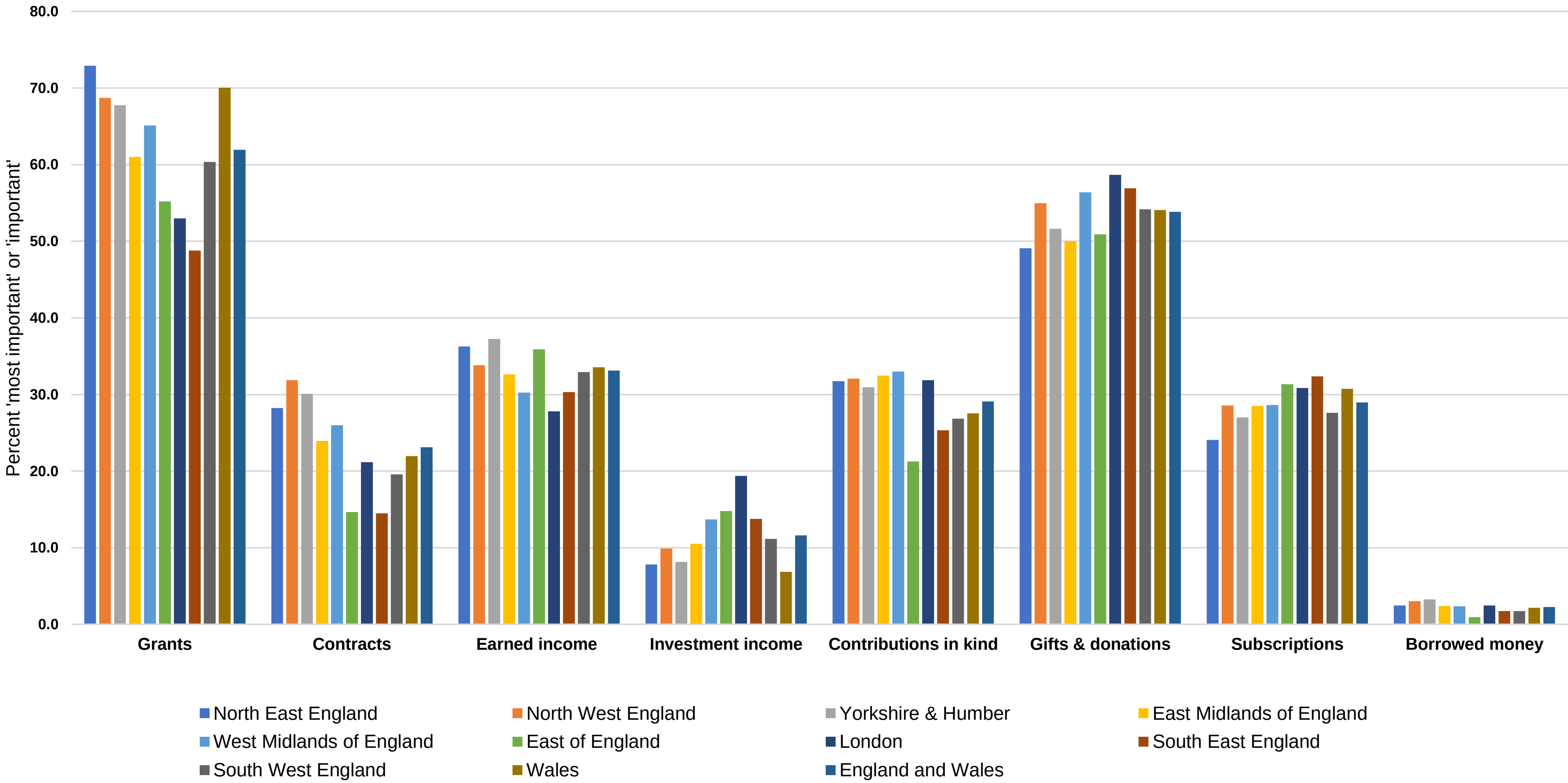
Regional variations are shown in Figure 2.7. Detailed analysis and interpretation is not provided at this stage. Later in the process of exploring Third Sector Trends data, discrete regional and sub-regional place-based studies will be undertaken to examine variations across localities in more depth.[16]

It is, nevertheless, useful to note that those regions which host major metropolitan areas and concentrations of social deprivation (notably North East England, North West England, Yorkshire and Humber, West Midlands of England, London and Wales), grants, contracts and in-kind support are more highly valued than in other generally less-urban and more affluent areas such as East of England, South East England, South West England and to a lesser extent, the East Midlands of England.

Interpreting data for London will be a good deal more challenging due to the quite distinct characteristics of sector structure and dynamics compared with other English regions and Wales. This analysis must also, therefore, be delayed until a later date.

[16] In previous rounds of Third Sector Trends, substantive reports have been produced in North East England, North West England, Yorkshire and Humber, together with other more localised reports in Cumbria, Cornwall, Bradford, Hull and East Yorkshire, Humber Coast and Vale, North Yorkshire and West Yorkshire, and Tees Valley, amongst others. For access to these reports, please go to this webpage: https://www.communityfoundation.org.uk/third-sector-trends/

Figure 2.7 **Sources of income percieved as 'most important' or 'important' by English region and Wales**
(England and Wales 2022, average n=5,753)



Section 3

Grants, contracts and trading

3.1 Relationships with grant funders

In 2019, Third Sector Trends introduced new questions to explore the quality of relationships with grant makers. It is now possible to compare responses to see if there have been changes which may be related to the Coronavirus pandemic.

Table 3.1 provides headline data on how TSOs value relationships with grant makers on several dimensions. The first crucial point to make is that about half of organisations did not have a relationship with a grant funder in 2022 compared with around 40 per cent in 2019.

An impression is sometimes given in research, policy and media reports that most organisations are clamouring for grant support – so it is important to keep it in mind that this is not the case. The change between 2019 and 2022 is of interest as it suggests that many organisations became less active or inactive during the coronavirus pandemic.

Table 3.1 **Quality of relationships with grant-making trusts and foundations**
(England and Wales 2022, comparable 2019 data in parentheses)

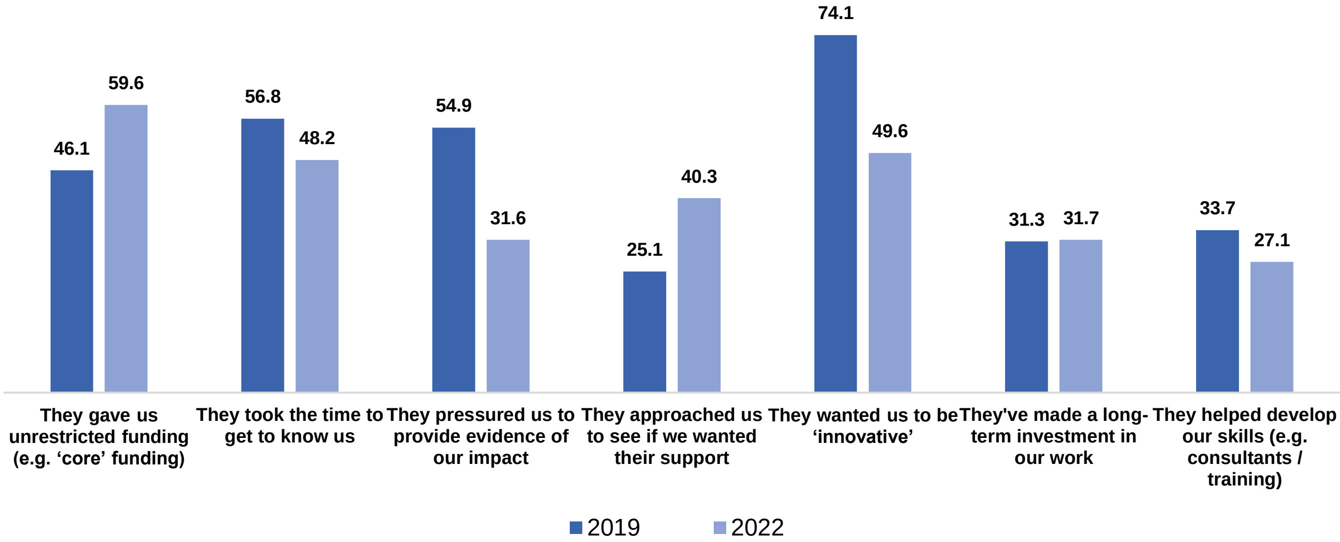
	They gave us unrestricted funding (e.g. 'core' funding)	**They took the time to get to know us**	**They pressured us to provide evidence of our impact**	**They approached us to see if we wanted their support**	**They wanted us to be 'innovative'**	**They've made a long-term investment in our work**	**They helped develop our skills** (e.g. consultants / training)
Strongly agree	12.3 (7.2)	4.6 (4.9)	2.6 (7.3)	4.5 (1.7)	4.7 (11.8)	3.5 (3.1)	2.4 (2.3)
Agree	17.3 (19.8)	17.4 (30.0)	11.8 (26.1)	15.8 (14.1)	17.6 (32.4)	10.8 (15.2)	9.1 (16.5)
Disagree	10.8 (18.4)	15.4 (18.7)	21.0 (21.3)	16.1 (24.0)	15.0 (11.1)	18.1 (24.3)	18.1 (23.7)
Strongly disagree	9.2 (13.2)	8.2 (7.9)	10.1 (6.1)	14.0 (23.3)	7.6 (4.4)	12.8 (15.7)	12.6 (13.4)
Not applicable	50.4 (41.4)	54.4 (38.4)	54.6 (39.2)	49.7 (36.8)	55.1 (40.3)	54.8 (41.7)	57.9 (44.0)
N=	5,978 (4,083)	5,893 (3,938)	5,888 (3,936)	5,913 (3,945)	5,887 (3,929)	5,885 (3,934)	5,871 (3,938)

Figure 3.1 simplifies the data presented in Table 3.1 by excluding organisations which had no relationship with a grant-making trust or foundation. Percentages of TSOs which 'agree' or 'strongly' agree are compared for 2019 and 2022.

This analysis produces some remarkable findings. In 2019 only 46 per cent of TSOs stated that they received unrestricted or 'core funding' compared with 60 per cent in 2022. Similarly, in 2019 only a quarter of TSOs reported that grant funders had approached them to lend support. This rose to 40 per cent in 2022.

There is also good evidence to show that grant funders have taken a 'lighter touch' approach during the pandemic. Pressure to provide evidence of impact fell from 55 per cent to 32 per cent. Expectations that practice should be innovative, similarly, fell from 74 per cent to 50 per cent. Fewer TSOs reported that grant makers took the time to get to know them in 2022 (48%) than in 2019 (57%). The percentage of organisations stating that grant makers made a long-term contribution to their work remained about the same at 31-32 per cent. Support to develop skills reduced from 34 per cent to 27 per cent.

Figure 3.1 **Experiences of TSOs which have a working relationship with grant-making Trusts and Foundations: 2019-2022**
(England and Wales, percentage 'agree' or 'strongly agree' 2019, n=3,958, 2022 n=5,978)



About three-quarters of micro organisations had no relationship with trusts and foundations compared with just 25 per cent of large organisations. Surprisingly, 32 per cent of the biggest organisations say have no relationships with grant makers (Figure 3.2).

The quality of relationships between grant-making trusts and foundations varies by size of TSOs. Micro TSOs are much less likely to state that they get unrestricted funding (41%) than large TSOs (74%). Smaller organisations are also less likely to feel that trusts and foundations took time to get to know them than their larger counterparts.

In some respects, there is slight variation by size. For example, pressure to provide evidence of impact is about the same, irrespective of size. One interesting aspect of this analysis is that percentages 'drop-off' to some extent for the largest organisations (with income above £1million) in relation to support to improve skills, unrestricted funding and being approached by trusts and foundations.

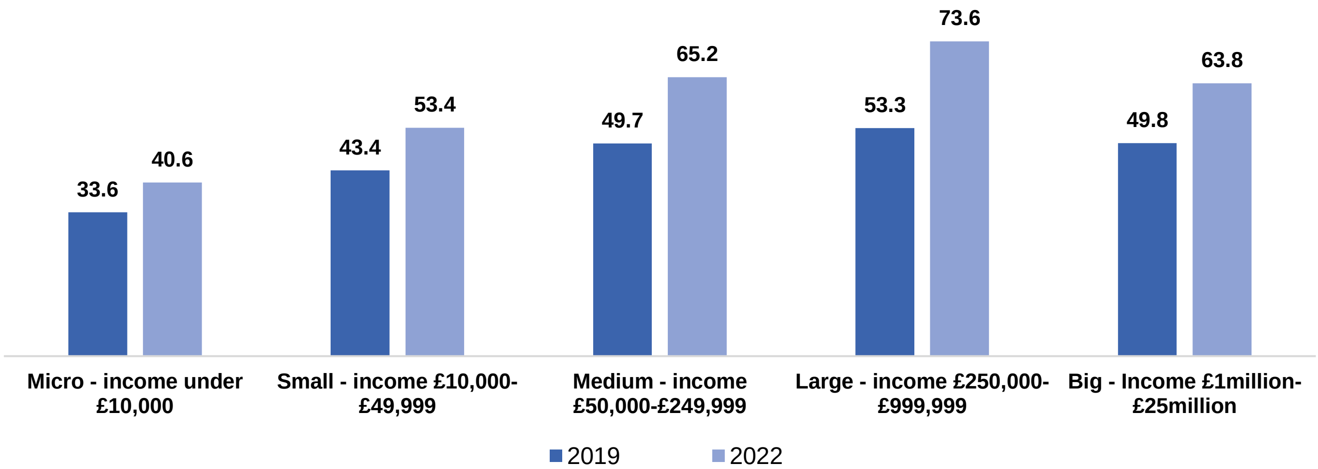
As indicated in Figure 3.2, however, it is clear that there has been a change in practice amongst many grant-making trusts and foundations between 2019 and 2022. Irrespective of the size of organisations, TSOs were more likely to receive unrestricted funding in 2022 than in 2019. Medium-sized and large organisations seem to have been the most likely to benefit in this respect.

These changes may be closely related to the specific conditions created by the Coronavirus pandemic rather than indicating a general trend. We will not know until 2025 whether grant-making trusts and foundations continue to provide more unrestricted funding – or whether many funders will 'get back to normal' by 2025.

Table 3.2 Relationships with grant-making trusts and foundations by size of TSOs
(England and Wales 2022, percentages refer to respondents who 'agree' or 'strongly agree' amongst those organisations which had a relationship with grant-making trusts and foundations)

	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
They gave us unrestricted funding (e.g. 'core' funding)	40.6	53.4	65.2	73.6	63.8
They took the time to get to know us	36.4	41.4	53.2	56.3	50.2
They pressured us to provide evidence of our impact	30.5	34.3	32.5	27.8	31.6
They approached us to see if we wanted their support	36.4	35.8	40.3	47.6	44.3
They wanted us to be 'innovative'	37.1	43.1	50.9	58.0	62.6
They've made a long-term investment in our work	20.0	29.8	33.6	36.8	36.8
They helped develop our skills (e.g. consultants / training)	20.5	22.8	28.4	34.9	26.6
Average n=	1,761	1,590	1,458	688	367
Percentage of TSOs that had no relationship with grant funders in the last two years	*75.2*	*60.6*	*39.6*	*25.3*	*32.2*

Figure 3.2 **Receipt of unrestricted funding from grant-making trusts and foundations 2019 - 2022**
(Percentage of TSOs 'agree' or 'strongly agree', 2019 n=4,083, 2022, n=5,978)



The age of organisations has a bearing on perceptions of the quality of relationships with trusts and foundations (Table 3.3). The oldest organisations are least likely to have a relationship with trusts and foundations (29%) compared with the most recently-established TSOs (58%).

The oldest organisations were least likely to have been offered or accepted help to develop skills (18%). This is not surprising because, as shown in the second report from Third Sector Trends, these organisations were also much less likely to invest in people with training budgets and staff development.

Newer organisations reported a stronger relationship with funders. They were, for example, much more likely to state that grant makers made an effort to get to know them than the longest-established organisations (54% and 36% respectively). But the newest TSOs were also more likely to feel pressured about providing evidence on impact and being innovative in their work.

Trusts and foundations seem to have been more or less equally likely to approach organisations to see if they needed support – irrespective of their age. That stated, they were also equally *unlikely* to offer long-term support (between 28% and 33%).

Table 3.3 **Relationships with grant-making trusts and foundations by age of TSOs**
(England and Wales 2022, percentages refer to respondents who 'agree' or 'strongly agree' amongst those organisations which had a relationship with grant-making trusts and foundations)

	Before 1945	1945-1979	1980-1999	2000-to date
They gave us unrestricted funding (e.g. 'core' funding)	46.4	57.2	63.7	61.0
They took the time to get to know us	36.4	35.8	47.0	54.2
They pressured us to provide evidence of our impact	28.6	28.1	27.0	35.7
They approached us to see if we wanted their support	37.4	38.9	43.3	39.5
They wanted us to be 'innovative'	42.9	40.3	49.9	53.2
They've made a long-term investment in our work	30.5	27.7	31.4	33.0
They helped develop our skills (e.g. consultants / training)	17.6	25.2	25.7	30.1
Average n=	955	1,023	1,504	2,354
Average % of TSOs that had no relationship with a grant maker	***71.4***	***65.3***	***51.2***	***42.8***

Analysis of area variations by urban form reveals that trusts and foundations operate in an even-handed manner, irrespective of the type of area where organisations are based (Table 3.4). And by affluence of area, the perceptions of TSOs about support from grant makers are also remarkably similar (Table 3.5).

Reporting on limited variation sometimes constitutes a significant finding – as is the case here – that trusts and foundations do not discriminate by the kind of areas within which organisations work.

The finding is, nevertheless, potentially contentious in the current political climate where there has been a government policy drive to invest more heavily in less advantaged places. This point will be developed further in the fifth report from the Third Sector Trends 2022 study.

Regional variations are pronounced (Figure 3.3(a) and Figure 3.3.(b)) and tend to reflect the variations in the structure and dynamics of the sector (most particularly by size of organisations as indicated in data tables presented in Appendix 1).

Table 3.4 Relationships with grant-making trusts and foundations by urban form
(England and Wales 2022, percentages refer to respondents who 'agree' or 'strongly agree' amongst those organisations which had a relationship with grant-making trusts and foundations)

	Metropolitan areas	Major urban areas	Town and country areas	England and Wales
They gave us unrestricted funding (e.g. 'core' funding)	61.1	59.0	59.0	59.7
They took the time to get to know us	49.6	47.5	47.6	48.2
They pressured us to provide evidence of our impact	31.3	31.5	31.9	31.6
They approached us to see if we wanted their support	41.0	37.2	41.7	40.3
They wanted us to be 'innovative'	53.5	50.0	45.9	49.6
They've made a long-term investment in our work	33.5	29.7	31.5	31.7
They helped develop our skills (e.g. consultants / training)	29.6	27.4	24.5	27.0
Average n=	1,705	1,472	2,699	5,875
Average % that had no relationship with grant makers	46.9	50.1	60.2	53.8

Table 3.5 Relationships with grant-making trusts and foundations by area affluence
(England and Wales 2022, percentages refer to respondents who 'agree' or 'strongly agree' amongst those organisations which had a relationship with grant-making trusts and foundations)

	Least affluent IMD 1-2	IMD 3-4	Inter-mediate IMD 5-6	IMD 7-8	Most affluent IMD 9-10
They gave us unrestricted funding (e.g. 'core' funding)	64.0	59.2	57.6	59.1	56.0
They took the time to get to know us	52.0	49.9	44.0	43.9	48.5
They pressured us to provide evidence of our impact	30.6	32.1	31.3	31.7	33.0
They approached us to see if we wanted their support	45.7	35.7	39.3	38.5	40.8
They wanted us to be 'innovative'	58.8	48.0	44.0	44.8	44.9
They've made a long-term investment in our work	33.7	30.9	31.5	29.5	31.1
They helped develop our skills (e.g. consultants / training)	32.2	28.8	22.2	24.9	22.1
Average n=	1,140	1,089	1,257	1,258	1,039
Average % that had no relationship with grant makers	33.6	46.4	56.5	64.2	68.2

Figure 3.3(a) **Relationships with grant-making trusts and foundations by English regions and Wales**
(England and Wales 2022, average n=5,879, percentages of TSOs that 'agree' or 'strongly agree')

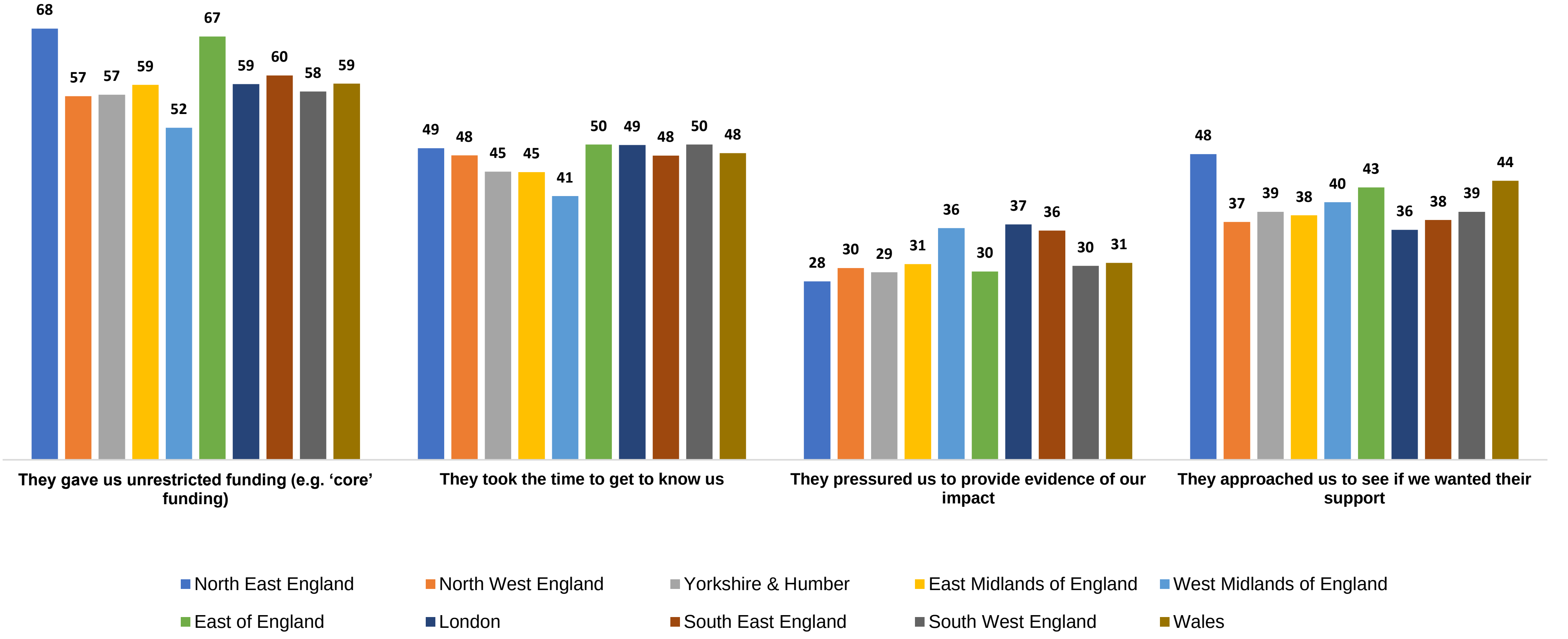
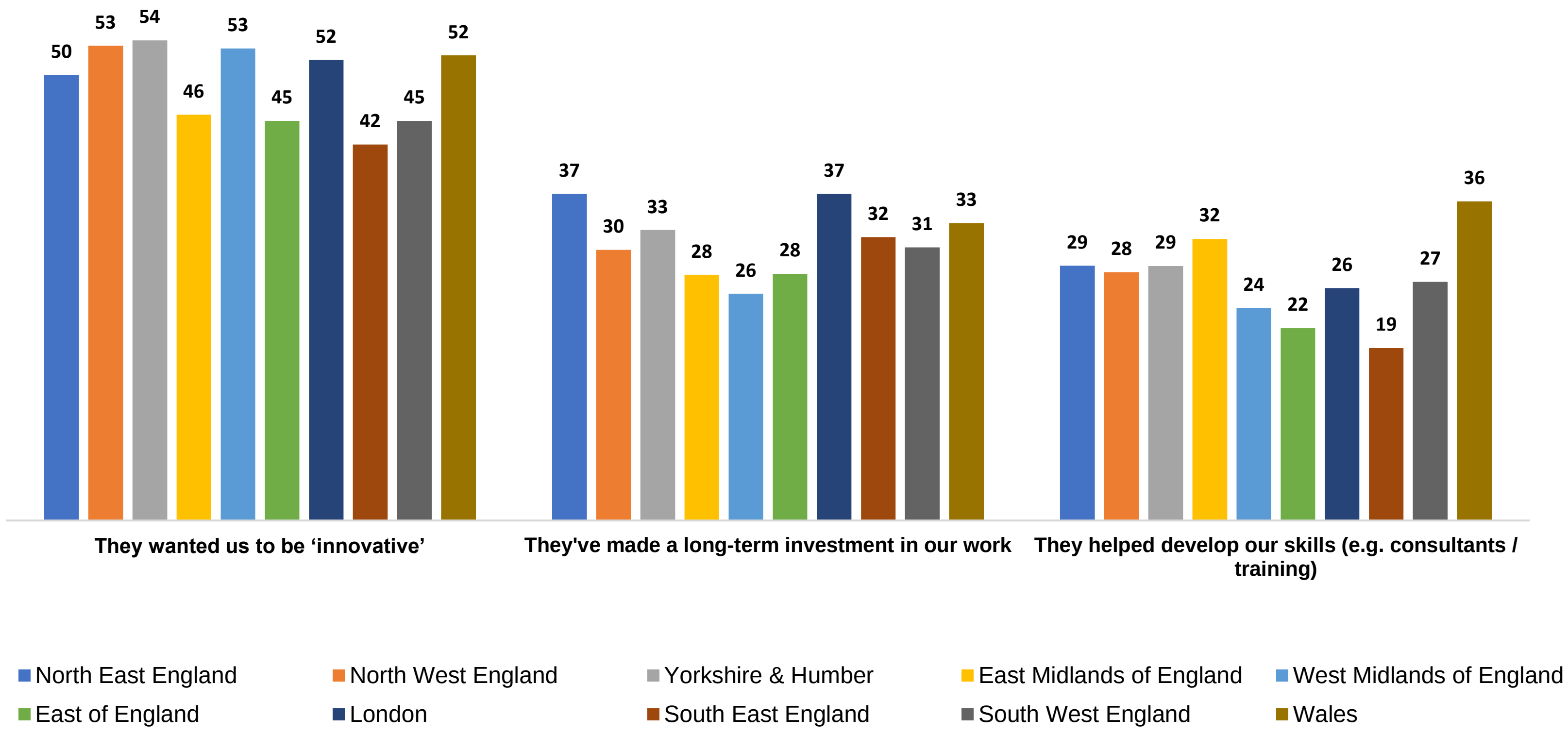


Figure 3.3(b) **Relationships with grant-making trusts and foundations by English regions and Wales**
(England and Wales 2022, average n=5,879, percentages of TSOs that 'agree' or 'strongly agree')



3.2 Public service delivery under contract

Political enthusiasm for engaging the Third Sector in the delivery of contracts was at its strongest in the first decade of this century. This policy drive derived from an assumption that TSOs could be incentivised to undertake work for government at local and national level in a 'mixed economy of welfare'.[17] The tenor of the government's position at the time is captured by Prime Minister, Tony Blair's foreword to the former Office of the Third Sector's publication *Partnership in Public Services: An action plan for Third Sector involvement* (2006):

> ***The best public services are those which are focused on the user – that is why the role of third sector organisations is vital. We know that, throughout the country, there are programmes being delivered by charities, social enterprises and voluntary groups that work brilliantly. It is groups like these at the front line of delivery who know about what works and what doesn't. Their creativity, their innovation, their energy, and their capacity to build trust are helping us to meet the tough challenges ahead and to drive improvements, to extend choice and to give a voice to the public.***

Despite persistent efforts to incentivise and help prepare TSOs to engage in the delivery of contracts, through heavy investment in capacity and capability building programmes – such opportunities have only ever attracted a small section of organisations in the Third Sector.

As shown in Table 3.6, only 1 per cent of micro organisations have any involvement in such work compared with just 29 per cent of large organisations and 51 per cent of the biggest TSOs bidding for or delivering contracts. While most large and big organisations are aware of such opportunities, many eschew this option. Others are 'ambivalent' about the prospect of getting involved (due to a lack of information, lack of support or perceptions of barriers in the tendering process).

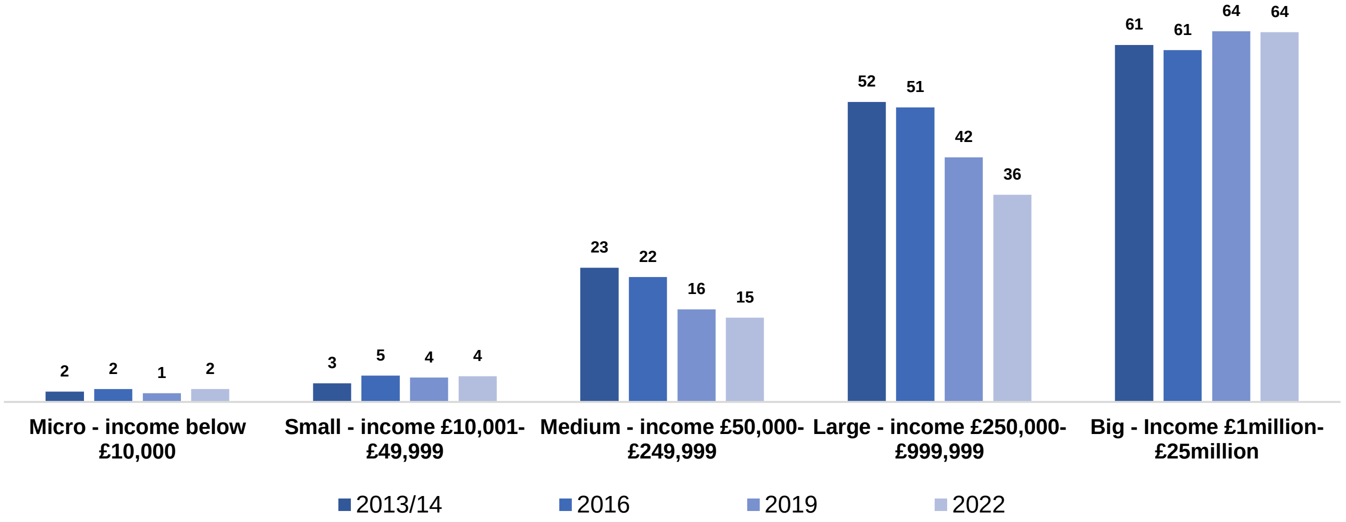
Table 3.6 **Engagement with public service delivery contracts by TSO size** (England and Wales 2022)

	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	**All TSOs**
We are not aware of these opportunities	37.0	33.3	27.0	13.4	7.6	28.9
We are aware of these opportunities but they are not relevant to our organisations objectives	52.5	50.5	39.8	32.4	26.7	44.9
We are aware of these opportunities but need more information	2.1	3.7	5.4	5.2	3.8	3.8
We are interested in this option but would need extra support to do this	4.7	6.0	8.7	9.3	4.4	6.5
We are interested in this option but feel there are barriers in the tendering process	1.8	3.5	8.5	12.0	6.5	5.4
We are already bidding to deliver public sector services	0.7	1.2	2.7	7.4	7.6	2.5
We are already delivering public sector services for which we have tendered	1.2	1.8	7.8	20.3	43.3	7.8
N=	1,779	1,624	1,469	689	367	5,928

[17] Labour government policy was encapsulated by HM Treasury (2002) *The Role of the Voluntary and Community Sector in Service Delivery: A cross cutting review*, London: HM Treasury. A large academic literature was produced in response to these policy initiatives. See, for example, Chapman, T., Crow, R. and Brown, J. (2008) 'Entering a Brave New World? An assessment of Third Sector readiness to tender for the delivery of public services', *Policy Studies*, 28(1) pp. 1-17; Kendall, J. (2000) 'The mainstreaming of the third sector into public policy in England in the late 1990s: whys and wherefores', *Policy and Politics*, 28(4), pp. 541-62; Kramer, R.M. (2004) 'Alternative paradigms for the mixed economy: will sector matter?', in A. Evers and J. Laville (eds.) *The Third Sector in Europe*, Cheltenham: Edward Elgar; Osborne, S.P. and McCloughlin, K. (2004) 'The cross cutting review of the voluntary sector: where next for local government-voluntary sector relationships?', *Regional Studies*, 38:5, pp. 573-582; Powell, M. (2000) 'New Labour and the third way in the British welfare state: a new and distinctive approach?', *Critical Social Policy*, 20(1), pp. 39-60.

When tracking attitudes over time, interesting patterns emerge (Figure 3.4). Micro and small organisations, as would be expected given the purpose and scale of their activities, have remained disinterested in public-service delivery contracts since 2013. But medium-sized and larger organisations have become progressively less likely to engage in bidding for or delivering contracts. Only the biggest TSOs (with income above £1million) have sustained involvement in such work – although a third of the biggest organisations do not.[18]

Figure 3.4 **Bidding for or delivering public sector contracts 2010-2022**
(Percentage of organisations bidding for or delivering contracts in the North of England: 2013/14 n=2,110, 2016, n=3,491, 2019 n=3,085, 2022, n=5,928)

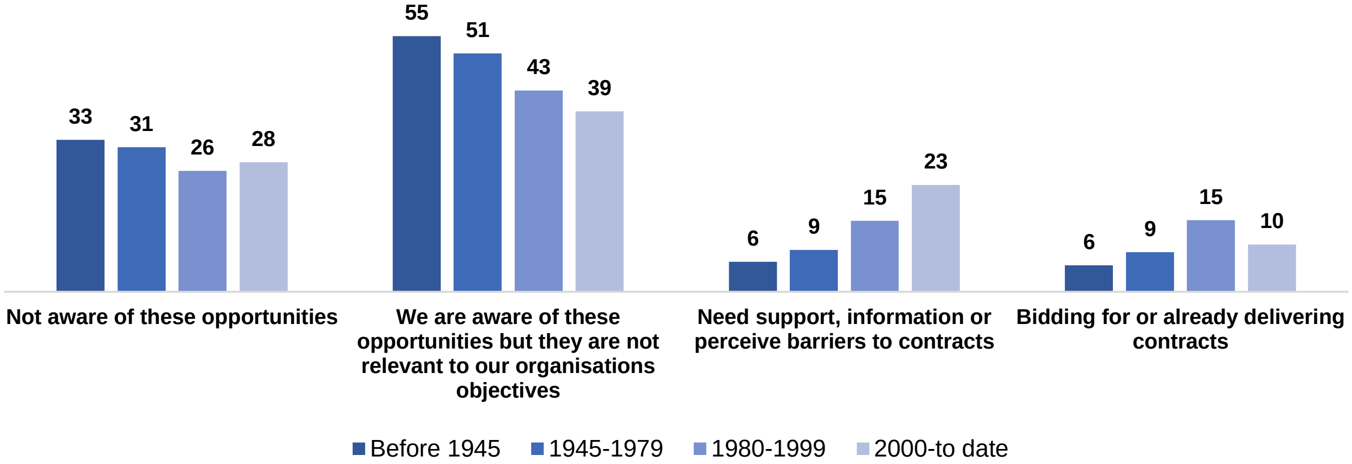


The age of organisations affects level of involvement in public service delivery contracts. TSOs which were set up between 1980 and 1999 are the most likely to have become involved – which is not surprising because this was the period when policy makers were pushing the hardest to engage the voluntary sector in such work (Figure 3.5).

Contracting never seems to have caught the imagination of the longest established organisations. And amongst the most recently set up TSOs, only 10 per cent have become involved. Over half of the oldest organisations will not consider delivering public services under contract (55%) because they are not thought to be relevant to their objectives, compared with about two fifths of the most recently-established (39%). Lack of awareness of such opportunities is similar irrespective of age – and most of these organisations are likely to be too small to want to get involved.

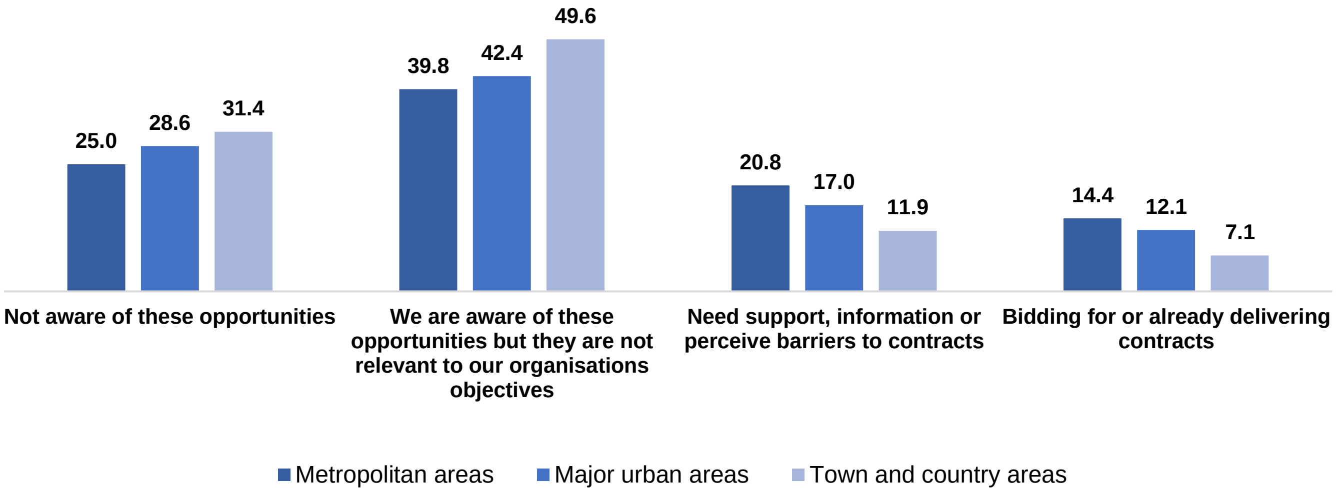
[18] It should be noted that the percentage of the biggest organisations bidding for or delivering contracts in the North of England is much higher than in most other regions due to the concentration of major urban areas where levels of social deprivation are high. The average percentage involved across England and Wales is 51 per cent (see Table 3.6) compared with 64 per cent in the North. For further evidence to back up this point, see Figures 3.6 and 3.7.

Figure 3.5 **Involvement with public service delivery contracts by age of TSOs**
(England and Wales 2022, n=5,972)



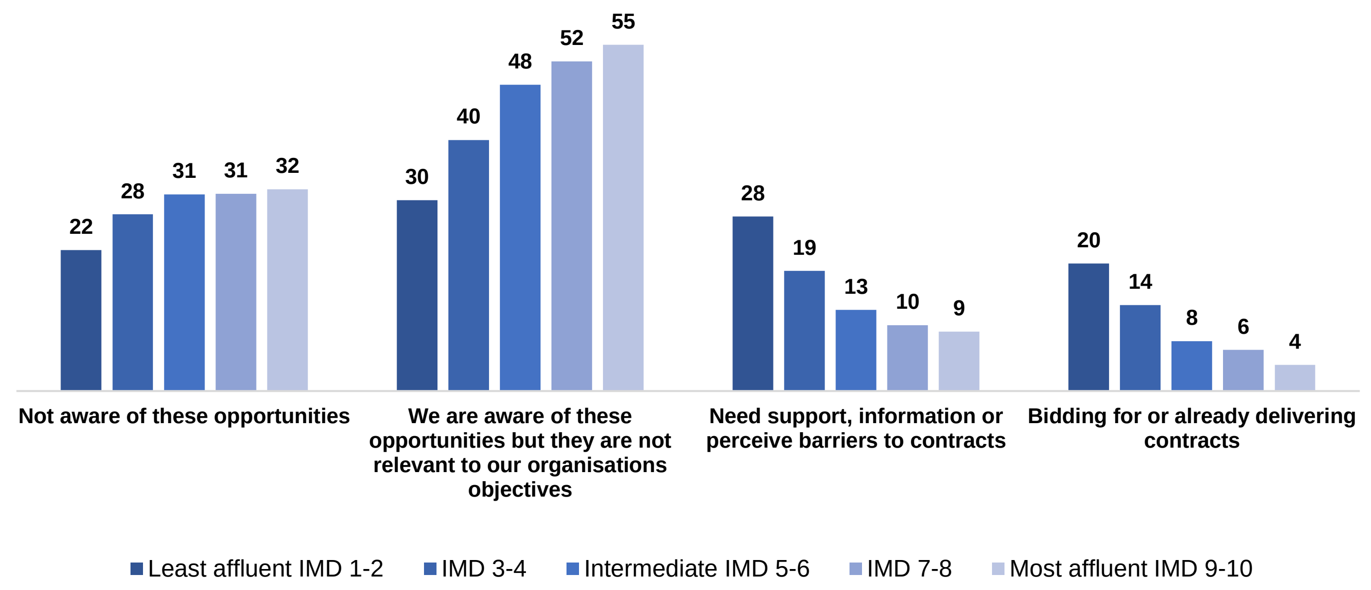
There are area variations in TSOs' involvement in the delivery of public service contracts (Figure 3.6). About twice as many organisations are engaged in such work in metropolitan areas than in town and country areas. This is likely to reflect the availability of such opportunities and the concentration of need in less advantaged metropolitan areas. In town and country areas, TSOs are much less interested in such work.

Figure 3.6 **Involvement in public service delivery contracts by area type**
(England and Wales 2022, n=5,945)



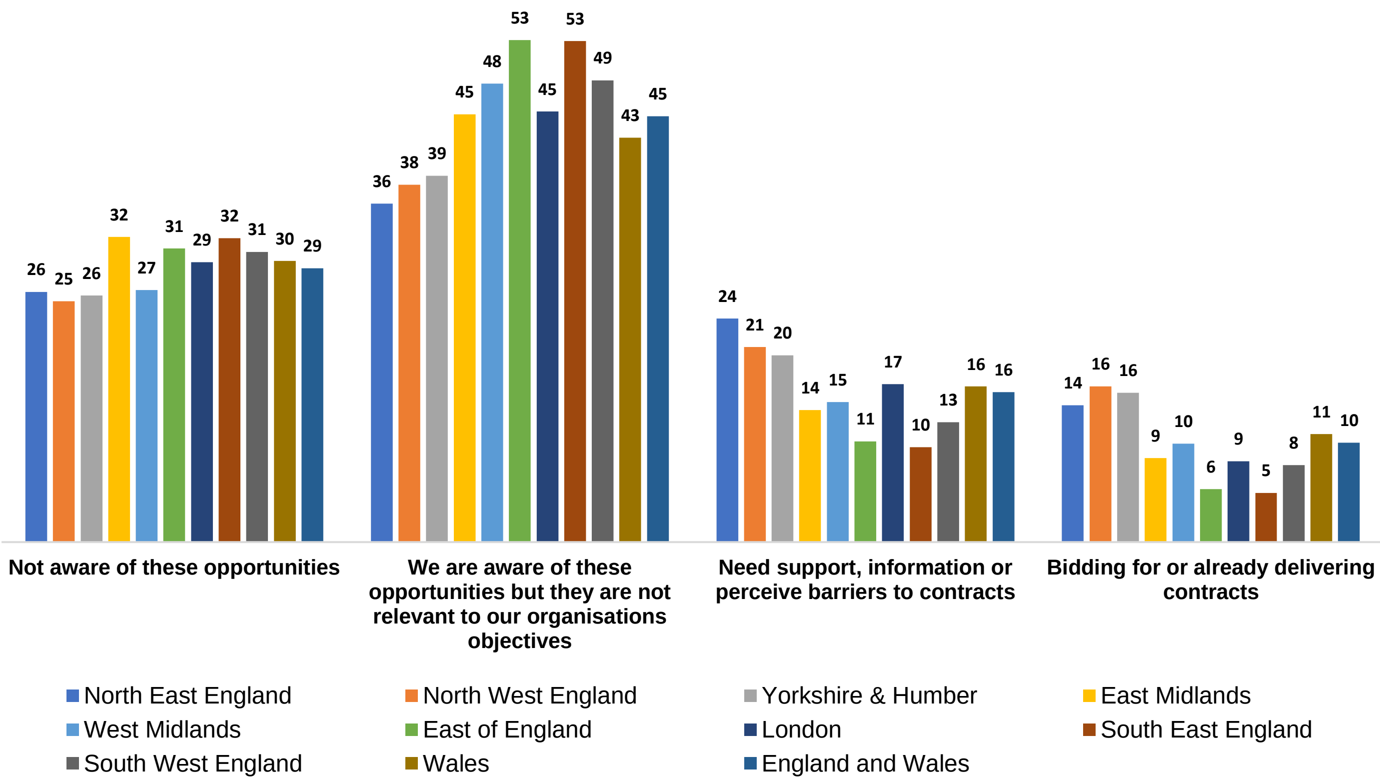
Many public service delivery contracts are issued to meet statutory obligations – and are often concerned with tackling critical and/or pernicious personal or social needs. It is not, therefore, surprising to see (Figure 3.7) that involvement in contracting is much more prevalent amongst TSOs based in the poorest areas (20%) rather than the richest areas (4%). This may also help to explain why over half of TSOs in the richest areas will not consider the possibility of doing such work compared with only 30 per cent in located in the poorest areas.

Figure 3.7 **Involvement in public service delivery contracts by area affluence**
(England and Wales 2022, n=5,852)



Regional variations cannot easily be interpreted due to wide disparities in urban form, affluence and wealth in English regions and across Wales. But it is clear, as indicated in the above analysis, that engagement with public service delivery contracts is much more likely to happen in the Northern regions of England, Wales and to a less extent in London and the West Midlands of England where area deprivation tends to be more heavily concentrated (see Figure 3.8).

Figure 3.8 **Percentage of TSOs which are bidding for or delivering contracts in English regions and Wales**
(England and Wales 2022, n=5,967)



3.3 Earned income

About 60 per cent of organisations in the Third Sector earn a proportion of their income by delivering contracts or self-generated trading of goods or services. The proportion of total income which is earned varies considerably. As shown in Table 3.7, about 22 per cent earn less than a fifth of their income while 22 per cent earn more than three fifths of their income.

The biggest TSOs are the most likely to engage in trading: 40 per cent of the biggest organisations earn more than 60 per cent of their income and only 16 per cent earn none. At the other end of the spectrum, 57 per cent of micro organisations do not get involved in trading – but around 16 per cent earn more than 60 per cent of their income. Trading is of value to over two thirds of medium-sized organisations. But the majority earn less than 40 per cent of their income.

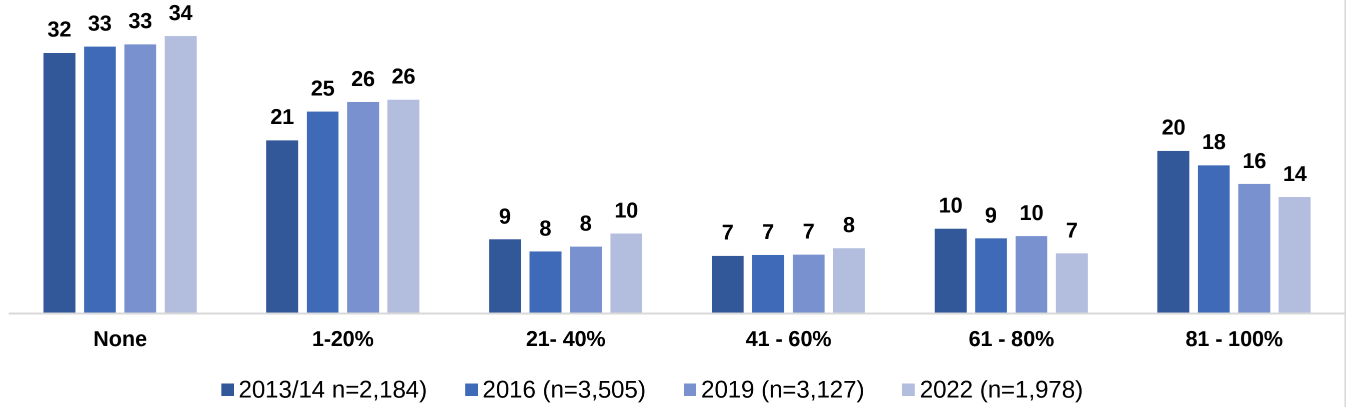
Background data analysis reveals that even amongst the most ‘socially enterprising’ organisations (i.e. those which earn more than 80 per cent of their income), most also rely on other sources of finance or in-kind support: 81 per cent also rely on grants, 71 per cent rely on gifts, 35 per cent rely on subscriptions and 53 per cent rely on in-kind support.

Table 3.7 **Percentage of TSOs earning income by size of organisation**
(England and Wales 2022, n=5,986)

	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	**All TSOs**
No earned income	57.4	41.2	32.1	20.6	16.3	39.9
1 - 20% of income is earned	16.7	19.7	26.8	31.4	24.1	22.2
21- 40% of income is earned	5.4	7.7	9.4	12.8	9.8	8.2
41 - 60% of income is earned	4.2	6.9	9.2	10.8	10.3	7.3
61 - 80% of income is earned	4.9	6.7	7.5	10.5	12.2	7.1
81 - 100% of income is earned	11.4	17.8	15.0	13.8	27.4	15.3
N=	1,804	1,637	1,482	694	369	5,986

Third Sector Trends has been tracking the prevalence of trading since 2013 in the North of England. As Figure 3.9 shows, the proportion of TSOs which earn more than 80 per cent of their income from trading has fallen between 2013 and 2022 from 20 per cent to 14 per cent. The percentage of organisations earning less than a fifth of their income has risen (from 21% to 26%). The overall proportion of trading organisations has not increased. In fact it has fallen slightly, but steadily, from 68 per cent in 2013 to 66 per cent in 2022.

Figure 3.9 **Percentage of TSOs earning income 2013-2022**
(North of England 2013-2022)



The longest-established TSOs are the least likely to engage in trading (46%). The organisations which rely most heavily on trading income were established between 1945 and 1979 (30 per cent of these TSOs earn more than three fifths of their income by trading. It is interesting to note that amongst the most recently established organisations, 41 per cent are not involved in earning income and few (11%) rely predominantly upon trading income.

Figure 3.10 **Percentage of TSOs earning income by age of organisation**
(England and Wales 2022, n=5,955)

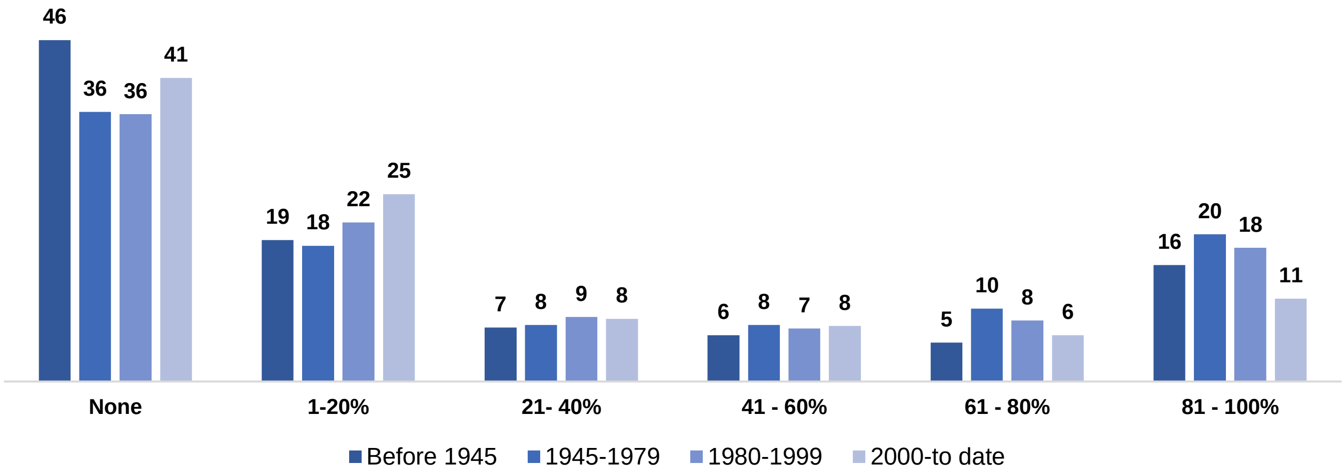
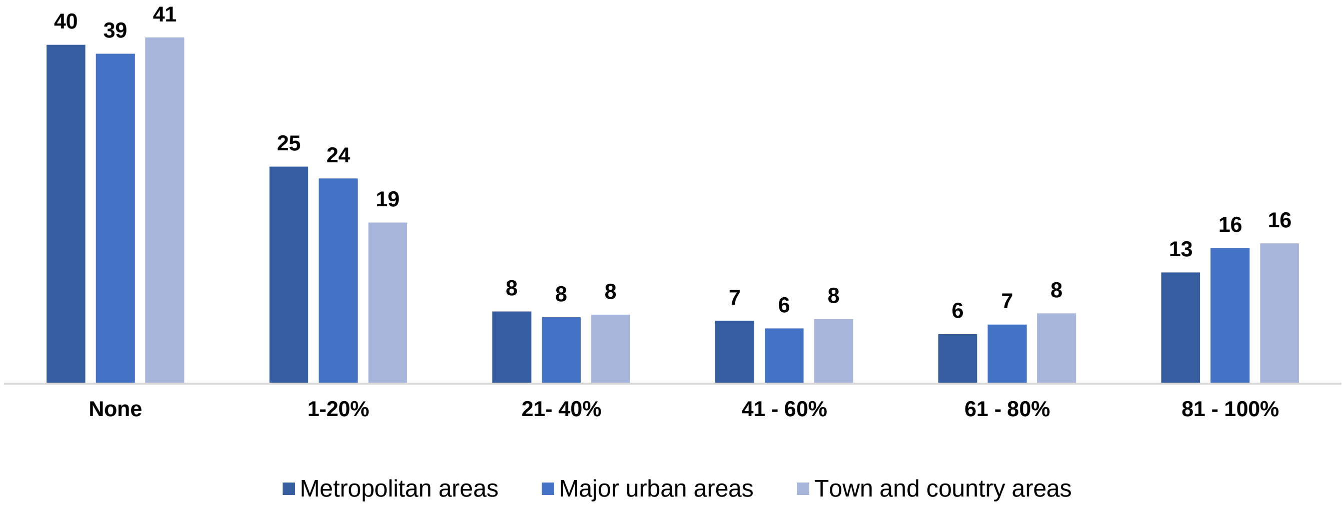


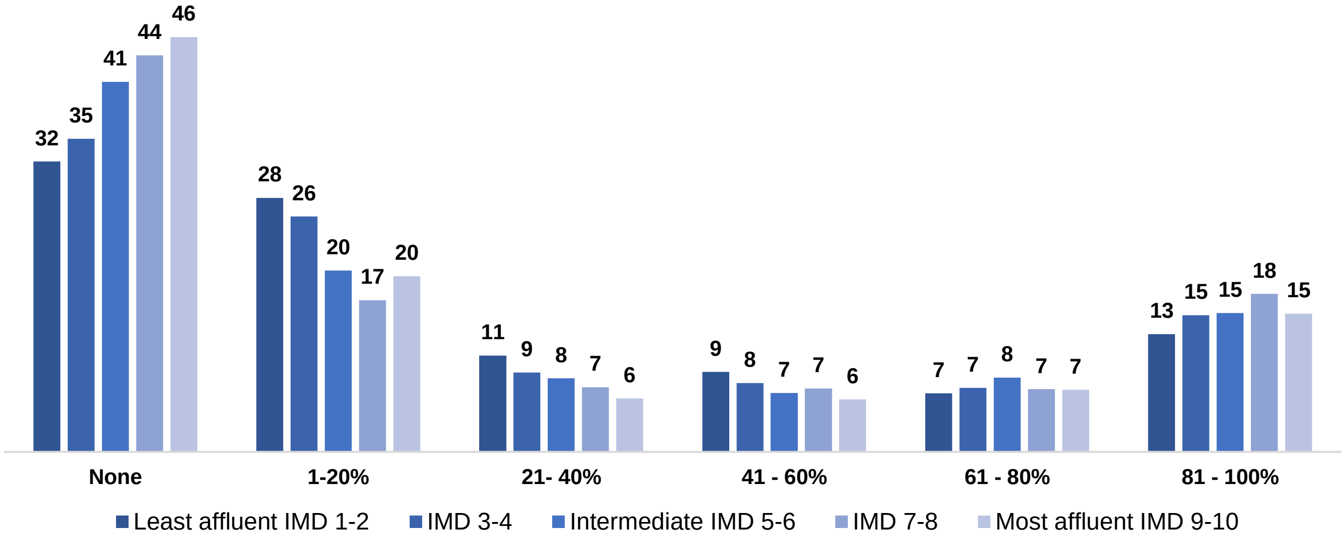
Figure 3.11 shows that the urban characteristics of areas where TSOs are based has only a minor effect on the extent of trading – but there are indications that TSOs based in town and country areas are the most dependent on trading income (24% earn more than three fifths of their income compared with 19 per cent in metropolitan areas).

Figure 3.11 **Percentage of TSOs earning income by area characteristics**
(England and Wales 2022, n=5,995)



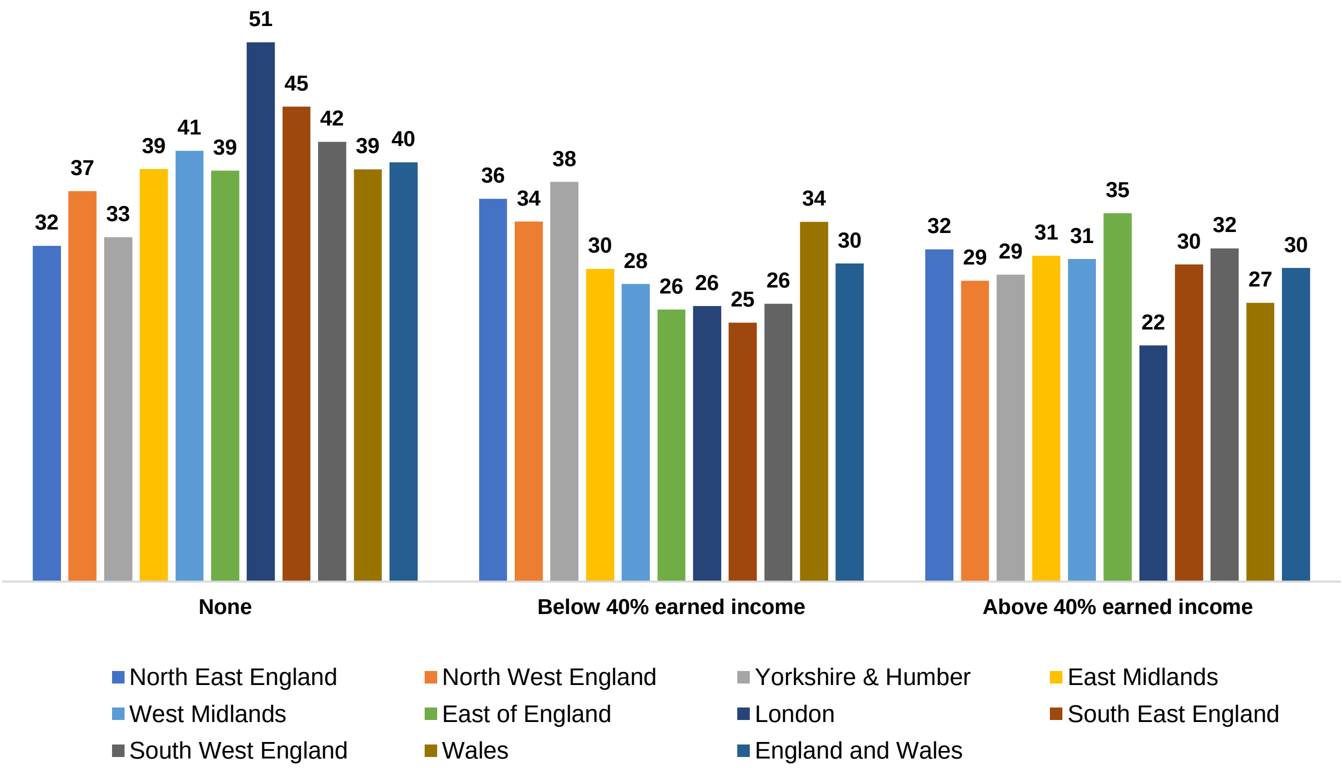
When looking at area affluence (see Figure 3.12) variations are more pronounced. TSOs based in the poorest areas are the least likely *not* to engage in trading activities (32% compared with 46% situated in the most affluent areas). While trading is more prevalent in the poorest areas, dependence upon that income is relatively low (39% of TSOs based in the poorest areas earn less than two fifths of their income).

Figure 3.12 **Percentage of TSOs earning income by area affluence**
(England and Wales 2022, n=5,900)



Regional variations are shown in Figure 3.12. Trading is least common in London (51% of TSOs earn none of their income). Variations across English regions and Wales are complex and would require more detailed analysis at a later date in more specific in-depth area studies. It is worth noting, however, that non-participation in trading is comparably low in North East England (32%) and Yorkshire and Humber (33%).

Figure 3.13 **Percentage of TSOs earning income by English regions and Wales** (England and Wales 2022, n=6,017)



3.4 Financial outlook

Third Sector Trends surveys ask respondents to make an assessment of their prospects over the next two years on several dimensions. In this sub-section, their opinions on four aspects of funding prospects are considered: overall access to income, grant funding, statutory funding and income from private businesses. Analysis and interpretation is limited to organisational size at this stage – although regional variations are provided for information.

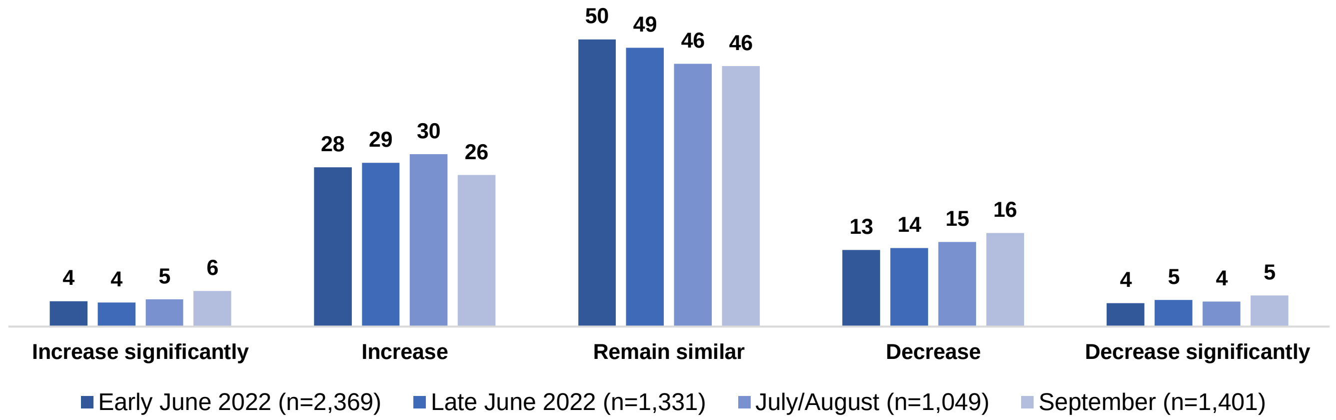
As a prelude to the analysis, it has been shown in previous rounds of Third Sector Trends surveys that organisations of all sizes tend to be ‘over optimistic’ in their projections about future finances. This should not be seen as a ‘bad thing’, optimism drives sector enthusiasm and commitment. But when hopes are not realised, it can make people in the sector feel disappointed.

Certainly, when the Third Sector Trends survey was running in the summer of 2022, it was a fast-moving political environment. Prime Minister, Boris Johnson, was turned out of office and another, Liz Truss, came and went within a matter of weeks. Turmoil in the financial markets, the impact of war in Ukraine on energy prices and the domestic ‘cost-of-living crisis’ dominated news headlines.

And yet, the mood of people in the Third Sector about financial prospects did not take a dive. This is because people are asked what they think will happen over the next two years – rather than in the immediate future when it is harder for organisational leaders to make a balanced judgement.

As shown in Figure 3.14, there were signs of growing pessimism: only 17 per cent of TSOs thought income would fall in June compared with 21 per cent in September. But growing pessimism in one part of the sector did not temper optimism in another. In June, 31 per cent of TSOs thought income would rise, by September this had risen to 32 per cent.

Figure 3.14 **Third Sector expectations about income change in the next two years - June to September 2022** (England and Wales, 2022)



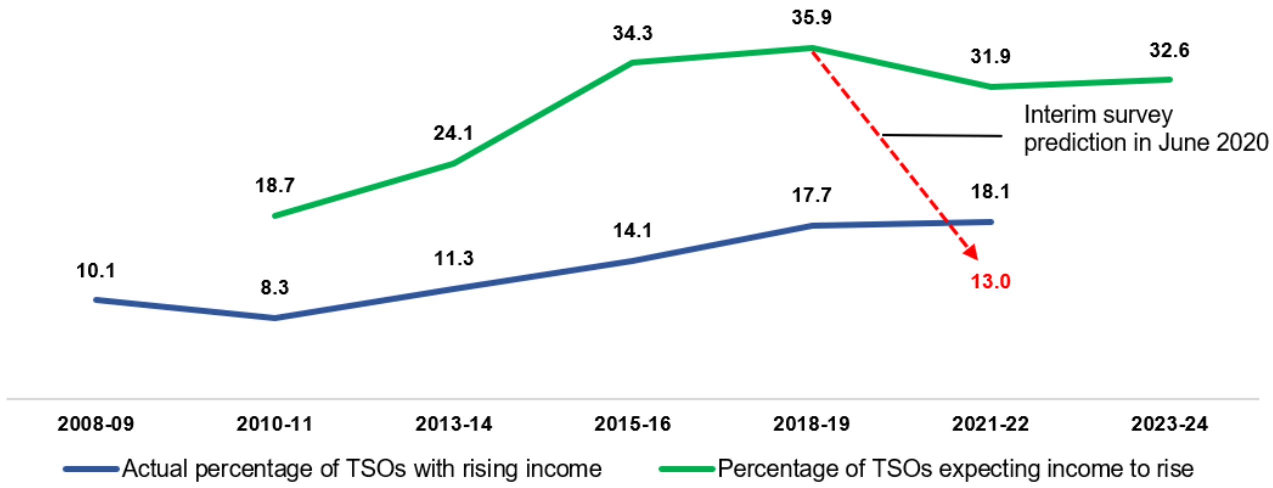
Third Sector Trends has been tracking sector expectations about future income levels since 2010. The purpose is to get a general perspective on sector mood and, depending upon what is happening in their world, how this changes. The data are not collected with a view to making predictions about what *will* happen because everyone is guessing. In the survey of 2019 for example, nobody could have known that a Covid-19 was just around the corner.

Figure 3.14 presents trend data on how many TSOs thought that their income would rise over the next two years (green line) and what percentage of TSOs which actually saw their income rise in the previous two years (blue line).

The proportion of TSOs which were optimistic about rising income in 2022 is lower (32%) than prior to the pandemic in 2019 (36%), but a good deal higher than when there was deep anxiety about the consequences of government austerity policies following the global economic crash in 2008 (only 19% of TSOs felt optimistic about rising income in 2010-11).

The blue line shows that the actual percentage of TSOs reporting rising income is always much lower than previous expectations. Nevertheless, the evidence demonstrates that the percentage of TSOs with rising income has grown from a low point of 8 per cent in 2010-11 to 18 per cent in 2021-22.

Figure 3.15 **Tracking expectations and reality on TSOs' rising income**



Third Sector Trends research takes a long view on expectations rather than focusing on the 'here and now'. It can be quite unhelpful when research reports based on snap-shot studies about current crises make predictions about the impact on sector wellbeing. This is because concerns about the impact of immediate crises may be misplaced – either because the severity of problems is exaggerated, that crises turn out to be short lived, or because predictions about potential crises fail to materialise.[19]

Nevertheless, during the early months of the Coronavirus pandemic, it was decided that Third Sector Trends should do an interim survey to test sector mood using exactly the same questions as in the triennial studies.[20] In Figure 3.14, the dashed red line depicts sector mood at that time – where optimism about rising income dropped from 32 per cent (in late 2019) to 13 per cent by June 2020.

It would have been unwise to make any predictions about these findings because nobody knew what was going to happen next – but as this report shows – things worked out quite a bit better than expected. The difference between expectations and reality, as Figure 3.15 shows, is always quite wide and it would be a brave

[19] For example, it was reported in the sector press in November 2022 that a study of just 222 organisations predicted (on the basis 3 per cent of responses) that due to the cost-of-living crisis up to 4,000 social enterprises may close by the end of 2022: https://www.civilsociety.co.uk/news/4000-social-enterprises-to-close-this-winter-due-to-financial-pressures-report-warns.html. Even if studies which are addressing immediate issues are careful to avoid the use of leading questions, there is still a danger that respondents will be caught up in the moment and provide alarmist responses. During the early months of the Coronavirus pandemic, which was alarming, there were many studies that produced predictions of organisational or even sector collapse has proven to be unfounded. While the cost of living crisis might yet turn out to be a major challenge to many organisations, it is clear that when organisational leaders are asked to take a longer-term view they tend, collectively, to provide less alarmist responses.

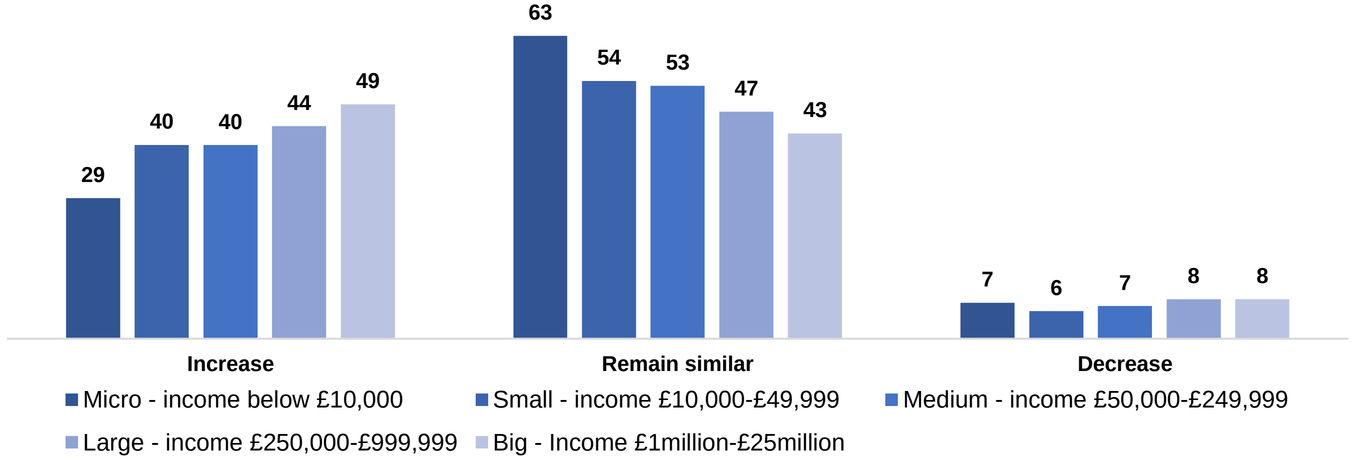
[20] Chapman, T. (2020) *Third Sector Trends Covid-19 impact* survey, Newcastle upon Tyne: Community Foundation Tyne & Wear and Northumberland is available here: https://www.communityfoundation.org.uk/wordpress/wp-content/uploads/2020/08/Third-Sector-Trends-Covid-19-Impact-Survey-August-2020.pdf

researcher to predict with any confidence what will happen on the blue line by the time the survey is repeated in 2025.

Variations in expectations by size of organisations

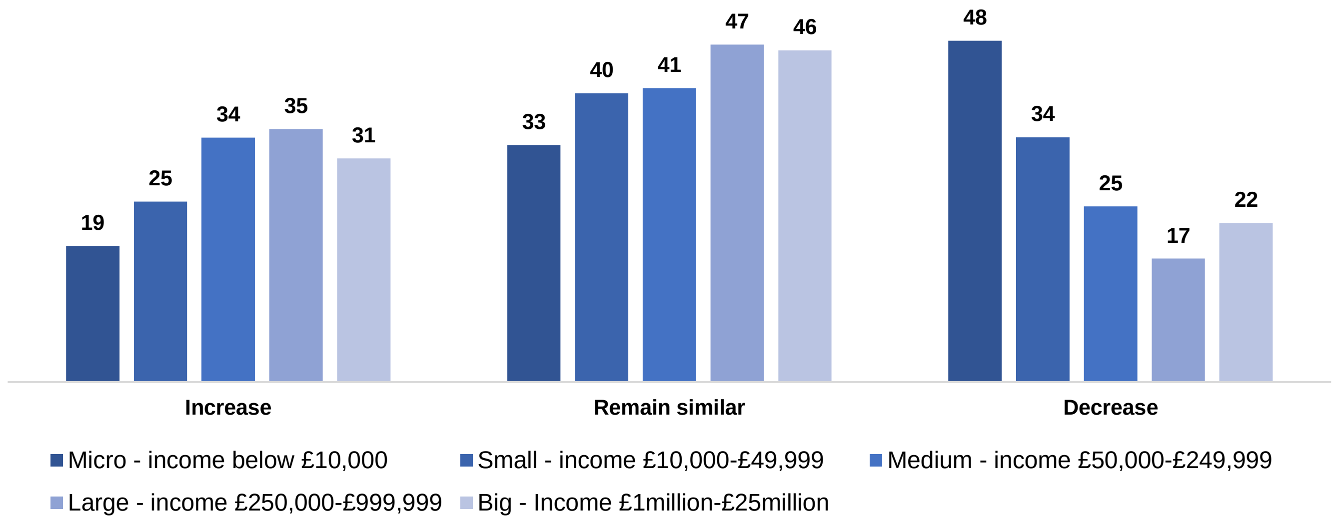
Figure 3.16 shows how expectations vary by size of organisations in 2022. Optimism about income rising is much higher amongst the biggest organisations (49%) when compared with the smallest (29%). Expectations of income stability is highest amongst micro organisations (63%). Very few TSOs think that their income will fall over the next two years, irrespective of their size (ranging from only 6% to 8%).

Figure 3.16 **Expectatons about income in the next two years by size of organisation** (England and Wales 2022, n=5,056 excluding 'not applicables')



Expectations about grant income from trusts and foundations are shown in Figure 3.17. Optimism is highest amongst medium-sized and larger organisations (~34-35%) and lowest for micro TSOs (19%). Declining grant income is expected by nearly half of micro organisations (48%%) but only 17 per cent of large and 22 per cent of the biggest TSOs. Many TSO think that grant income will remain about the same – especially so amongst large and the biggest organisations (46-47%). When interpreting these findings, it is important to remember that not all TSOs rely on grants (see Section 3.1).

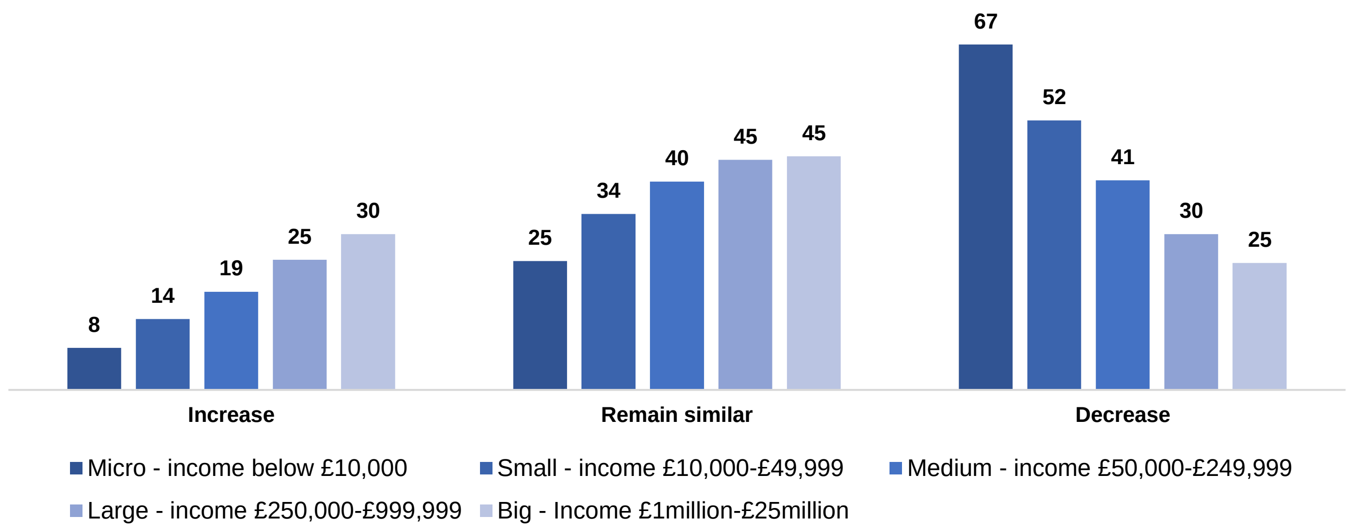
Figure 3.17 **Expectations about income from grant-making trusts and foundations in the next two years by size of organisation**
(England and Wales 2022, n=5,202, excluding 'not applicables')



Many TSOs, of all sizes, receive funding from statutory sources. Sometimes this is won through competitive tendering for contracts. But many local authorities also make small grants to local community organisations from, for example, dedicated community funds.

As Figure 3.18 shows, expectations about statutory funding are less optimistic, especially amongst smaller organisations. But optimism is still running high for nearly a third of the biggest organisations – with 30 per cent expecting rising statutory income and 45% believing that income will remain stable.

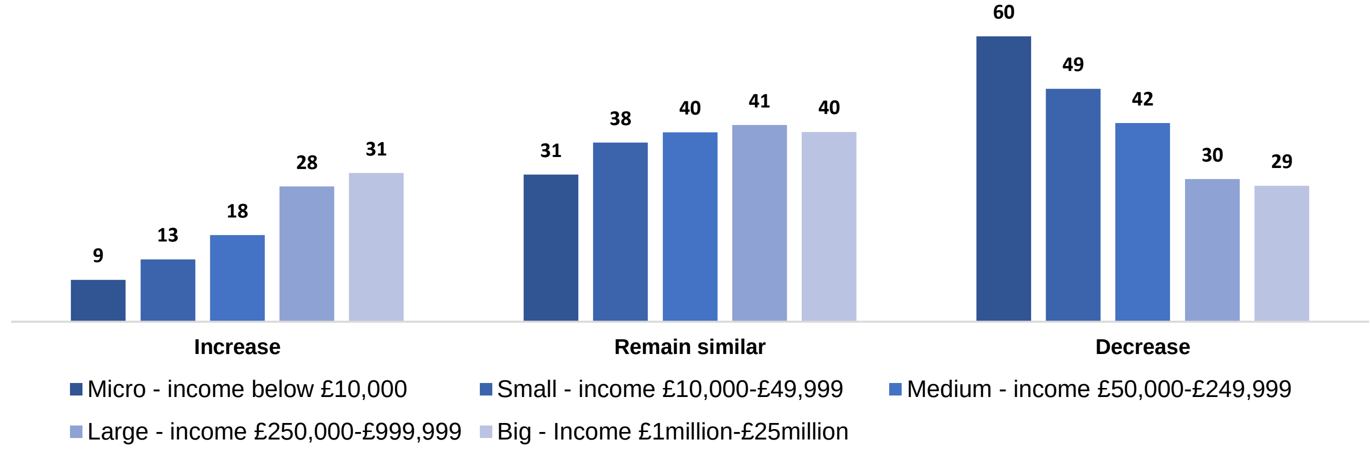
Figure 3.18 **Expectations about income from statutory sources in the next two years by size of organisation**
(England and Wales 2022, n=5,200, excluding 'not applicables')



Organisations are least optimistic about financial support from private sector businesses: 60 per cent of micro organisations expect income from businesses to fall – but only 29 per cent of the biggest organisations feel this way (Figure 3.19). About a third of the sector think that income from business will remain broadly similar.

The biggest organisations are the most likely to expect income from business to increase in the next two years (31%), but the percentage falls steeply when looking at micro organisations (9%). These factors will be analysed in more depth in the fourth report from Third Sector Trends on sector inter-relationships.

Figure 3.19 **Expectations about income from private sector businesses in the next two years by size of organisation**
(England and Wales 2022, n=5,436, excluding 'not applicables')



Regional variations are shown in Figures 3.20(a) to 3.20(d). Interpretation will require deeper analysis, but data are presented to provide a general picture of variations. Estimations about future income in general terms indicate fairly limited variations by region, although optimism tends to be higher in the North of England and London.

Income from trusts and foundations is expected to rise by about a third of organisations across England and Wales: optimism is highest in London (40%) and the North of England (34-36%). Around a half of organisation in all English regions and Wales expect income to remain about the same – except in London and North West England where the percentage is a little lower (44%).

Organisations are more pessimistic about future income from statutory sources in most English regions and Wales. TSOs are most pessimistic in East Midlands of England and East of England – which is related to the larger number of small organisations in those areas. Optimism about future statutory support is strongest in London (29%) and the North of England (26-28%) – but again, this may reflect the structure of the local sector where there are more bigger organisations.

Opinions about future funding from the private sector is fairly evenly balanced across English regions and Wales between optimists and pessimists – but a clear majority in all areas (apart from London) expect income from business to remain about the same over the next two years. London organisations are the most optimistic about rising levels of business support (35%) while organisations in Wales are the least (19%).

Figure 3.20(a) **Expectations about income over the next two years: English regions and Wales**
(England and Wales 2022, n=5,855, excluding 'not applicables')

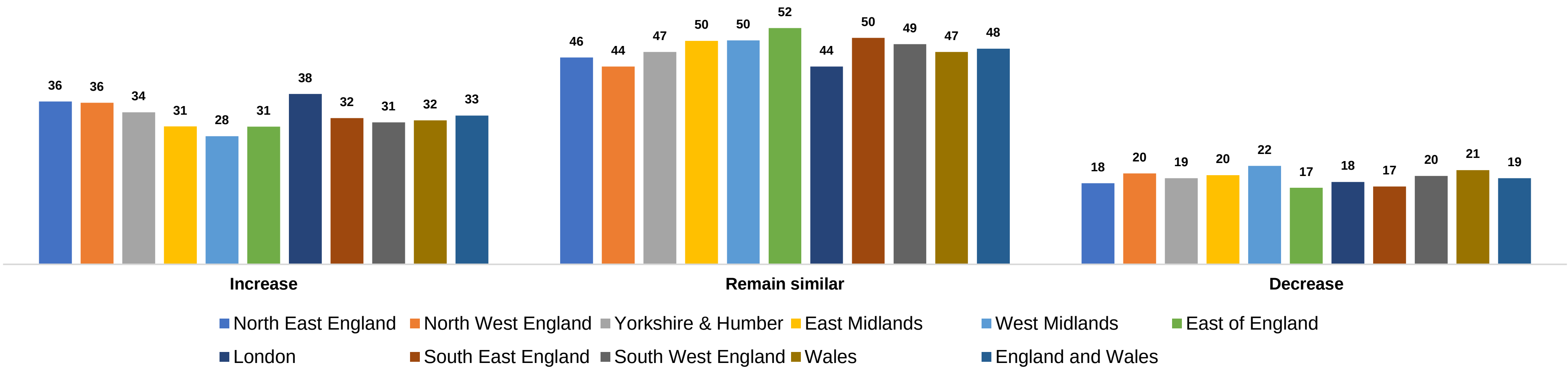


Figure 3.20(b) **Expectations about income from grant-making trusts and foundations in the next two years: English regions and Wales** (England and Wales 2022, n=4,443, excluding 'not applicables')

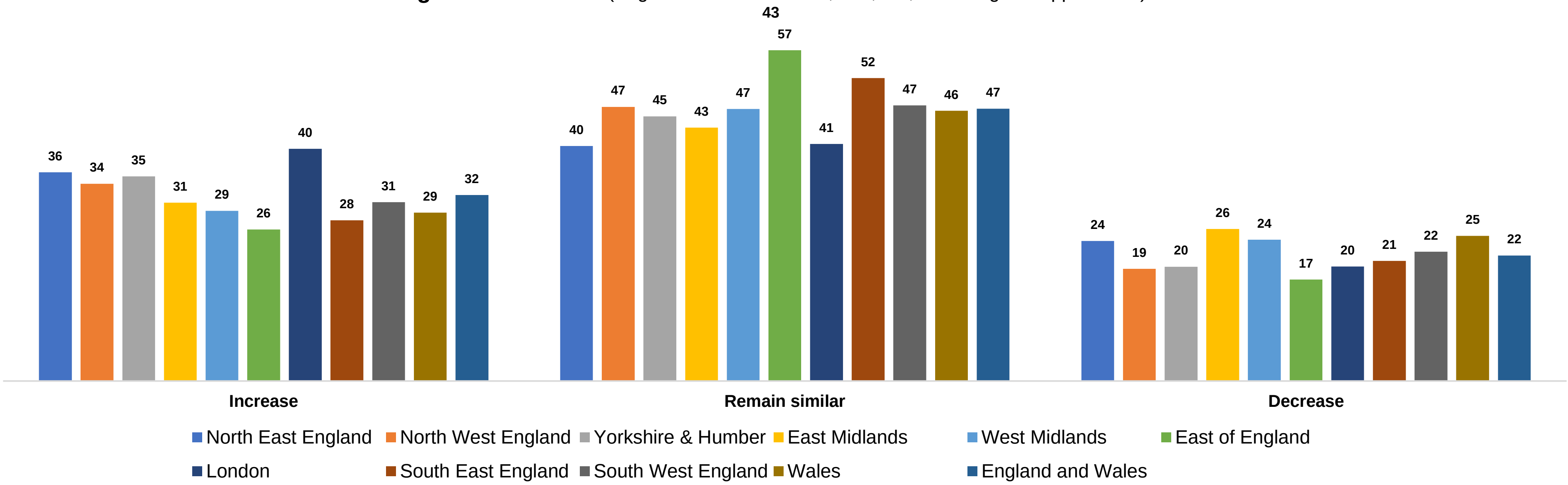


Figure 3.20(c) **Expectations about income from statutory sources in the next two years: English regions and Wales**
(England and Wales 2022, n=3,610, excluding 'not applicables')

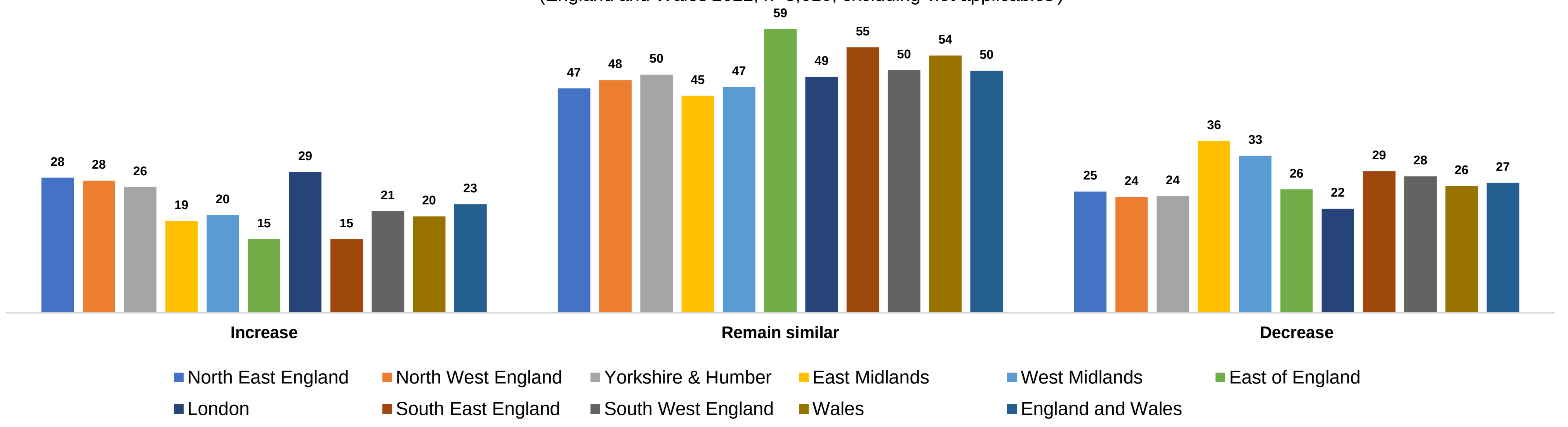
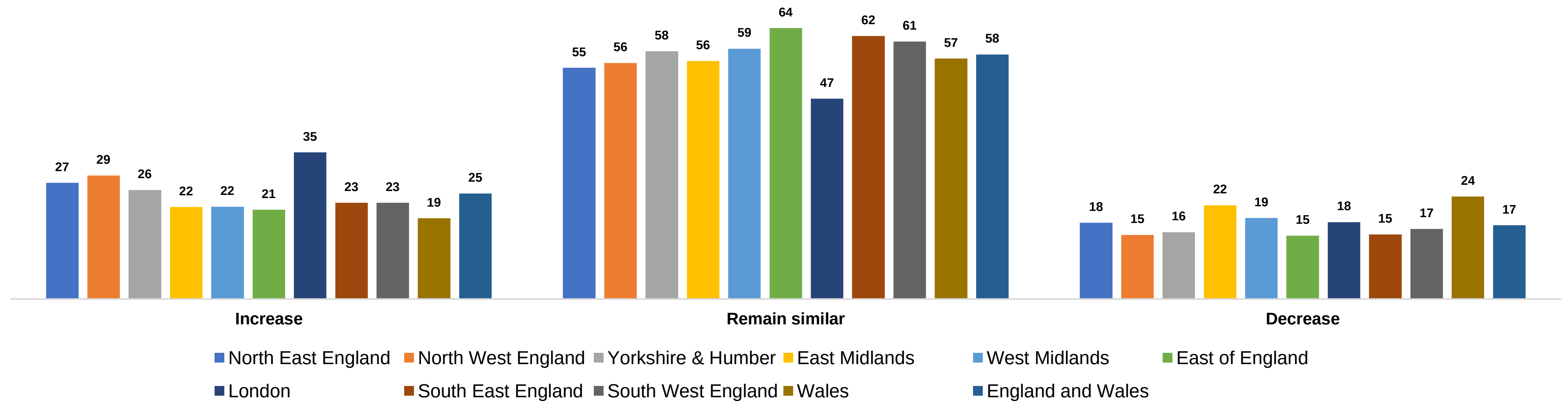


Figure 3.20(d) **Expectations about income from private sector businesses in the next two years by Englisn regions and Wales** (England and Wales 2022, n=3,508, excluding 'not applicables')



Section 4
Property assets and financial reserves

4.1 Property assets

Little is currently known about property ownership in the Third Sector as there are no easily accessible summaries of national data on Third Sector property ownership.[21] Table 4.1 provides crude survey estimates on the number of organisations which own, rent or have free use of properties in England and Wales. Rough estimates are also provided on the number of asset transfers of former public sector property assets which are now owned by Third Sector organisations.[22]

The most common forms of property tenure or usage are renting (46%), followed by ownership (30%) and free use of space in a building (29%). Ownership includes properties adopted via community asset transfer.

Table 4.1 **Tenure of property usage by TSOs in England and Wales 2022**

	Yes	No - but we're looking into this	No - and we have no plans to do this	N=	*TSOs nationally which have property usage by type of tenure*	
					Base estimate	***Adjusted estimate***[23]
We own a property that we can use	29.6	6.7	63.7	5,386	*59,200*	*52,500*
We rent a property to use	45.7	3.0	51.3	5,408	*91,400*	*81,400*
We have a property that we got via community asset transfer of a public building	5.9	6.0	88.1	4,983	*11,800*	*9,600*
We are allowed to use space in a property without charge	29.0	6.6	64.4	5,134	*58,000*	*49,000*

[21] Theoretically, it is possible to search charity ownership in the Land Registry [see: Search for land and property information - GOV.UK (www.gov.uk)] but this would be time consuming and expensive. Furthermore, difficulties may be encountered in disentangling private ownership from charity ownership because Land Registry titles for charities may be registered in the names of retired, or even deceased trustees. For further explanation see: Katie Hickman (2020) 'How should charity property be registered a the Land Registry', VWV, 11th September: https://www.vwv.co.uk/news-and-events/blog/charity-law-brief/charity-property-land-registry.

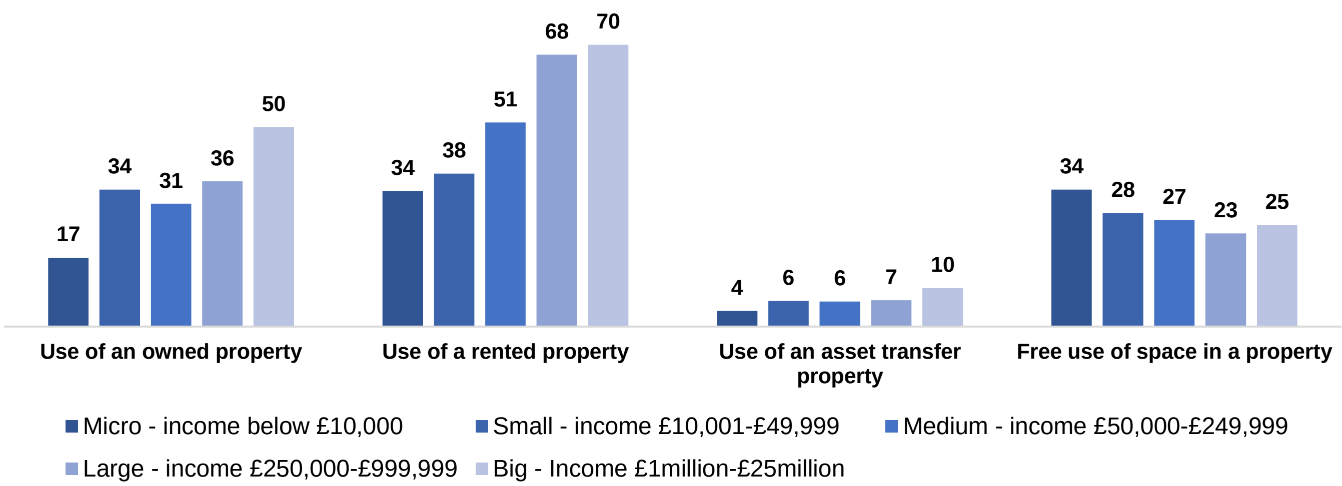
[22] Currently there are no national statistics on community asset transfers (CATs). Listings are available from Plunkett Foundation's 'Keep it in the community' initiative https://plunkett.force.com/keepitinthecommunity/s/, but these listings are input voluntarily and are likely to under report the actual number of CATs. For example, current listings only include 263 community hubs, 78 libraries and 163 sport facilities (data collated on 17th November 2022). See also Mark Sandford (2022) *Assets of community value,* London, House of Commons Library, Section 1.5: https://researchbriefings.files.parliament.uk/documents/SN06366/SN06366.pdf. There is, however, a growing body of evidence on the experience and social impact of CATs which will be reviewed in more detail in a forthcoming paper for Power to Change using Third Sector Trends data: https://www.powertochange.org.uk/market-reports/research-and-reports/

[23] This is a new question for Third Sector Trends and, unlike most other questions, the response rate was below the usual threshold of 95% of in-survey respondents. Response rates for each of the four categories were 88.7, 89.1, 82.1 and 84.6, respectively. If it is presumed that non respondents did not, for example, own a property this lowers the percentage of TSOs which own a property. The adjusted estimate of the number of TSOs in each category of tenure is adjusted accordingly. The adjusted estimate is closer to 2013, 2016 and 2019 survey data on property tenures where a different question was used but was 'rested' in 2022 to incorporate more detail on renters, free use of space and asset transfer. On balance, the adjusted percentage is more likely to be accurate than the base estimate.

Levels of property tenure or usage vary by size of organisation. As Figure 4.1 shows, half of the biggest organisations use a property that they own. Around a third of middle-sized organisations own property compared with just 17 per cent of micro TSOs. Ownership via asset transfer is highest amongst the biggest organisations (10%) falling to 4 per cent of micro TSOs.

Rented property remains the most usual form of tenure for 'large' and 'big' TSOs (68-70%). Background analysis reveals that 23 per cent of the biggest TSOs which own property also rent space in other properties. Many organisations have access to space in properties to use at no cost. This is most common amongst micro organisations (34%) but is also available to about a quarter of TSOs of other sizes (ranging from 23-28%).

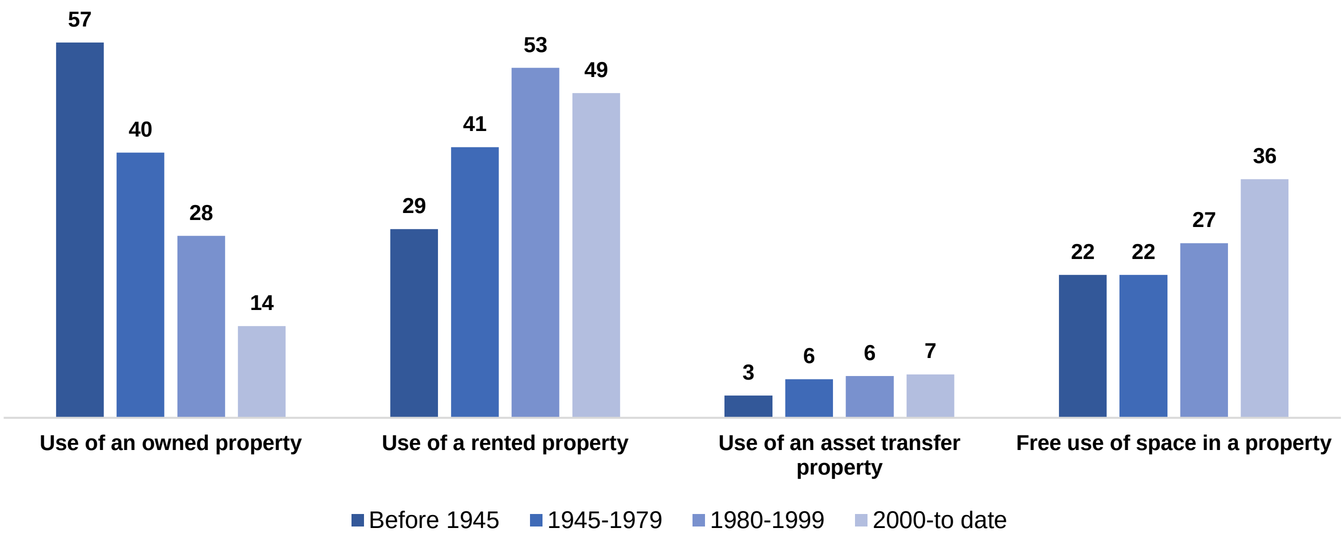
Figure 4.1 **Property ownership and usage by size of TSOs**
(England and Wales 2022, average n=5,191)



A majority of older organisations own property (57%) but this is rare amongst the most recently-established TSOs (14%). Rented accommodation is rarer amongst the oldest organisations (29%) and most common amongst those TSOs set up between 1980 and 1999 (53%).

Free use of space is most common amongst the most recently-established organisations (36%) but is still quite usual amongst older TSOs (ranging from 22-27%).

Figure 4.2 **Ownership and usage of property by age of TSOs**
(England and Wales 2022, average n=5,227)



Property ownership is more prevalent in town and country areas (34%). About a quarter of TSOs in metropolitan and major urban areas own property (see Figure 4.3). About half of TSOs rent properties in metropolitan and major urban areas compared with just 42 per cent in town and country areas.

The percentage of TSOs which took control of properties via community asset transfer of public buildings is fairly similar across area types (5-7%). Free use of space is slightly more common in metropolitan and major urban areas compared with town and country areas – but the differences are small.

Figure 4.3 **Ownership and usage of property by area characteristics**
(England and Wales 2022, average n=5,227)

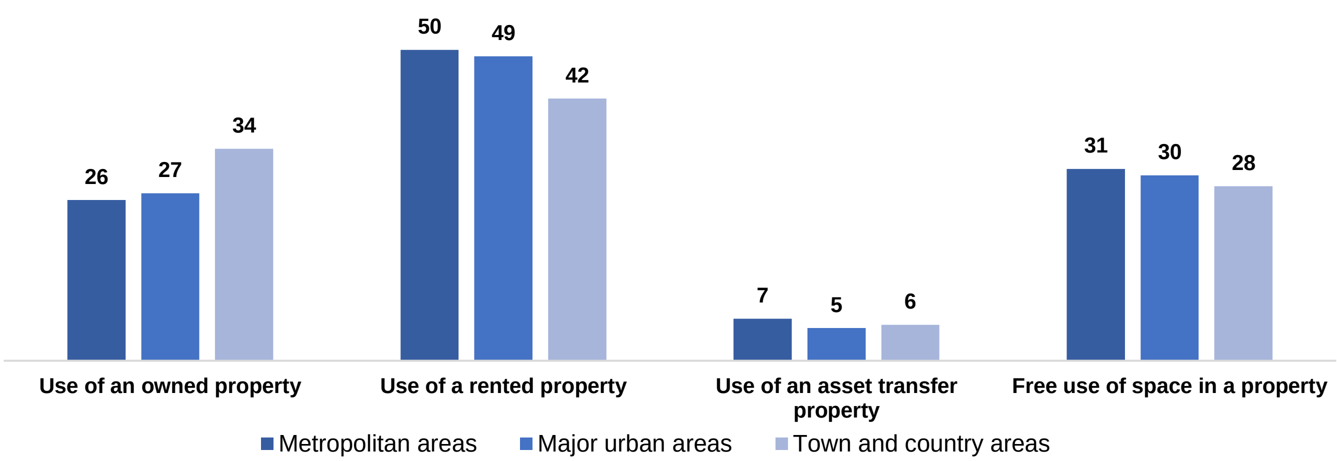
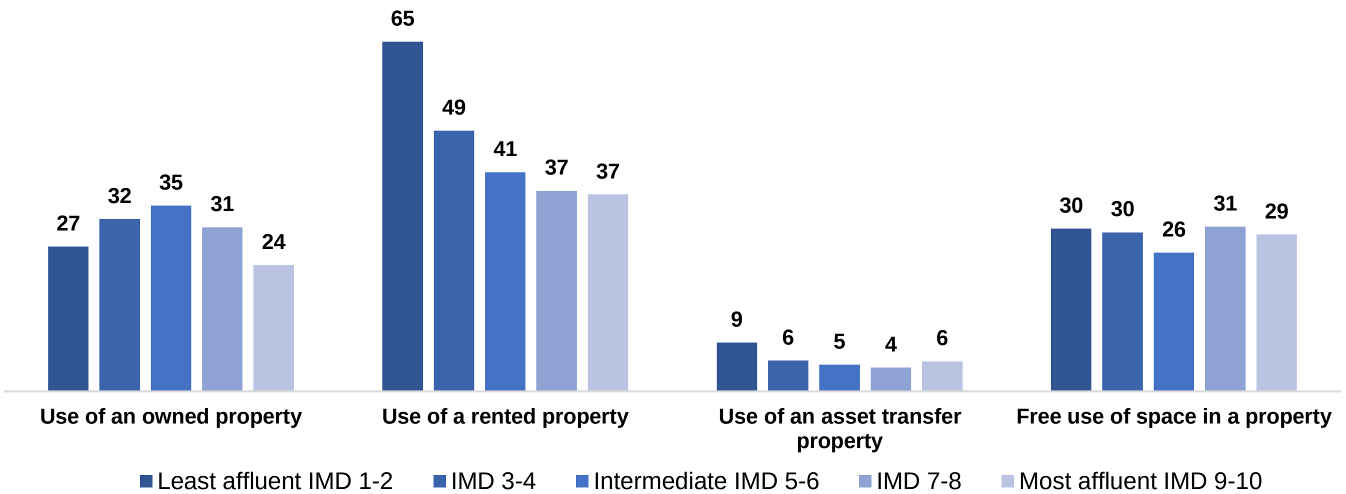


Figure 4.4 shows that the affluence of the local area where TSOs are based has a bearing upon property tenure and usage. Rented property is much more common in the poorest areas (65% of TSOs) and least so in the richest areas (37%). Free use of space is available to a fairly similar percentage of organisations irrespective of the level of local affluence (26-31%).

Property ownership is more frequent in areas of intermediate affluence (35%), but less so in both the richest (24%) and poorest (27%) areas. TSOs controlling property via community asset transfer is slightly more common in the poorest areas (9%) whereas in other areas, percentages range from 4-6%).

Figuure 4.4 **Usage and ownership of property by area affluence**
(England and Wales 2022, average n=5,118)

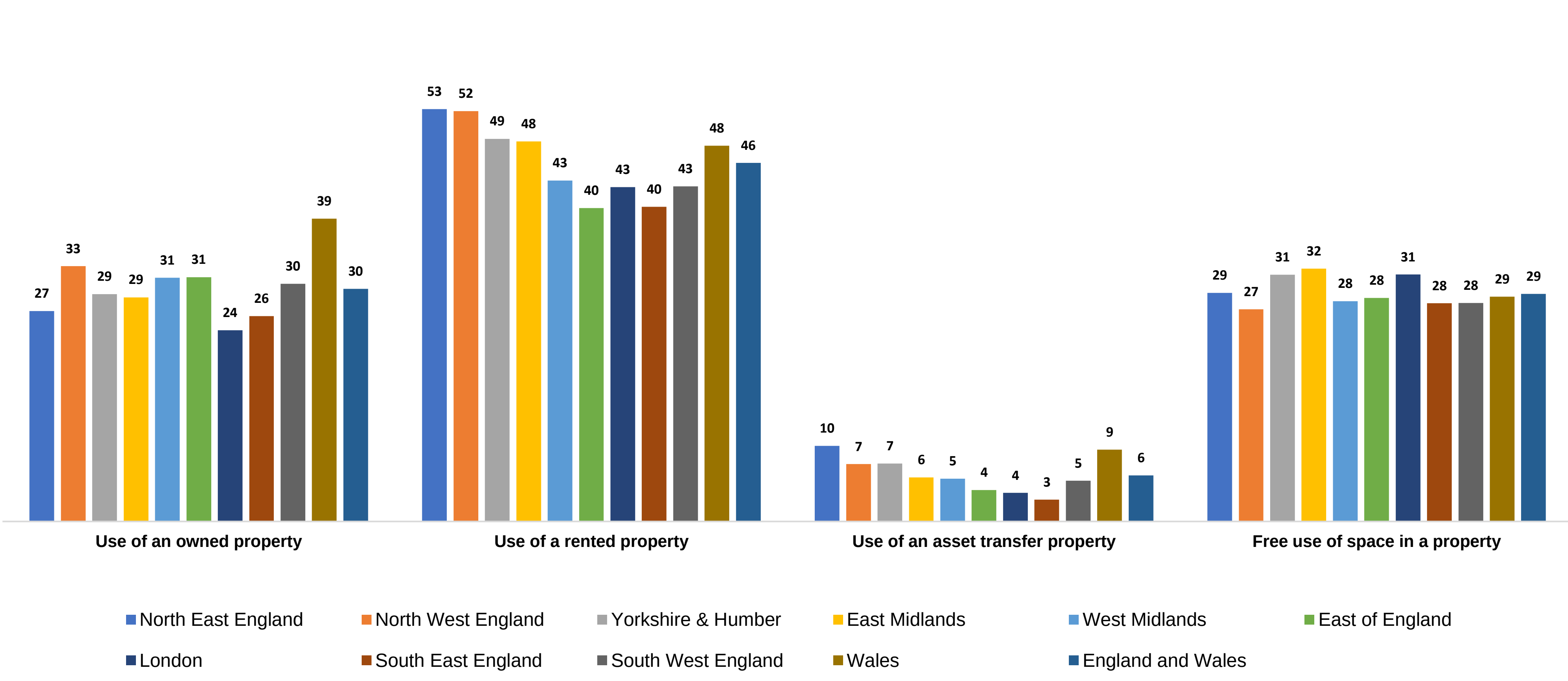


Regional variations are hard to interpret due to the complex internal configuration of area types. In Wales, property ownership is at the highest level (39%) while London is the lowest (24%). It seems likely that a sizeable proportion of property owners in Wales may have achieved this via community asset transfer of public buildings.

Rented space is more prevalent in the North of England, East Midlands of England and in Wales. In the South East of England, TSOs seem to be amongst the least likely to own, rent or have free use of property. In addition to higher property values, this may reflect the larger proportion of micro and small TSOs in the region which operate from residential addresses rather than requiring access to other space.

Access to the use of space at no cost by organisations is quite similar across all English regions and Wales (ranging from 27-32%). This demonstrates the prevalence and importance of ‘in-kind’ support for Third Sector organisations across England and Wales.

Figure 4.5 **Usage and ownership of property in English regions and Wales**
(England and Wales 2022, average n=5,222)



4.2 Financial reserves

Most organisations in the Third Sector hold reserves (83%). Around 45 per cent of TSOs have not drawn on their reserves in the last year. About 16 per cent of organisations have invested reserves in new activities, while about 32 per cent have used reserves for essential purposes such as rent or wages.

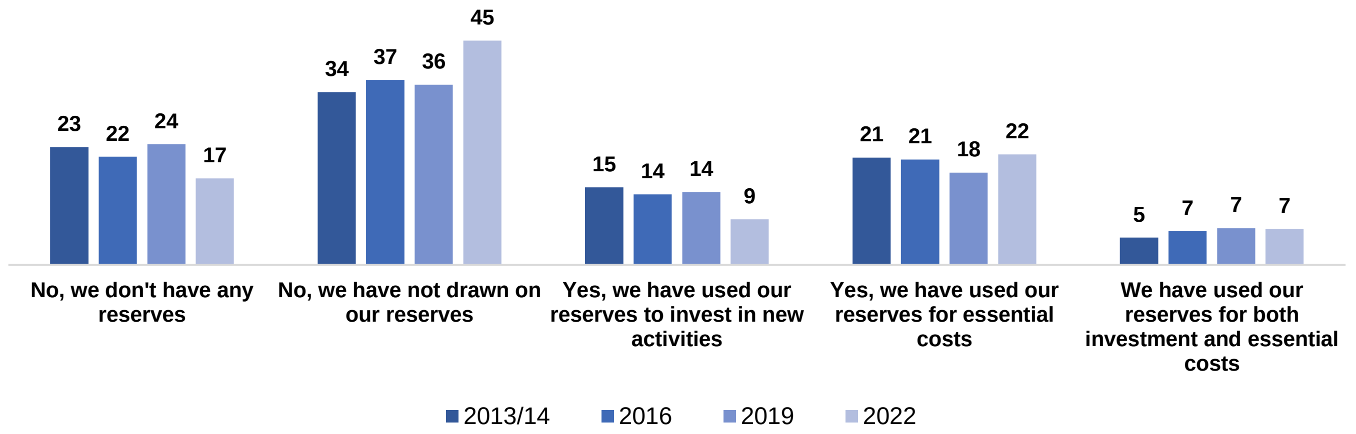
Holding reserves is much more common amongst larger TSOs: 99 per cent of the biggest organisations have reserves compared with around three quarters of micro TSOs. Organisations are fairly equally likely not to have drawn on reserves (between 43% - 49%). Using reserves for essential costs is fairly similar amongst micro and small TSOs (25-28%). Medium-sized organisations are most vulnerable in this respect (34%). Around 30 per cent of large and the biggest TSOs have used reserves for essential costs.

Table 4.2 **Ownership and use of reserves by size of organisation** (England and Wales, 2022)

	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	**All TSOs**
No, we don't have any reserves	25.8	18.7	11.6	4.6	1.4	16.4
No, we have not drawn on our reserves	43.2	44.5	45.7	48.7	49.5	45.2
Yes, we have used our reserves to invest in new activities	5.3	7.7	8.3	15.3	20.1	8.8
Yes, we have used our reserves for essential costs	20.5	22.3	27.3	23.5	16.3	22.8
We have used our reserves for both investment and essential costs	5.2	6.9	7.1	7.9	12.8	6.9
N=	1,795	1,633	1,482	694	368	5,972

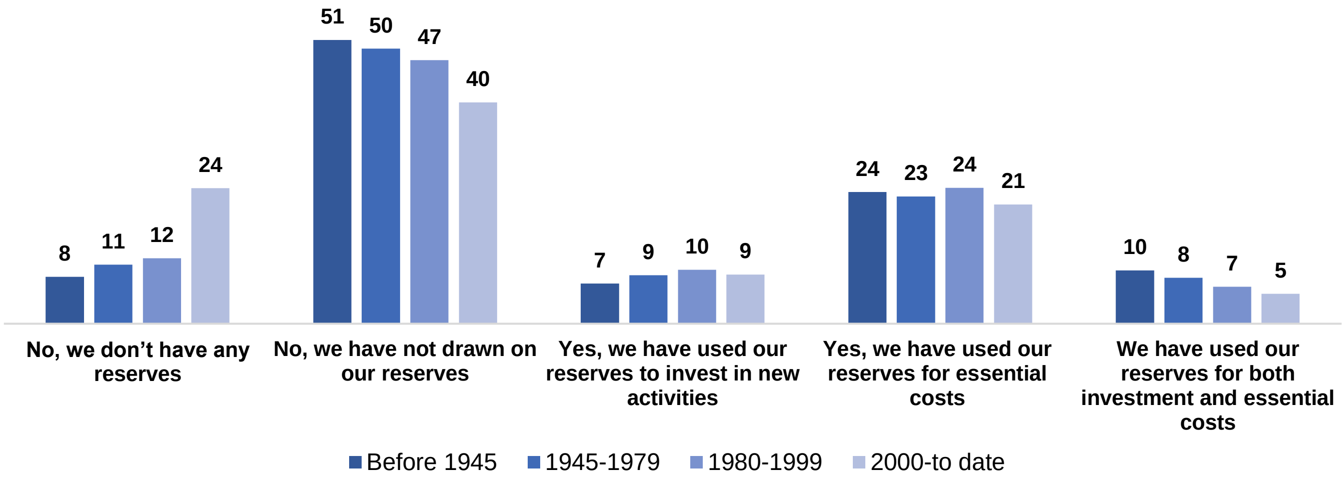
To put the analysis in context, Figure 4.6 shows how the financial situation of organisations has changed since 2013 (data refer only to the North of England for which time-series data are held). It is clear that in 2022 many fewer organisations had no reserves (17 per cent compared with 22-24% between 2013 and 2019). Many more organisations seem to have built reserves in 2022 (45%) but are not using them for developmental or essential purposes.

Figure 4.6 **Ownership and use of reserves 2013-2022**
(North of England, 2013/14 n=2162, 2016 n=3,318, 2019 n=3,122, 2022 n=1,978)



The longevity of organisations has some bearing upon the ownership and use of reserves. The longest-established organisations are the least likely to lack reserves (8%) and the most likely not to have drawn upon them (51%). The newest TSOs are three times more likely not to have reserves (24%). There is, however, slight variation in the extent to which organisations have used reserves either for investment purposes or to meet essential costs.

Figure 4.7 **Ownership and use of reserves by age of organisation**
(England and Wales 2022, 6,012)



The urban characteristics of the area where TSOs are based has negligible effect on levels of ownership or use of reserves (Figure 4.8). Area affluence (Figure 4.9) makes some difference. Organisations in the most affluent areas are less likely to have needed to draw on reserves (49%) compared with TSOs in the least-affluent areas (42%). TSOs in the most affluent areas are also least likely to have used reserves for essential costs (25% compared with 32% in the least-affluent areas).

Across English regions and Wales it is a mixed picture which will require more in-depth analysis to disentangle (Figure 4.10). TSOs in North East England, North West England, West Midlands of England, London and Wales seem to be the least likely to hold reserves. Fewer organisations in South East England, South West England, East of England and Yorkshire and Humber have drawn upon reserves. Organisations in the East Midlands of England are the most likely to have used reserves for essential costs followed by TSOs in London.

Figure 4.8 **Ownership and use of reserves by urban characteristics of areas where TSOs are located** (England and Wales 2022, n=5,984)

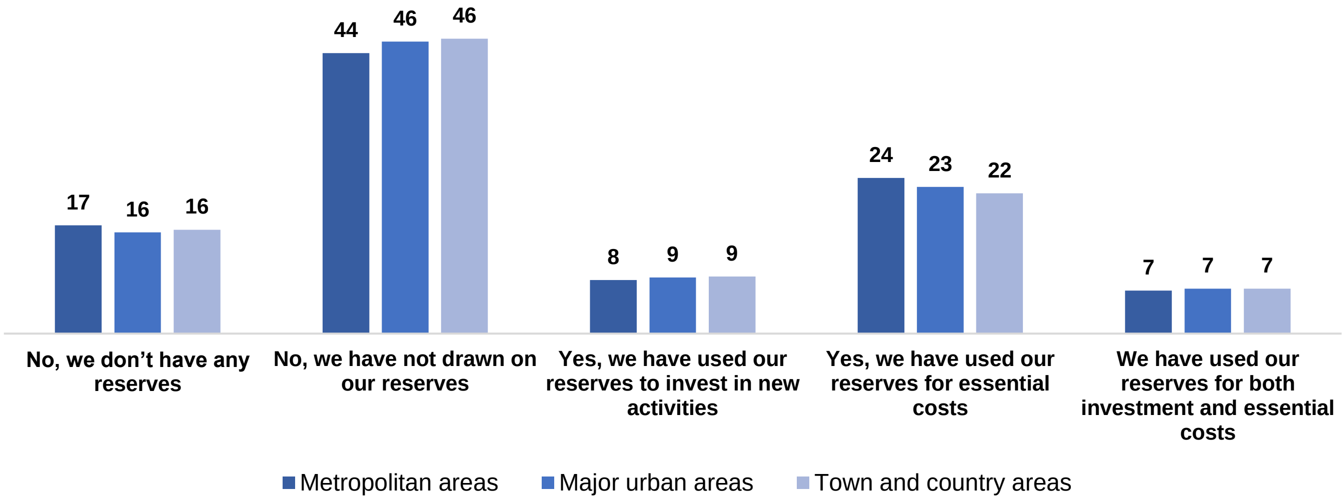


Figure 4.9 **Ownership and use of reserves by affluence of area where TSOs are located** (England and Wales 2022, n=5,890)

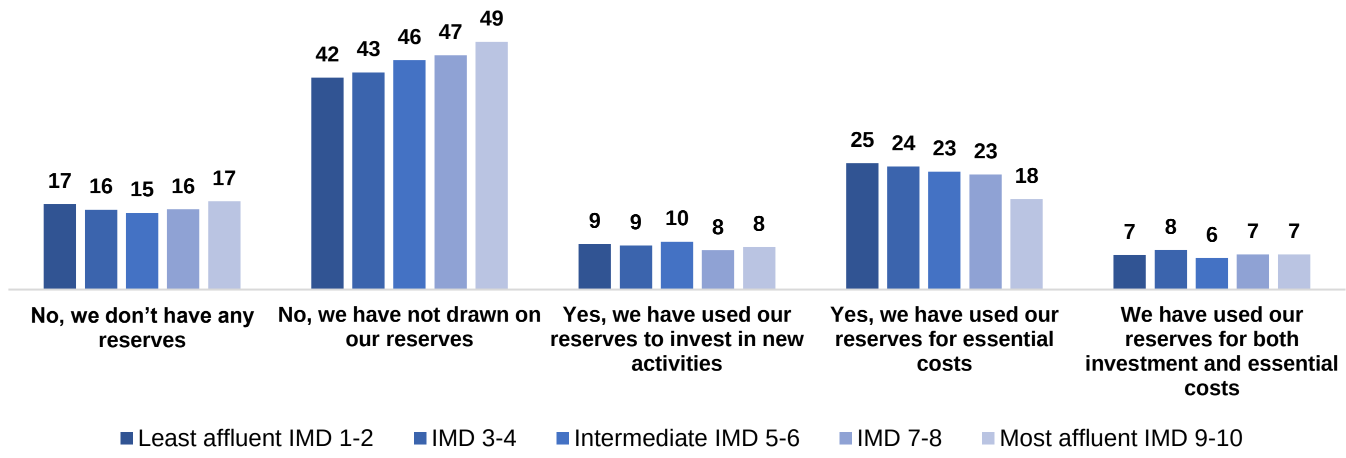
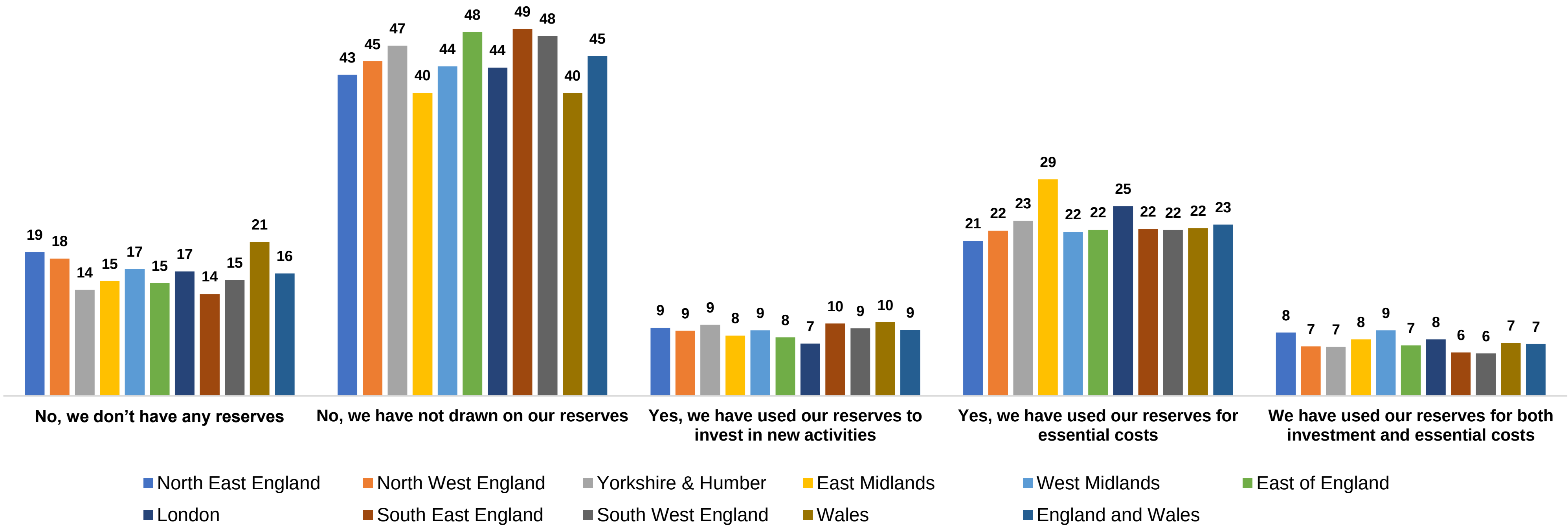


Figure 4.10 **Ownership and use of reserves by English regions and Wales**
(England and Wales 2022, n=6,007)



Section 5

Organisational wellbeing

5.1 Changing financial fortunes

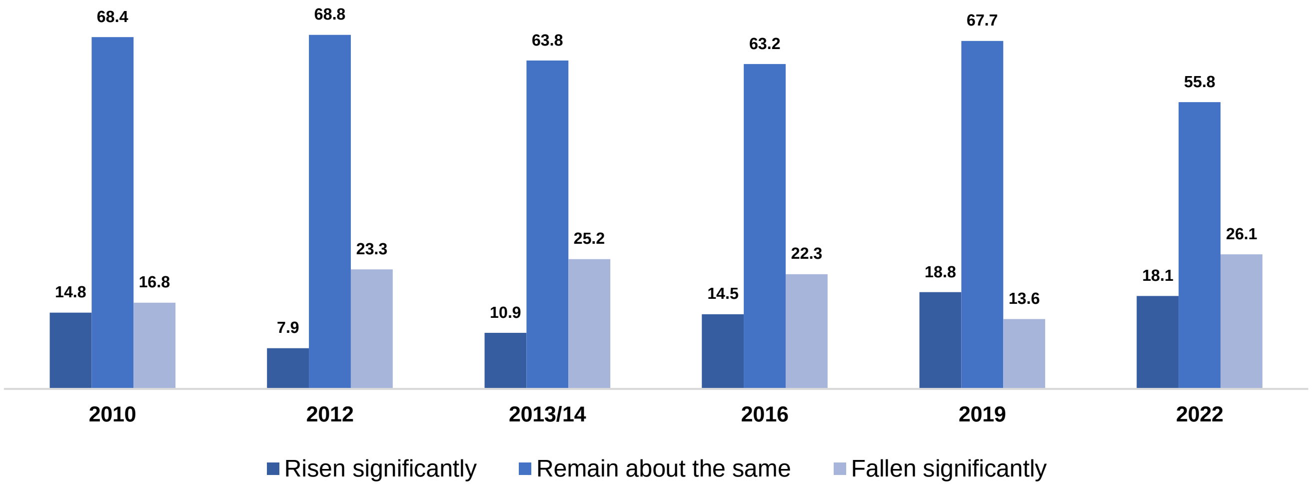
Third Sector Trends reports have consistently argued that sector wellbeing is not all about money. And indeed, that too great a focus on getting hold of money can sometimes be the cause of organisations' problems – not necessarily the solution.[24] With that caveat in mind, this section of the report looks at the changing financial fortunes of TSOs over the last two years. The aim is to find out which kinds of organisations seem to have been doing well and where they are likely to be located.

Figure 5.1 presents time-series data on the changing financial fortunes of TSOs since the study began in 2010. These data indicate that stability is the most common experience for TSOs over the years – but also shows that the balance between organisations with rising or falling income continually changes.

In the worst years of austerity, following the global economic crash in 2008, more organisations were experiencing significant income loss than those with rising income. This had reversed by 2019. But in 2022, the percentage of organisations with significantly falling income outnumber those with rising income by quite a large margin. Furthermore, income stability is at a much lower level than in all other years of the study.

What this tells us is that the Coronavirus pandemic may have had a profound effect on sector finances. But rather than jumping to conclusions that this means many organisations are in crisis – the detail beneath the headline data must be explored. Many organisations, especially smaller TSOs, may have had reduced income needs due to lower levels of activity or effective 'hibernation' during the pandemic. Growth in the percentage of organisations with reserves (see previous section) strongly suggests that this may be so.

Figure 5.1 **Reported levels of income stability or change 2010-2022**
(North of England only up to 2016, England and Wales from 2019)



[24] See the most recent report from a qualitative study of 50 organisations in North East England and Cumbria which has spanned nearly 15 years. Third Sector Trends (2022) *Going the Distance: how Third Sector organisations work through turbulent times*, Newcastle upon Tyne: Community Foundation Tyne & Wear and Northumberland. The report can be downloaded here: https://www.stchads.ac.uk/uncategorised/going-the-distance-how-third-sector-organisations-work-through-turbulent-times/

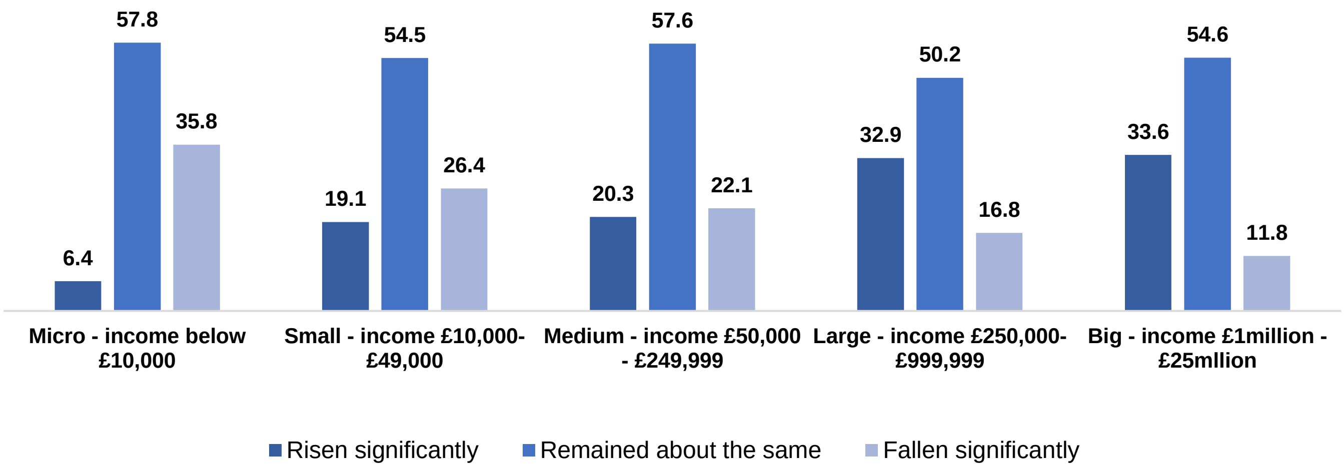
5.2 Organisational variations

When financial fortunes over the last two years are compared by organisational size, a completely different picture emerges. Larger organisations have been successful at raising their income levels during the pandemic. Over a third of large TSOs (with income between £250,000 and £1million) and the biggest TSOs (£1million-£25million) have increased income substantially while many fewer had falling income (17% and 12% respectively).

At the other end of the spectrum, 36 per cent of micro organisations have seen their income fall, but only 6 per cent have seen income rise. A similar pattern, though less pronounced, is shown for small and medium-sized TSOs. Substantial income decline does not necessarily mean that organisations are in financial trouble. Especially so in micro and small organisations which rely entirely upon voluntarily given time to do their work and are much less likely to have costs associated with employee wages[25] and property costs (see Section 4).

The situation may be different for medium-sized organisations. This is because they rely more heavily on paid employees and have to meet costs of renting and servicing properties they use. The indications are that about a fifth of these organisations have seen their income rise significantly while a similar proportion have seen income fall.

Figure 5.2 **Income change in the last two years by size of TSOs**
(England and Wales 2022, n=5,985)

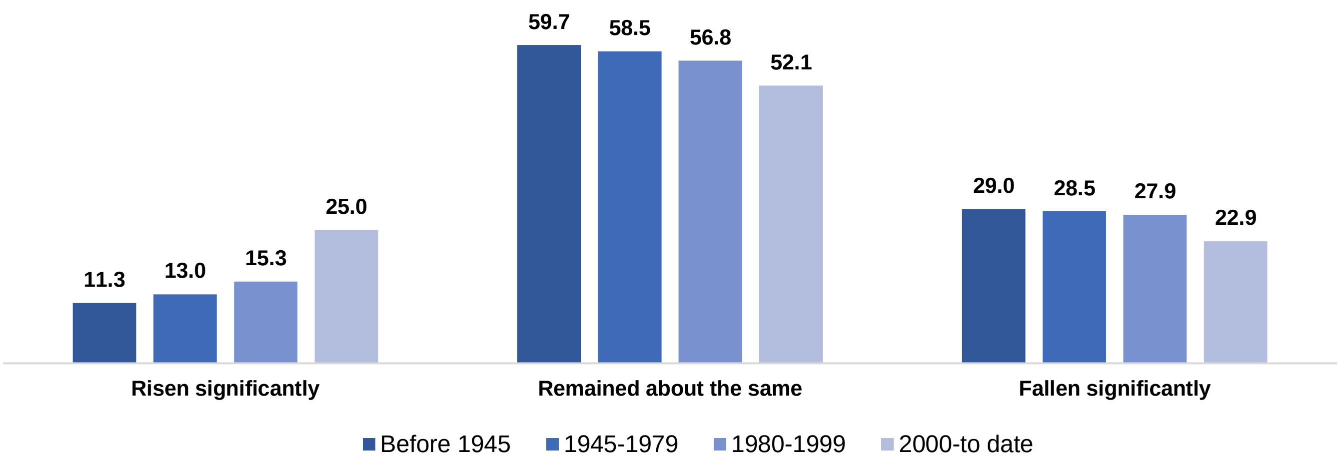


The age of organisations also has a bearing upon financial fortunes. The most recently-established organisations have been much more likely to increase income over the last two years (25%) than older organisations (ranging from 11-15%).

Quite a sizeable proportion of TSOs have seen their income decline (around 28-29% for organisations set up before 2000, and 23% of more recently-established organisations). Organisational longevity seems to be quite strongly associated with income stability – the oldest organisations are most likely to have stable income. This is not surprising because more older organisations own rather than rent property - this can produce an income stream by renting or hiring out space. Older organisations are also more likely to hold reserves (see Section 4).

[25] See the second report in the series: *Third Sector Trends in England and Wales 2022: employees, volunteers, diversity and investment in people*, Section 2 and 3. https://www.stchads.ac.uk/wp-content/uploads/2022/12/Third-Sector-Trends-in-England-and-Wales-2022-employees-volunteers-diversity-and-investment-in-people-December-2022.pdf.https://www.communityfoundation.org.uk/third-sector-trends/

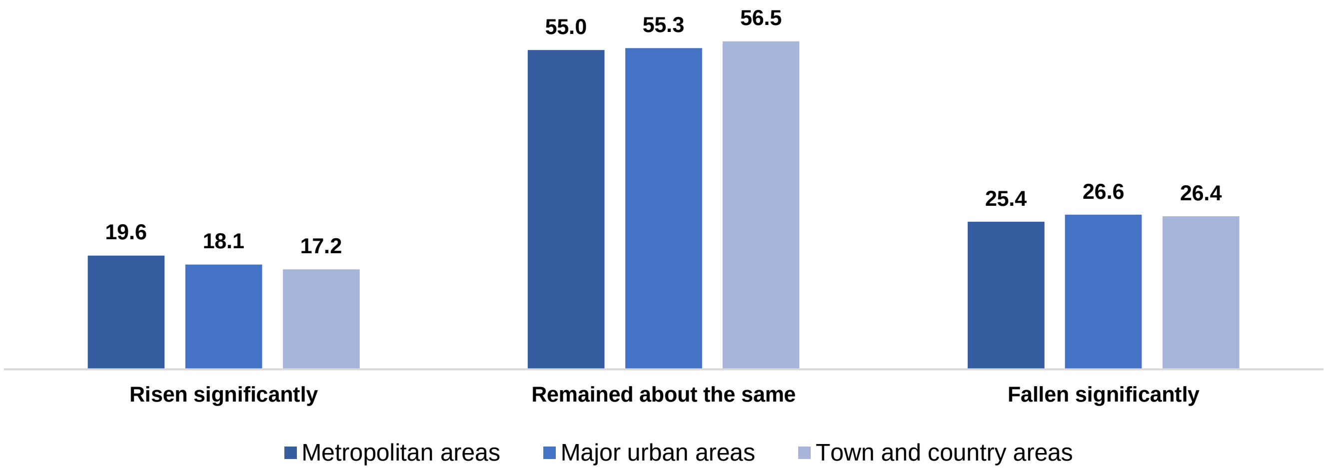
Figure 5.3 **Income change in the last two years by age of TSOs**
(England and Wales 2022, n=6,021)



5.3 Area variations

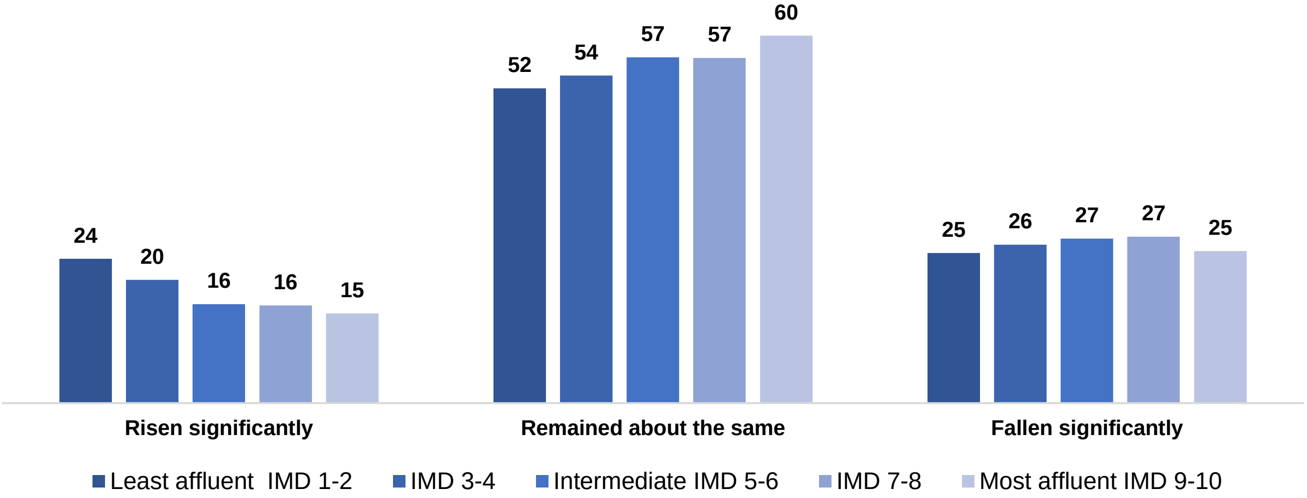
The financial fortunes of organisations are barely affected by the type of urban area within which they are located (Figure 5.4). TSOs in metropolitan areas are only slightly more likely to have increased income, while income stability is a little more common in town and country areas. Income decline amongst TSOs is at about the same level in all types of urban area.

Figure 5.4 **Income change in the last two years by urban location**
(England and Wales 2022, n=5,995)



Area affluence has had a slightly more pronounced effect on TSOs' financial situation in the last two years. Organisations in the least-affluent areas are more likely to have increased income (24%) than TSOs in the richest areas (15%). But income stability is higher in the most affluent areas (60%) than in the poorest (52%). Income decline does not seem to be affected by area affluence – in all areas about 25-27% of TSOs experience substantial income decline).

Figure 5.5 **Income change in the last two years by area affluence**
(England and Wales 2022, n= 5,900)



Regional variations in income change are shown in Table 5.2. The above findings indicate that micro and smaller organisations were much more likely to experience income change. Regional variations can be accounted for because micro and small organisations constitute a larger majority of the sector in some regions.

For example, in East of England where there is a substantial proportion of micro and smaller TSOs, the percentage of organisations with falling income (27%) is much higher than those with rising income (14%). In regions with more larger organisations, such as North West England, the balance between TSOs with rising and falling income is less pronounced (22% and 26% respectively).

To repeat an earlier point, falling income does not necessarily indicate that the local sector is in a crisis. It is more likely, in the conditions many smaller organisations faced during the Coronavirus pandemic, that this is due to reduced levels of activity or 'hibernation' during lockdowns and at other times due to difficulties of accessing volunteers or service users. The next sub-section provides further indication that micro and smaller organisations may have been less active during the pandemic.

Table 5.2 **Income change in the last two years by English regions and Wales 2022**

	Income risen significantly	Income remained about the same	Income fallen significantly	Percentage difference *(percent rising income minus percentage falling income)*	N-
North East England	19.6	55.9	24.5	-5.0	603
North West England	22.4	51.4	26.2	-3.8	729
Yorkshire & Humber	20.9	57.4	21.7	-0.8	645
East Midlands of England	18.5	52.5	29.0	-10.5	400
West Midlands of England	21.3	54.2	24.5	-3.2	507
East of England	14.1	58.7	27.2	-13.2	569
London	16.5	56.3	27.2	-10.7	533
South East England	15.7	59.1	25.3	-9.6	811
South West England	15.9	57.5	26.6	-10.7	778
Wales	16.3	51.2	32.4	-16.1	441
England and Wales	18.1	55.7	26.2	-8.1	6,016

5.4 Using digital technology to secure and manage money

Third Sector Trends collects data on the use of digital technology. Several aspects of digital applications were explored, including keeping an updated website, use of social media, digital service delivery, campaigning and so on. These aspects of non-finance related usages will be explored in the fourth report from Third Sector Trends on sector relationships. This section uses available data on the use of digital applications for financial purposes.

Questions on the use of digital applications were introduced to the Third Sector Trends survey in 2019. The findings were analysed but not reported because it was not possible to interpret convincingly without comparative statistics. Comparisons can now be made as these questions were repeated in 2022.

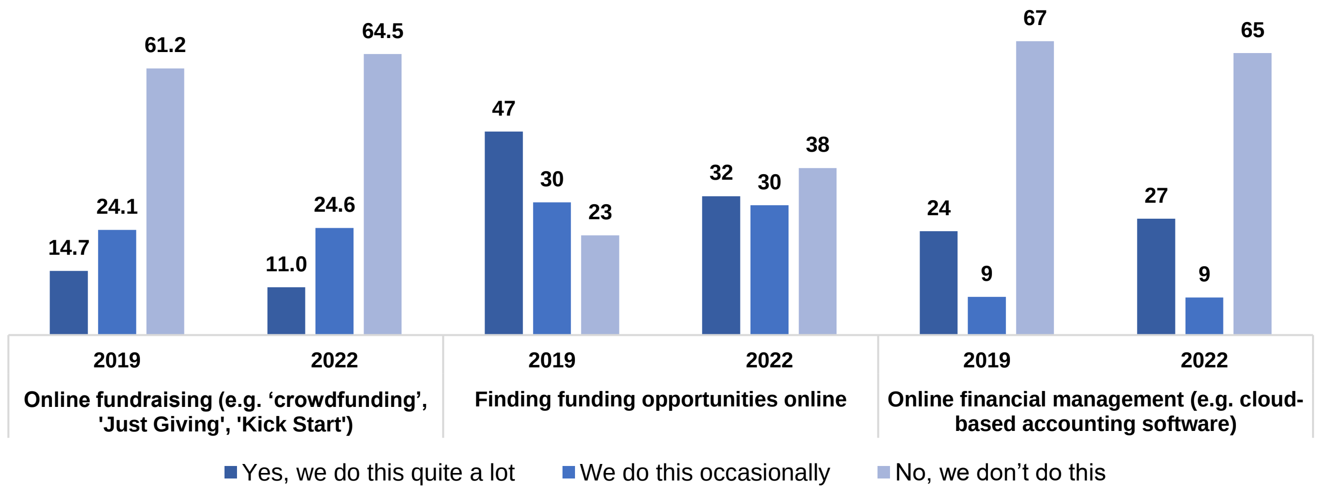
Figure 5.6 compares usage of three digital applications: 'online fundraising', 'finding funding opportunities online' and 'use of online financial management tools'. These data indicate that use of online fundraising applications (through the use of applications such as 'Just Giving' or 'Kick Start') has remained about the same between 2019 and 2022. Although regular usage seems to have declined a little (from 15% to 11% of TSOs).

Regular use of digital applications (such as a Google search engine or dedicated web-based funding search platforms) to find funding online has decreased from 47 per cent to just 32 per cent. This decline in usage can be interpreted in different, though related ways.

It could be that organisations' coffers were sufficiently stocked not to need to raise funds (as indicated in Section 3.1, the evidence suggests that access to grant funding was easier during the pandemic, and Section 4.2 shows that more TSOs held reserves). Or it may suggest that organisations were less active or hibernating - meaning that the imperative to raise funds was lower.

The use of digital tools to manage financial accounts, by contrast, has risen slightly (from 24% 2019 to 27% in 2022).

Figure 5.6 **TSOs use of digital technology for financial purposes**
(England and Wales, 2019 n=3,968, 2022 n=5,941)



These headline findings conceal underlying variations by types of organisations. Figure 5.7 shows that the use of online fundraising tools has declined more amongst the biggest organisations (from 35% to 27%) than the smallest (from 7% to 5%).

Figure 5.8 shows levels of usage of digital applications to find funding. Amongst TSOs of all sizes, there has been a substantial fall in the usage of online searching for funds. This may reflect either lower levels of demand for funding (due to reduced activity or hibernation) or more easily accessible funding due to change practices by, for example, grant-making trusts and foundations (see section 3.1).

The use of digital tools to manage finances has risen amongst medium, large and especially the biggest TSOs (see Figure 5.9). Usage of such tools in micro and small organisations has remained quite low, as is to be expected given comparative lack of complexity of accounts and financial operations.

Figure 5.7 **TSOs' use of online fundraising 'quite a lot' (e.g. ‘crowdfunding’, 'Just Giving', 'Kick Start'**
(England and Wales, 2019 n=3,968, 2022 n=5,899)

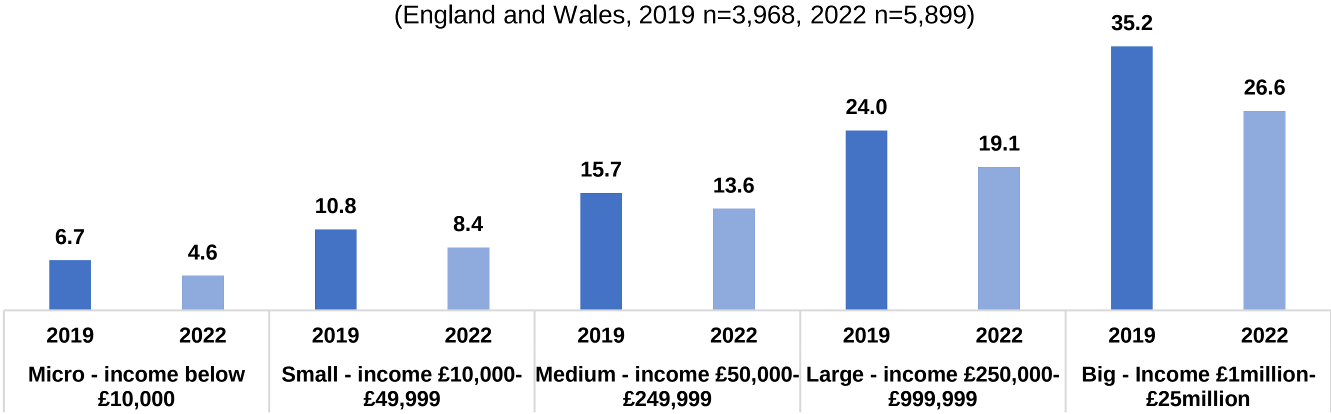


Figure 5.8 **TSOs finding funding opportunities online 'quite a lot'**
(England and Wales, 2019 n=4,009, 2022 n=5,915)

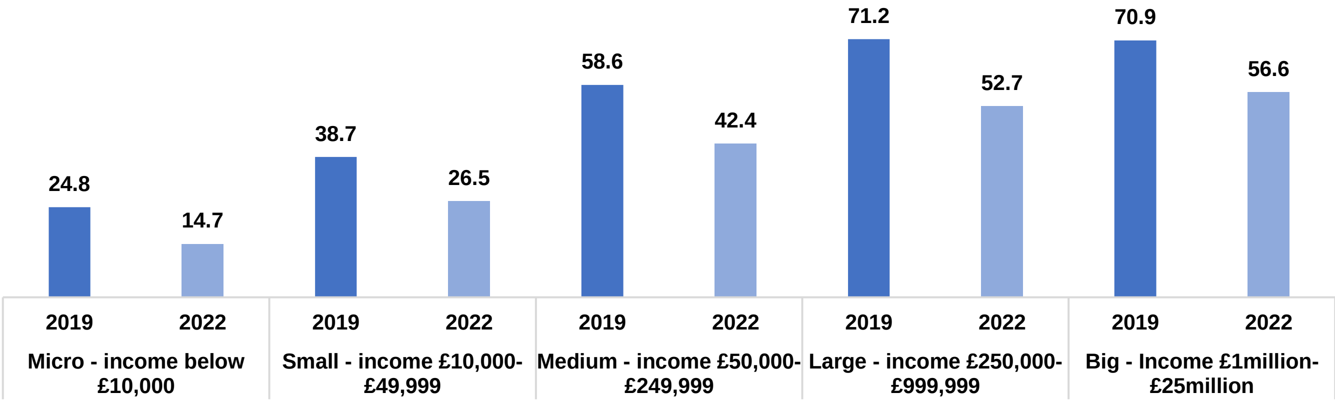
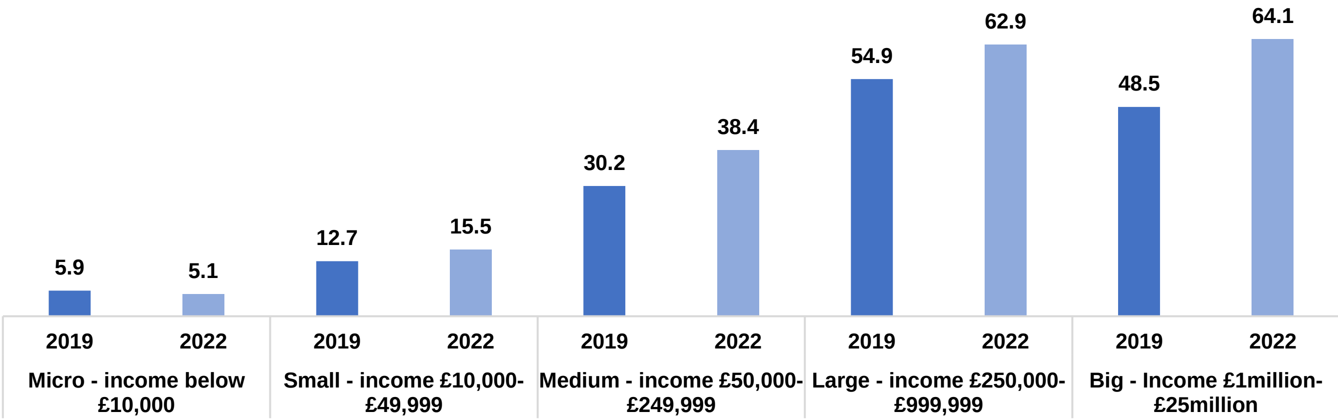


Figure 5.9 **TSOs' use of online financial management tools 'quite a lot' (e.g. cloud-based accounting software)**
(England and Wales, 2019 n=3,967, 2022 n=5,886)



Regional variations in the use of digital technology for financial purposes are shown in Figure 5.10. Underlying variations by organisational size are shown in Figures 5.11(a) to 5.11(c)).

Figure 5.10 **TSOs' use of finance related digital applications 'quite a lot' by English regions and Wales**
(England and Wales 2022, n=5,954)

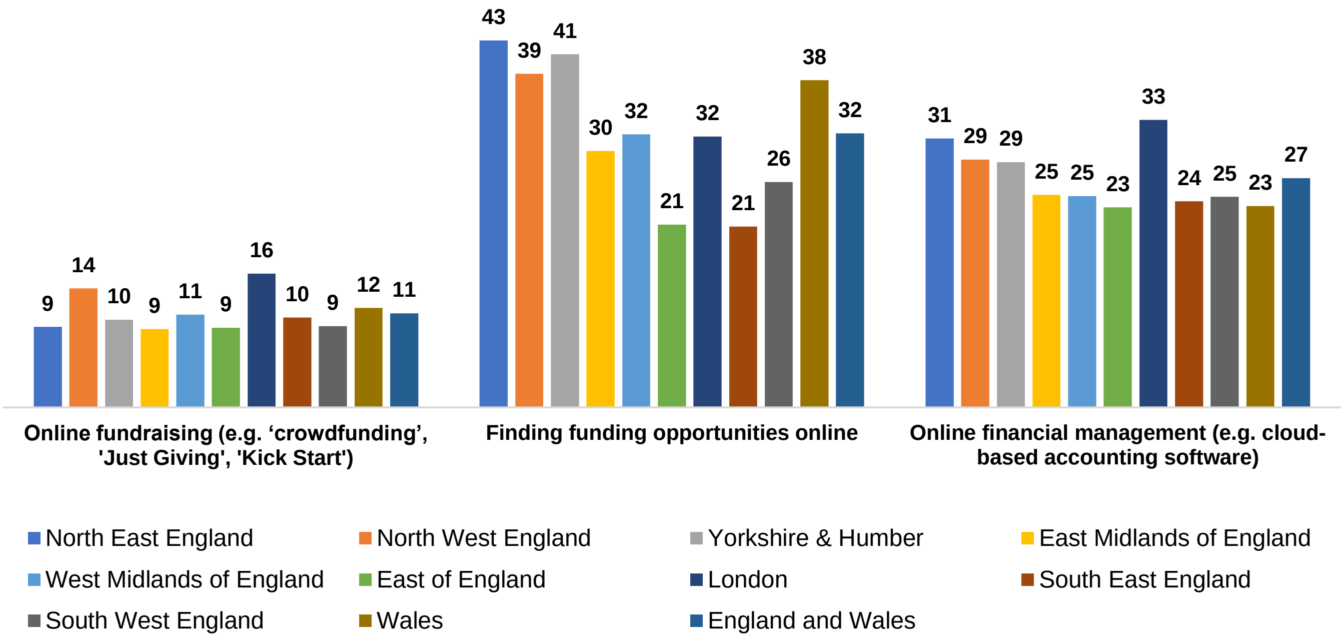


Figure 5.11(a) **TSOs' use of online fundraising tools 'quite a lot' by English regions and Wales**
(England and Wales, n=5,894)

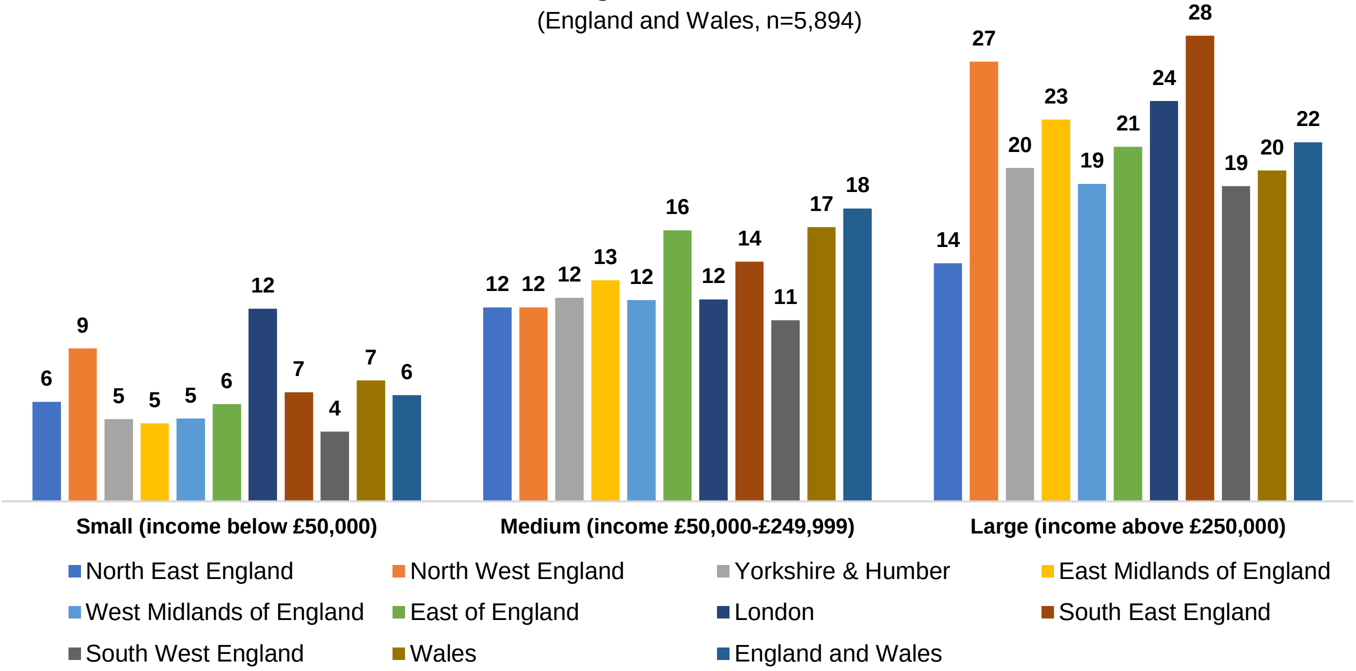


Figure 5.11(b) **TSOs' use of online applications to find funding opportunities 'quite a lot' by Englsh regions and Wales**
(England and Wales, n=5,910)

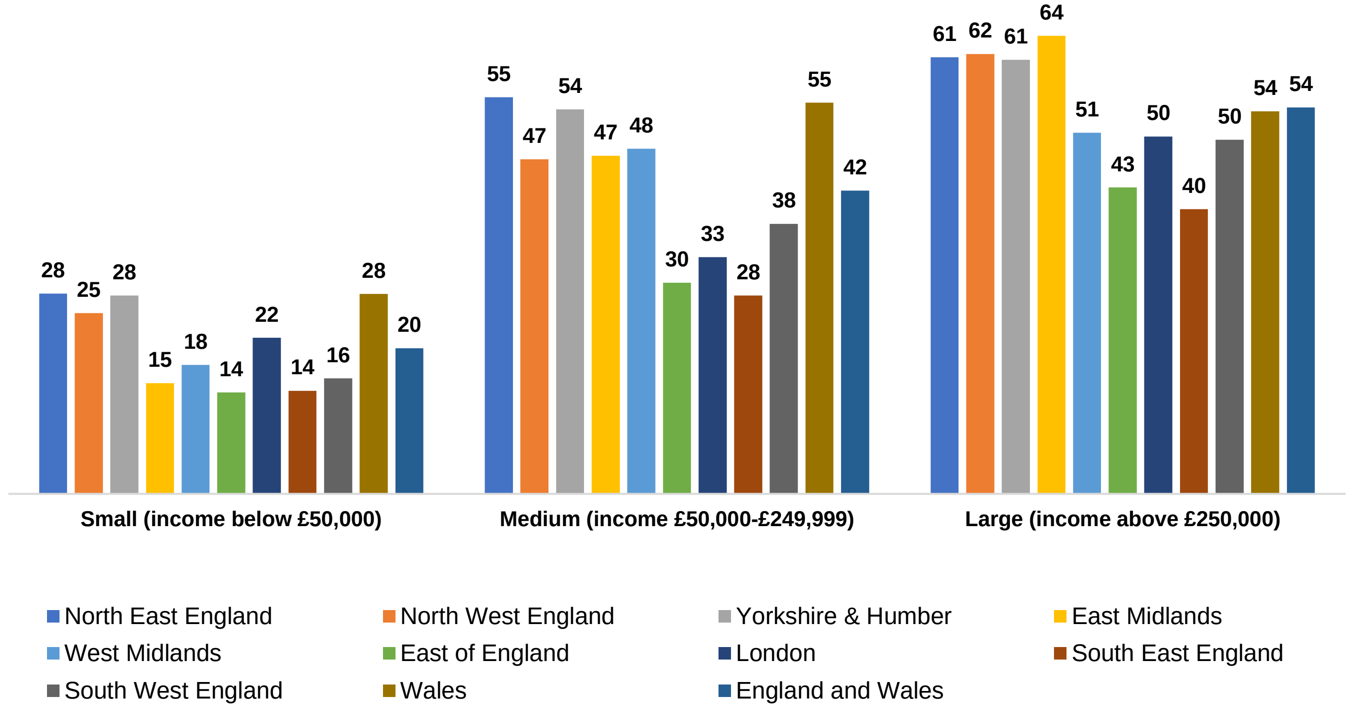
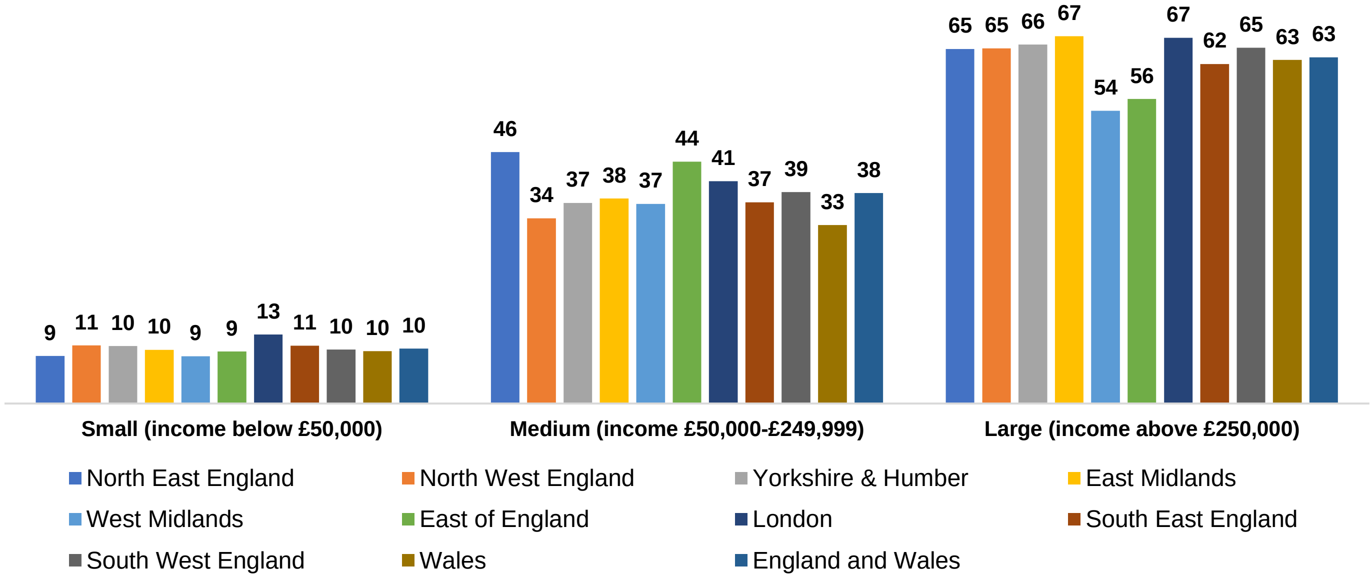


Figure 5.11(c) **TSOs' use of financial management tools 'quite a lot' by English regions and Wales**
(England and Wales, n=5,881)



Section 6

Summary, implications and next steps

There's rarely a 'flat period' for the Third Sector, when nothing much happens and organisations can plan with a reasonable degree of certainty.

As the world began to emerge from the Coronavirus pandemic, war in Ukraine precipitated an energy crisis. In the UK, political events produced market turmoil which contributed to rising inflation and economic uncertainty in the UK. And so, as was the case in all five previous rounds of this study, serious financial challenges are currently facing the Third Sector.

…it may be expected that most leaders of Third Sector organis-ations would be feeling pretty gloomy about their financial prospects over the next two years – but actually, they're not.

The cost-of-living crisis is driving up the expenses of many Third Sector organisations as energy prices, wages and the cost of consumables rise.[26] Those organisations which employ people are also struggling to retain and recruit staff because the salaries they can offer are uncompetitive.[27]

The Third Sector's financial outlook looks uncertain: many grant makers are rethinking their strategies following the pandemic, government has announced another phase of fiscal constraint and market conditions remain difficult for organisations which earn income from trading.

In these circumstances, it may be expected that most leaders of Third Sector organisations would be feeling pretty gloomy about their financial prospects over the next two years – but actually, they're not.

The role of grant makers after the pandemic

The disruption caused by Covid-19 affected the activities of many organisations profoundly – but not always in the same way. Many organisations were much less active and some went into hibernation for a period of time. Others reacted fast to the challenges thrown up by the pandemic and radically altered how they worked to meet the needs of their beneficiaries.

Consequently, many grant-making trusts and foundations changed the way they worked to facilitate a dynamic response to the pandemic. For example, much more unrestricted funding was given to organisations than is usually the case (in 2019 only 46% of TSOs stated that they received unrestricted or 'core funding' compared with 60% in 2022).

Similarly, grant makers were less likely to demand that TSOs produced 'innovative' practice (falling from 74% in 2019 to 50% in 2022) – possibly because it was assumed that TSOs were doing this already to tackle the crisis. Pressure was taken off organisations to show the value of their work through impact assessment (falling from 55% in 2019 to 32% in 2022). And, remarkably, 40 per cent of organisations reported that grant-makers approached them to see if they needed their support.

---

[26] Downes, S. (2023) Charities face big reduction in energy bills support, government announces, Third Sector (9th January) Charities face big reduction in energy bills support, government announces | Third Sector. In response to this decision, several national bodies including Locality and NAVCA have voiced serious concerns about declining support which may reduce opening hours or lead to some closures. Some organisations, such as museums and libraries may be exempt under the government's list of 'Energy and trade intensive industries' see Sam Wait (2023) 'Local charity groups warn of closures after post-March reduction in energy support', Civil Society Media (11th January) https://www.civilsociety.co.uk/news/local-charity-groups-warn-of-closures-after-post-march-reduction-in-energy-support.html. See also: Jemal, J., Larkham, J., King, D., Mainard-Sardon, J., Dang Nguyen, H., Rossiter, W., Sykes, N. and Wakefield, J. (2022) *Breaching the dam: an analysis of the VCSE Sector Barometer,* in partnership with Nottingham Trent University's National VCSE Data and Insights Observatory, London: Pro Bono Economics. https://www.probonoeconomics.com/breaching-the-dam-the-state-of-the-charity-sector.

[27] See, *Third Sector Trends in England and Wales: employees, volunteers, diversity and investment in people*, *ibid.* Section 2.3, https://www.communityfoundation.org.uk/third-sector-trends/

The question is, will those grant makers which became more relaxed about how they dispensed their money during the pandemic remain so?

The benefits of these changes are plain to see. 83 per cent of organisations have reserves now compared with 76% in 2019. In 2022, 45 per cent of organisations have not drawn on reserves compared with 36% in 2019. But this does not mean that leaders of TSOs feel financially secure – not least because the percentage of organisations receiving long-term investment from grant makers has not increased (it has remained unchanged since 2019 at around 31-32%).

The question is, will those grant makers which became more relaxed about how they dispensed their money during the pandemic remain so? Some grant funders have, of course, always operated in a responsive way to the needs of charities and social enterprises and trusted them to get things done.[28]

Others have been keener to shape and direct the way their money impacts on local communities and require evidence to show change is achieved. So it is not surprising that even during the pandemic, many trusts and foundations were working on new strategies for grant funding – suggesting that they intended to limit the free flow of unrestricted investment and return to conditional funding.

Earning income by trading

The Third Sector's own trading activity has been affected by the pandemic too. Undoubtedly, many organisations stopped or reduced self-generated trading activity during the worst of the lockdowns. Like private businesses, they were not allowed to open for lengthy periods. And, initially at least, when they reopened fewer customers came.

While Covid-19 may have accelerated change, the pandemic's effect should not be over-stated or its impact exaggerated. The proportion of organisations earning income has not increased over the years. In fact it has fallen slightly, but steadily, from 68 per cent in 2013 to 66 per cent in 2022.

Fewer organisations rely heavily on trading now. In 2019, 20% of TSOs earned more than 80% of their income by trading – this fell to 14% in 2022. And more recently established organisations are less interested in trading than their older counterparts.

Public service delivery contracts

Like grant-making trusts and foundations, many local authorities provided funds to charities and social enterprises during the pandemic to help them out. But many councils also offer small grants to local community organisations which are distributed by locally elected Members or by area panels with responsibilities to help tackle local priorities.

Most public sector money is tied up in contracts to deliver services. This has never been an attractive option for the majority of TSOs which do not have the capacity or capability to deliver such services. Even amongst bigger organisations (with income over £!million) about a third have consistently refused to tender for public service contracts because this does not align with their charitable objectives.

Middling-sized organisations (with income from about £250,000 to £1million) have become less interested in delivering public sector service delivery contracts (falling from 52% in 2013 to 36% in 2022). As the value of contracts has progressively been squeezed due to constraints in local public sector finances over the years, it is clear that many TSOs feel that such work is simply not worth their while.

[28] For a detailed discussion of the varying practices of grant-making trusts and foundations, see Chapman, T. (2020) *The strength of weak ties: how charitable trusts and foundations collectively contribute to civil society in North East England*, Newcastle upon Tyne: Community Foundation Tyne & Wear and Northumberland. https://www.communityfoundation.org.uk/wp-content/uploads/2022/06/CFTWN-Strength-of-Weak-Ties-Full-Report-February-2020.pdf

Participation in contracts amongst the biggest TSOs has held up well over the last two years – remaining at about 60% in major urban areas and around 50% in other areas. Changes are afoot, however, which may limit the capacity of the biggest TSOs to tender for contracts unless their value is raised sufficiently to make business sense.

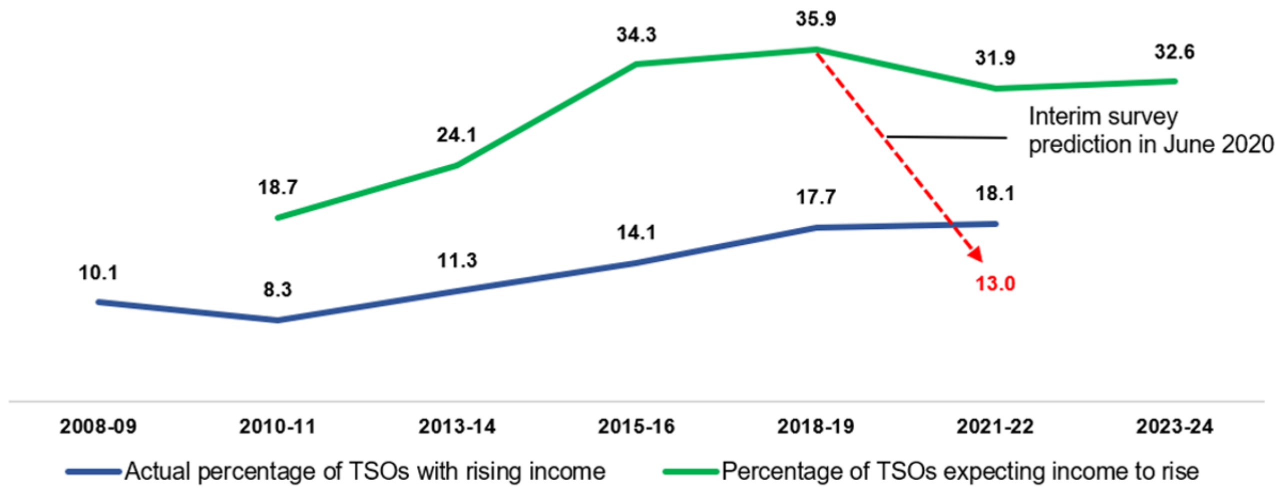
Organisations that deliver contracts are the most likely to be struggling to retain staff and recruit others. If wages are poor, because contract values are too low, then staff will not be available to deliver them. And to compound this problem, those TSOs which previously chose to subsidise contracts using trading income may struggle to do this in challenging economic circumstances.

Optimism about future finances

In spite of all these difficulties, optimism about finances has remained remarkably high: 33 per cent of organisations expect that their income will rise over the next two years and 46 per cent think it will stay about the same. Only 21 per cent of TSOs think income will fall (and fewer than 5% feel that income will fall substantially).

Previous rounds of Third Sector Trends surveys show that organisations of all sizes turn out to be somewhat 'over optimistic' in their projections about future finances (see Figure 6.1). This is not a bad thing because optimism drives sector enthusiasm and commitment. But when hopes are dashed, it can make people in the sector feel disappointed.

Figure 6.1 **Tracking expectations and reality on TSOs' rising income**



Economic conditions are precarious. But this is neither a 'perfect storm' nor an 'existential crisis'. The Third sector is more robust than many commentators think.

Economic conditions are precarious. But this is neither a 'perfect storm' nor an 'existential crisis'. The Third sector is more robust than many commentators think.[29] As shown in all previous rounds of this study - there tends to be a mix of winners and losers as social market conditions change. It is disheartening for those organisations which are struggling while others' finances remain stable or are boosted – but the likelihood is that most of these less-fortunate organisations will find ways to adapt until things improve rather than fold.

[29] For example, recent research from the Charity Commission demonstrates that registrations have and de-registrations have remained broadly in line for several years. irrespective of the many problems that have beset organisations. The recent increase in de-registrations implied in the title of the news story is related to a merger of 1,279 Jehovah's Witness congregations Number of new charities drops to 33-year low as regulator 'strengthens' approach (civilsociety.co.uk) NCVO Civil Society Almanac shows, similarly, that sector growth has been steady but relatively modest in the last 20 years from 146,429 to 165,758. https://www.ncvo.org.uk/news-and-insights/news-index/uk-civil-society-almanac-2022/profile/#/

When thinking about sustainability, it should be remembered that Third Sector organisations tend to be financially prudent.[30] Most organisations hold substantive reserves (the evidence shows they are stronger now than in 2019 and that they are 'holding on tight' to them rather than investing in new things). And unlike private businesses, few organisations borrow money which reduces the risk of foreclosure.

Crucially, organisations have learned over the years how to flex their operations to manage upturns and downturns in their finances because they are so accustomed to high levels of turbulence in their finances.[31] Inevitably, some organisations will have to make redundancies and reduce the level of services they offer.

So government, local public sector organisations, grant-making trusts and foundations and national and local Third Sector infrastructure agencies need to keep a close eye, as they generally do, on which kinds of organisations may be most at risk. Otherwise, calls for blanket support for all organisations may water down or misdirect the value of such investment from where need is the greatest.

Next steps

Relationships with the public and private sectors

The Third Sector often prides itself on its ability to engage in partnership working with like-minded organisation. This report will look at the extent of and limits to informal and formal collaboration within the Third Sector and with the public and private sector. Themes for analysis will include:

- The extent to which sector relationships have changed following the Coronavirus pandemic.
- Changing relationships with private business will be explored in the context of a general squeeze on organisational finances due to current economic conditions.
- The strength of relationships with the public sector will be examined – together with analysis of organisational interest in public sector service contracts.
- Grant funding from trusts and foundations is a core element of sector finance. The analysis will explore how this has changed since the Coronavirus pandemic.
- An examination of how Third Sector organisations go about influencing local social and public policy.

The impact of the sector in the context of place

The Third Sector is not distributed evenly across England and Wales. This may mean that some areas are better served than others. As a large-scale national study, Third Sector Trends can explore the energy, investment and impact of the local sector on places with distinctive characteristics. Themes for analysis will include:

- The development of a set of categories of 'types of places' to explore how sector energy is employed and the impact that it achieves.
- Assess whether the balance of sector activity varies depending upon the extent of critical and pernicious social needs at the local level.
- How the sector invests in the enhancement of community life through investment in social interaction and fostering pride and confidence in localities.
- Examine whether the energy of the Third Sector can be harnessed and directed by public sector bodies to achieve policy objectives.

---

[30] The NCVO UK Civil Society Almanac demonstrates that sector expenditure has never exceeded spending over the last two decades. https://www.ncvo.org.uk/news-and-insights/news-index/uk-civil-society-almanac-2022/financials/#/

[31] Third Sector Trends' fifteen year study of the trials and tribulations of 50 organisations in North East England and Cumbria shows how organisations manage challenges. Chapman, T. (2022) *Going the distance: how Third Sector organisations work through turbulent times*, Newcastle upon Tyne: Community Foundation Tyne & Wear and Northumberland. https://www.communityfoundation.org.uk/third-sector-trends/

Appendix

Additional data tables

Table A.1 Size of organisations by urban form 2022

Registers data	**Micro** income under £10,000	**Small** income £10,000-£49,999	**Medium** income £50,000-£249,999	**Large** income £250,000-£999,999	**Big** Income £1million-£25million	**N=**
Metropolitan	27.1	25.7	26.2	13.0	8.1	45,082
Major urban	31.2	29.6	24.5	9.4	5.4	33,585
Town and country	43.0	29.9	18.7	5.5	2.8	55,795
England and Wales	34.7	28.4	22.7	9.0	5.2	134,833
Survey data						
Metropolitan	24.4	22.8	27.9	15.7	9.2	1,747
Major urban	26.1	27.7	25.5	13.5	7.2	1,505
Town and country	36.1	30.1	22.2	7.9	3.8	2,735
England and Wales	30.1	27.4	24.7	11.6	6.2	5,987

Table A.2 Size of organisations by area affluence 2022

Registers data	**Micro** income under £10,000	**Small** income £10,000-£49,999	**Medium** income £50,000-£249,999	**Large** income £250,000-£999,999	**Big** Income £1million-£25million	**N=**
Least affluent IMD 1-2	25.8	24.5	28.4	14.4	6.9	18,368
IMD 3-4	30.9	25.0	24.9	12.1	7.1	24,188
Intermediate IMD 5-6	38.0	27.5	20.9	8.3	5.4	30,344
IMD 7-8	38.2	29.6	20.3	7.3	4.6	31,748
Most affluent IMD 9-10	36.2	33.3	21.8	5.4	3.3	29,785
England and Wales	34.7	28.4	22.7	9.0	5.2	134,787
Survey data						
Least affluent IMD 1-2	18.5	19.9	31.4	20.4	9.8	1,161
IMD 3-4	27.1	23.7	27.4	13.2	8.6	1,110
Intermediate IMD 5-6	30.7	29.9	23.4	10.9	5.1	1,279
IMD 7-8	34.8	32.7	20.6	7.6	4.4	1,284
Most affluent IMD 9-10	38.6	30.9	21.9	5.7	2.9	1,058
England and Wales	29.9	27.5	24.8	11.5	6.1	5,892

Table A.3 Size of organisations by English regions and Wales 2022

Registers data	**Micro** income under £10,000	**Small** income £10,000-£49,999	**Medium** income £50,000-£249,999	**Large** income £250,000-£999,999	**Big** Income £1million-£25million	**N=**
North East England	34.1	27.7	23.1	10.2	5.0	4,088
North West England	35.1	27.9	23.6	8.9	4.6	12,781
Yorkshire & Humber	35.8	28.5	23.2	8.4	4.1	9,678
East Midlands	41.9	28.4	19.6	6.7	3.4	9,899
West Midlands	37.3	28.7	21.5	8.1	4.4	11,002
East of England	39.6	28.8	21.4	6.7	3.6	15,657
London	25.3	24.1	25.9	14.7	10.0	24,903
South East England	32.2	31.7	23.4	7.8	4.8	23,736
South West England	38.6	29.9	21.1	6.8	3.7	16,360
Wales	41.2	29.6	18.4	7.1	3.7	6,357
England and Wales	34.7	28.4	22.7	9.0	5.2	134,833
Survey data						
North East England	27.7	22.8	27.6	15.0	6.9	606
North West England	27.1	24.8	26.0	12.4	9.6	726
Yorkshire & Humber	29.3	25.1	24.7	13.3	7.6	645
East Midlands	31.8	33.3	18.5	11.3	5.0	399
West Midlands	28.6	28.6	23.2	12.7	6.9	504
East of England	34.7	29.3	23.6	9.0	3.4	567
London	25.0	23.8	27.4	15.9	7.9	533
South East England	30.2	31.1	26.0	8.1	4.6	811
South West England	31.5	30.5	24.3	9.1	4.6	781
Wales	38.2	23.6	22.0	10.8	5.5	437
England and Wales	30.2	27.3	24.7	11.6	6.2	6,009

Community Foundation Tyne & Wear and Northumberland
Philanthropy House
Woodbine Road
Gosforth
Newcastle upon Tyne NE3 1DD

https://www.communityfoundation.org.uk/