Third Sector and Recession: an initial quantitative assessment

Research Report for Capacitybuilders

September 2009

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CRESR
Centre for Regional Economic and Social Research

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Final Report

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The evidence presented and conclusions drawn, however, remain the responsibility of the authors.

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1. Introduction

1.1. The UK economy is currently in recession. It has experienced five successive quarters of contraction. Although economic growth is forecast to return in 2010, it is anticipated to be very weak. Moreover, unemployment is likely to continue to rise until 2011 and may exceed 3 million (ILO measure) or around 2 million claimants. **The combination of recession and financial crisis has placed, and will continue to place, a considerable burden on public finance, with considerable pressure likely on public expenditure for between five and ten years.**

1.2. **There has been considerable speculation around the possible impact of the recession on Third Sector organisations**. This report seeks to provide a starting point for understanding the impact of the recession on the Third Sector, and some indications of where public policy should be targeted to alleviate the worst impacts of recession.

1.3. The report is the culmination of a two stage project commissioned by Capacitybuilders:

- Stage 1 explores and outlines quantitative indicators of the impact of the recession on the Third Sector
- Stage 2 provides quantitative evidence as to the emerging impact of the recession and its possible impact on the Third Sector.

1.4. The following are explored in turn: the *State of the Economy*, *Third Sector Trends,* and *Third Sector Organisations at Risk*. This final part constructs measures to assess financial vulnerability for different types of organisation.

1.5. **The recession will have differential effects across the Third Sector**, as it will across other sectors in the UK economy. Moreover the effects of recession, financial crisis and tightening public expenditure will be transmitted in different ways across the sector. Indeed considerable caution should be shown suggesting that all changes occurring in the sector will be wrought by recession. They will not.

2. State of the Economy

2.1. **The UK economy has contracted by approximately 5.6 per cent since March 2008** when the recession began. The size of the economy now is therefore about the same as it was in September 2005.

2.2. The **impacts of the recession on unemployment will be uneven** in terms of the locations and groups worst affected. We find that claimant unemployment is rising fastest in the former industrial heartlands of the West Midlands, the North, South Wales and west-central Scotland, in certain peripheral locations (including Plymouth and Blackpool), in inner and east London Boroughs and in a localities such as Swindon and Corby. To a large extent, and especially for these locations in the North of England, Scotland and Wales, levels of claimant unemployment but also wider worklessness (e.g. those on sickness related benefits) were already high. We also find that unemployment falls most heavily and on those with fewest skills and the young (16-24 year olds). **The implication of this pattern for the third sector, is that that there will be increased demand for welfare, debt counselling and housing services in these locations experiencing the greatest increases in unemployment.**

2.3. Increases in unemployment and more generally **downward pressure on income and household expenditure** are anticipated to result in lower donations to third sector organisations. Evidence of this effect is so far limited and likely to follow other trends. Similarly we also find considerable risks from the recession due to the personal credit burden in the UK. Again, rises in unemployment may quickly feed through into many complex cases of welfare and debt counselling support.

2.4. **We also report on changes in the Bank of England Base Rate, the Stock Market and Inflation**. Falls in inflation may result in cost savings to Third Sector organisations, although this largely depends on the ability of organisations to avoid utility price increases and to hold constant or reduce staffing costs. Interest rate falls present a mixed picture: a cost saving for some where interest rate cuts are reflected in costs of borrowing, but also falling returns for organisations holding assets in interest bearing accounts. Despite recent increases in the Stock Market (FTSE 100, 250 and All Share) organisations holding assets in shares will have experienced both declining asset values and dividend payments. This is likely to feed through to reductions in grant making by trusts and foundations.

2.5. The report also explores evidence on **residential and commercial property**. We find rapid increases in both mortgage arrears and home repossessions, already at levels around the peak of the early 1990s recession. Again this will feed through into housing, welfare and debt cases. Falls in residential property prices will reduce legacy income for third sector organisations, particularly major charities. However, it should be stressed that property prices remain high by historic standards. In terms of commercial property, downward pressure on rental and price values may present short term opportunities to organisations seeking to renegotiate leases or re-locate. However, organisations reliant on income from property assets are likely to face increasing price competition.

2.6. The report does not explore changes in the level of **volunteering** in detail. In previous recessions levels of volunteering have fallen. Whilst the 2009 Citizenship Survey reports falls in volunteering, Volunteering England and volunteer centres report substantial increases in demand. This may reflect that whilst there is a general decline in volunteering, the welfare reform agenda has prompted substantial increases in formal and informal referrals from employment support agencies to volunteer centres.

3. Third Sector Trends

3.1. **Analysis of the demography of the Third Sector using Charity Commission headline data from 1960 suggests that the population of Third Sector organisations is not significantly affected by recession**. Conversely, the main changes in population (based on registered numbers of charities) is due to the actions of government (through funding), the Third Sector registrars including the Charity Commission (through choosing to purge the register of moribund charities) or new funding regimes (most notably the creation of the National Lottery in 1994).

3.2. **However, emerging evidence from the Charity Commission register suggests that the "death" rate (organisations leaving the register) of Third Sector organisations has increased markedly in the last 12 months**. This is to the extent that there has been a net fall in the population of Third Sector organisations in England over this period. The regional pattern of deaths has also been uneven, with the proportion of deaths in the West Midlands and South West increasing markedly.

4. Third Sector organisations at risk: financial vulnerability

4.1. In this section we draw on charity account data for two regions (West Midlands and Yorkshire and Humber) to explore whether certain types of organisation (by size, category, purpose and target group) are more financial vulnerable than others. **Financial vulnerability is best described as an organisation's ability to withstand the impact of a 'financial shock' such as the loss of one or more income streams**. Measures of financial vulnerability are constructed focusing on operating margins, staff costs, revenue concentration and long term liabilities. It should be noted that financial vulnerability measurement is relatively new in the Third Sector in the UK and the predictive powers of these models have not been fully tested. Some care should be shown in drawing conclusions.

4.2. **The findings suggest that taking the West Midlands and Yorkshire and Humber together there is limited variation between them in terms of financial vulnerability**. This is as would be expected - the regions have broadly similar organisational demography. Further research would be required into difference and similarities with other regions, notably whether London and the concentration of major charities there makes a significant difference.

4.3. A key finding from this section is that different types of organisation may be financially vulnerable in different ways. This is shown by the following:

- small organisations with an annual income of less than £100 thousand are more likely to be vulnerable on staff costs, concentration of sales income, investment income and long term liabilities
- organisations working in education and training are more likely to be vulnerable according to reserve levels, staff costs and sales income
- organisations targeting children/young people are more likely to be vulnerable according to reserves, staff costs and sales income
- organisations targeting people of a particular ethnic or racial origin are more likely to be vulnerable to reserves, voluntary income and long term liabilities.

4.4. These findings highlight organisations at risk from an external shock to their incoming financial resources. **What is important to determine is the nature and scale of any external shock.** For instance, a shock which involves substantial reductions in grant income may have greatest effects on small organisations which have a high concentration of income from a small number of sources. Conversely, if there were upward pressure on staff costs for organisations working with children and young people, this may place these organisations at risk.

5. Conclusion

5.1. In the brief for this research project, Capacitybuilders highlighted their need to **identify those areas in the Third Sector which are being hardest hit by the recession**, and to use this evidence to better direct government support.

5.2. The rationale for government intervention is important and extends beyond simply identifying those organisations which are most financially vulnerable. **The research**

evidence suggests a strong case for supporting organisations which are experiencing rapidly increasing levels of service demand due to the recession. Beyond this there are probably otherwise viable organisations that provide significant benefits to users but are unprepared for the effects of the recession. Both these groups may require a range of short term financial (grants and loans) and non-financial support. Assessing the financial vulnerability of these organisations is a logical next step, as organisational closure here may have the greatest social costs.

5.3. **The report argues that the greatest social costs of recession are caused through unemployment and its consequences for individuals, households and areas**. Increasing unemployment is uneven with some localities and groups (the young and those with fewest qualifications) worst affected.

1

1. Introduction

1.1. Scope of the Report

The UK Economy is currently in recession. It has experienced five successive quarters of contraction. There has been considerable speculation around the possible impact of the recession on Third Sector organisations. This report seeks to provide a starting point for understanding the impact of the recession on the Third Sector, and some indications of where public policy support for Third Sector organisations should be targeted to alleviate the worst impacts of recession.

The report is the culmination of a two stage project commissioned by Capacitybuilders:

- Stage 1 explores and outlines quantitative indicators of the impact of the recession on the Third Sector
- Stage 2 provides quantitative evidence as to the emerging impact of the recession and its possible impact on the Third Sector.

The report explores the following in turn:

- change in the *State of the Economy* measured across a series of data domains provides the basis for the possible direction, location and scale of impacts on the Third Sector
- *Third Sector Trends*: evidence around what is known to date as to the changing demography of the Third Sector
- *Third Sector Organisations at Risk* which uses a set of financial measures to identify the types of organisations which might be at greatest risk.

The research specification for the research project appears at Annex 1.

1.2. Recession, Financial Crisis and Public Expenditure

The recession will have differential effects across the Third Sector, as it will across other sectors of the UK economy. Moreover, the link between economic contraction over a period of 12 months (the main definition of recession) and impacts on the Third Sector maybe indirect, feed through other changes in the economy and may take time to be fully revealed. These factors should be borne in mind when reading and consulting this report. Moreover, the experiences of individual organisations will for many vary markedly from the trends and averages revealed here.

Attribution of changes in the Third Sector to *the recession* needs to be treated with some caution. In particular we can also anticipate that changes to the Third Sector will also be wrought by the financial crisis (for instance as organisations experience sharp increases in the cost of certain financial products) and perhaps more substantially by the anticipated squeeze on public expenditure over the next five to ten years, brought by the financial crisis and recession. The Third Sector has changed markedly over the last 10 years, some of this due to new internal drivers but also due to substantial shifts in the emphasis placed upon it by government. The latter has brought greater resources for many organisations in the sector and also led to the creation of new Third Sector organisations. At the same time, despite this period of relative buoyancy for the Third Sector, some organisations will have contracted and ceased existence. These phenomenon should be considered when assessing the likely effects of the recession.

It should also be noted that this report does not seek to forecast likely changes in the Third Sector in the next year, three years or ten years. The report does however, suggest which types of organisations might be most vulnerable to some form of external funding shift, whether in donations, investment income, service income or grants. As such the research presented here points to further avenues of enquiry into the Third Sector and how it might be best supported. These might include the tracking of organisations deemed most vulnerable, the more systematic mapping of the impact public expenditure changes on the Third Sector and more qualitative bottom-up research to test some of the assumptions contained in this report.

2. State of the Economy

2.1. Introduction

The recession will have differential effects across the United Kingdom in terms of sector, organisation and workforce. A downturn in the private sector may not be mirrored by like-for-like change in the Third Sector. Nonetheless, changes in the wider economy, whether through stock market falls, interest rate changes, rising unemployment and inflation will feed through into changes in the sector, albeit in different ways.

Monitoring changes in the economy can help anticipate issues for the Third Sector: for instance as leading indicators of increased service demand or reductions in the funds available to grant making trusts.

A health warning: data analysis for this section of the report was concluded at the end of June 2009. Some indicators will have since changed and we have been cautious in terms of predicting the course of the recession.

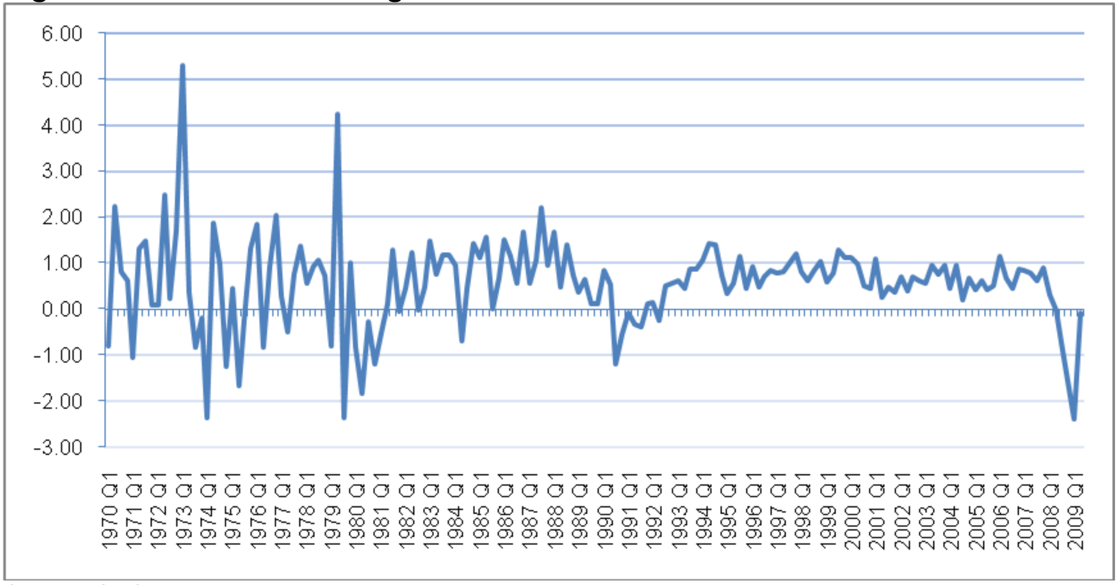
2.2. National Income: Gross Domestic Product (GDP)

Change in GDP is used as the national (UK-wide) headline indicator as to whether the economy is growing or declining. Four consecutive quarters of decline is the generally accepted definition of recession. From Spring 2008, GDP fell for five consecutive quarters (by -0.03 per cent from April to June 2008, -0.72per cent from July to September 2008, -1.55per cent from September to December 2008, -2.40per cent from January to March 2009, and -0.80per cent from April to June 2009).[1] These falls were preceded by 63 consecutive quarters of growth in GDP since July 1992. Put another way, the overall size of the UK economy is now about the size it was in the September 2005 - a contraction since recession began of about 5.6 per cent.

Figure 2.1 below shows quarterly GDP per cent changes in the UK since 1970, and the recessions of 1973-45, 1980-82, 1990-92 and the current recession.

[1] April to June 2009 figures based on ONS Preliminary Estimates

Figure 2.1: UK GDP % changes since 1970



Source: ONS

This shows that in previous recessions percentage point change in GDP by -2.37 per cent in January-March 1974; -1.84 per cent between April and June 1980; and -1.19 per cent between July and September 2007. It also shows that the UK experienced three successive quarters of decline during the 1973-75 recession; five successive quarters of decline during the 1980-82 recession; and five successive quarters of decline during the 1990-92 recession.

There has been considerable speculation around how long the recession will be and how deep it will be. Most forecasts suggest that the recession will last from Spring 2008 to Spring/Summer 2010, with weak growth forecast forecast in late 2010. However, the forecasts vary, as the following table suggests, with the IMF and European Commission more cautious than the Treasury for growth in the United Kingdom (see table 2.1).

Table 2.1: GDP Forecasts

% Change	Actual		Forecast		
	2007	2008	2009	2010	2011
HMT[1]	3	0.75	-3.5	1.25	3.5
IMF[2]	3	0.7	-4.1	-0.4	nk
EU[3]	3	0.7	-3.8	0.1	nk
NIESR[4]	3	0.7	-4.3	0.9	nk

Sources: 1. HM Treasury (2009), *Budget 2009: Building Britain's Future* (London: HMT)
2. IMF (2009), *World Economic Outlook: crisis and recovery* (Washington: IMF)
3.European Commission (2009), *Economic Forecast*, (Brussels: Directorate-General for Economic and Financial Affairs, European Commission).
4. Weale, M. (2009), *The UK Economy*, National Institute Economic Review n. 208 p. 3.

The financial crisis and the recession have significant repercussions for public expenditure. This is both through falls in anticipated income (as receipts from income tax, corporation tax and VAT fall) but also due to higher levels of expenditure, primarily in social security expenditure. This is discussed later.

Reductions in GDP may feed through into different impacts on the Third Sector, from falling individual donations, greater demand for certain services and possibly falls in income due to contracting public expenditure and weak performance in the stock market.

2.3. Regional Gross Value Added (GVA)

This section begins to explore whether the effects of the recession on the Third Sector may vary by region.

Regional GVA provides a measure of each region's economy valuing its overall contribution to GDP (total GVA £billion). Table 2.2 below shows regional GVA between 1998 and 2007[2].

Table 2.2: Total GVA (£per capita) by region

	1998	2007	1998-2007 % Change
London	18,377	30,385	65.3
South East	15,047	22,624	50.4
East	14,010	20,524	46.5
South West	12,143	18,195	49.8
East Midlands	12,041	17,698	47.0
North West	11,610	17,433	50.2
West Midlands	12,062	17,161	42.3
Yorkshire and the Humber	11,623	16,880	45.2
North East	10,408	15,688	50.7
England	13,482	20,463	51.8

Source: ONS

The table shows that between 1998 and 2007 London grew most quickly in terms of GVA per capita and strengthened its position amongst English regions. Over the same period the weakest performing regions in terms of GVA per capita growth were the West Midlands, Yorkshire and the Humber, and the East Midlands. The North East remains the poorest region in England measured by GVA per capita.

2.4. Labour Market

a) Regional Unemployment Rate

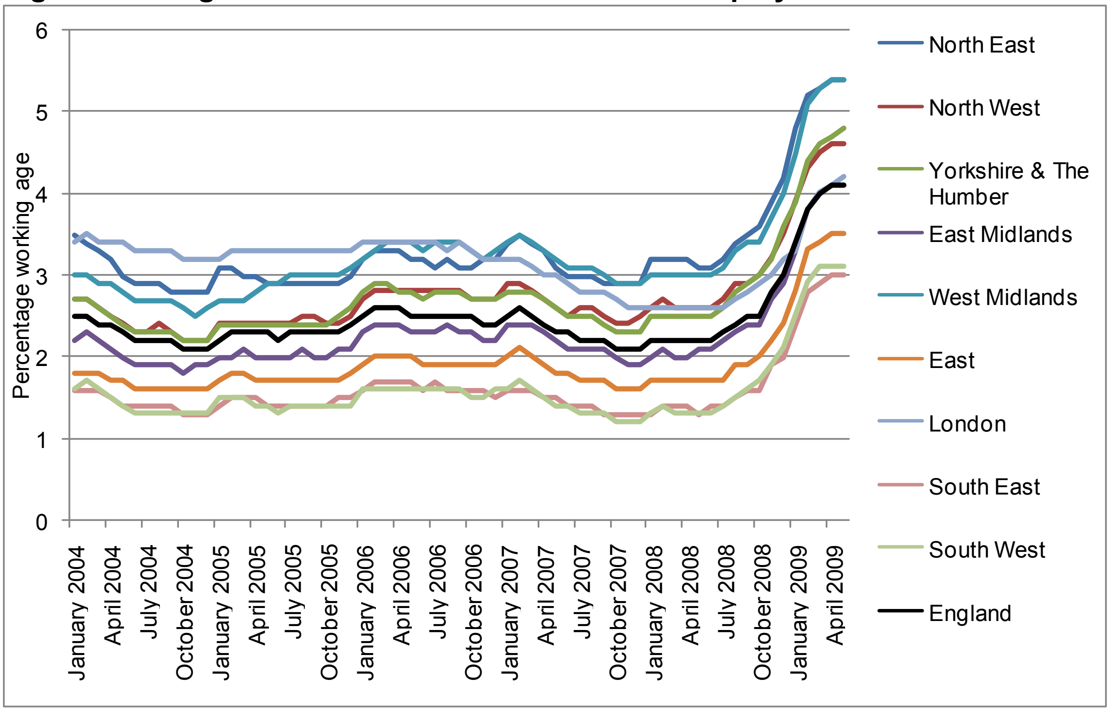
There are two main measures of unemployment: the claimant rate measures the number of people claiming unemployment benefits; the International Labour Organisations (ILO) rate uses a wider measure including those receiving sickness related benefits. The claimant rate increased considerably during 2008 and into 2009 but the ILO rate had remained relatively stable up to June 2008.

The national (England wide) claimant rate in May 2009 was 4.1 per cent compared to 3 per cent in December 2008 and 2.1 per cent in December 2007. The national (England wide) ILO rate was 5.6 per cent in September 2008 having bottomed-out at 4.7 per cent in March 2005.

[2] 2008 GVA figures will not be published until the end of 2009 so the regional effects of the recession are not yet fully known.

Figures 2.2 and 2.3 below show regional variations in the claimant and ILO rates since 2004 and 1995 respectively.

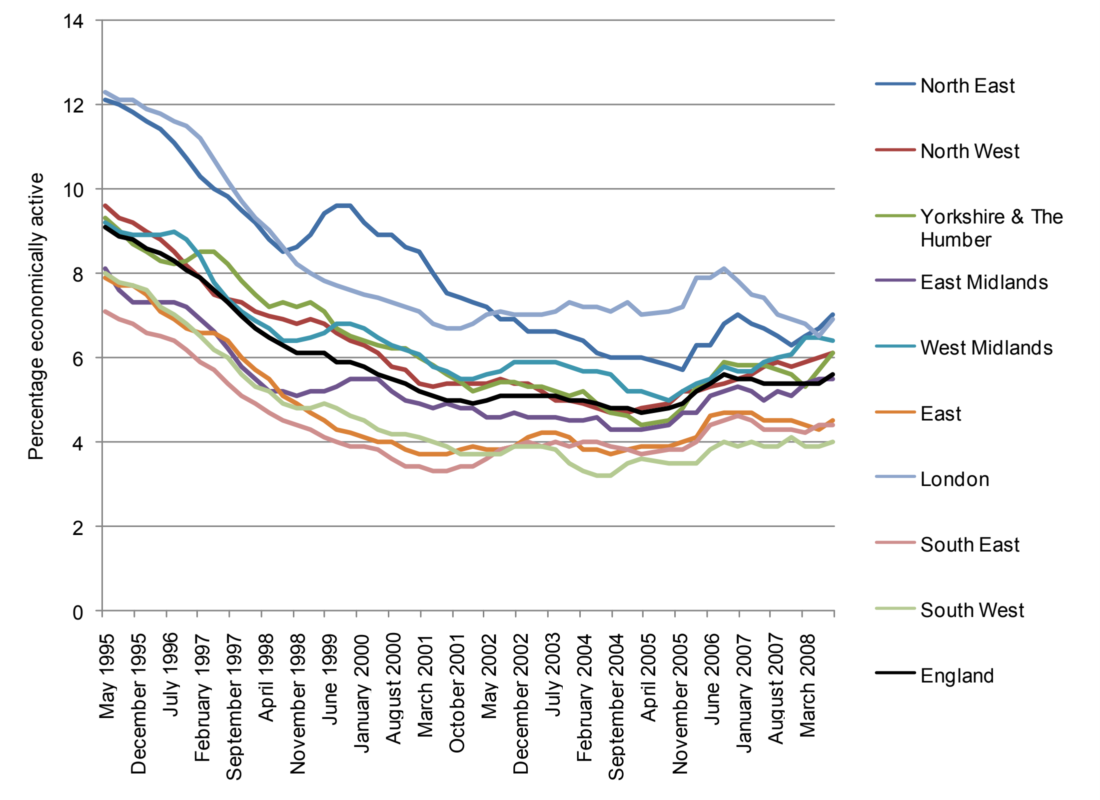
Figure 2.2: Regional variations in the claimant unemployment rate since 2004



Source: Labour Force Survey *2004-2009*, (Nomis: www.nomisweb.co.uk)

This shows that the England wide pattern of increases in the claimant rate during 2008 and early to mid 2009 was repeated at a regional level. However, there is some evidence of regional differences in variations in the claimant rate. The highest rates were in the North East (5.4 per cent) and the West Midlands (5.4 per cent) while lowest rates were in the South East (3.0 per cent) and the South West (3.1 per cent).

Figure 2.3: Regional variations in the ILO unemployment rate since 1995



Source: Labour Force Survey *1995-2008*, (Nomis: www.nomisweb.co.uk)

This confirms that regional variations in unemployment tend to follow national trends but that there is a time lag which means that the effects of the recession are not fully evident in the current data. It also confirms that the North East (7.0 per cent) and the West Midlands (6.4 per cent) as the two regions where unemployment is highest and the South East (4.4 per cent) and South West (4.0 per cent) as the regions where it is lowest.

b) Local Unemployment Rate

The previous regional data mask strong local variations in unemployment. The following maps for Great Britain (shown for England and Wales and then Scotland) show:

- Local Authority District Claimant Unemployment (May 2009)
- Local Authority ILO Unemployment (September 2008)
- Local Authority Incapacity Benefit/Sickness Disablement Allowance
- Change in Local Authority Claimant Unemployment (May 2008 - May 2009).

The maps reveal that rises in unemployment are not occurring equally across the country. The worst affected areas (based on claimant unemployment) are in the Midlands, the North of England, South Wales and central-west Scotland: areas which might be collectively called the former industrial heartlands. Alongside these areas unemployment is also high in a set of smaller and more peripheral local authority districts (areas such as Margate, Hastings, Blackpool and Plymouth) and inner London areas (notably east London).

Since May 2008 claimant unemployment can be seen to have risen fastest in these areas, but there are exceptions, notably rises in unemployment in Swindon and East

Midlands towns such as Corby. From May 2008 to May 2009 the areas experiencing the largest percentage point increases in claimant unemployment are: Corby, Swindon, Walsall, Blaenau Gwent, Redditch, Kingston-upon-Hull and Methyr Tydfil.

Claimant unemployment, however, does not provide the whole picture as to worklessness in the United Kingdom. This is the reason for the inclusion of ILO unemployment measures and moreover data on those of working age claiming sickness related benefits. These show that the problems of wider worklessness due to sickness, are heavily concentrated in the former industrial heartlands of the North of England, South Wales and west-central Scotland, but not to the same extent in the West Midlands.

To conclude, there is a statistically strong relationship for England and Great Britain as a whole between the change in claimant unemployment over the May 2008 to May 2009 period and the existing level of claimant unemployment.[3]

c) Unemployment and Age

Whilst unemployment falls unequally across areas and economic sectors, it also falls unequally across different age groups. The following table shows how claimant unemployment has risen fastest amongst the 16-24 age group over the March 2008 to March 2009 period.

Table 2.3: Claimant Unemployment by Age Groups

	16 to 24	25 to 49	50 to 64
March 2008	3.4	2.1	1.4
March 2009	6.2	4.0	2.7
% point change	2.8	1.9	1.3

Source: ONS

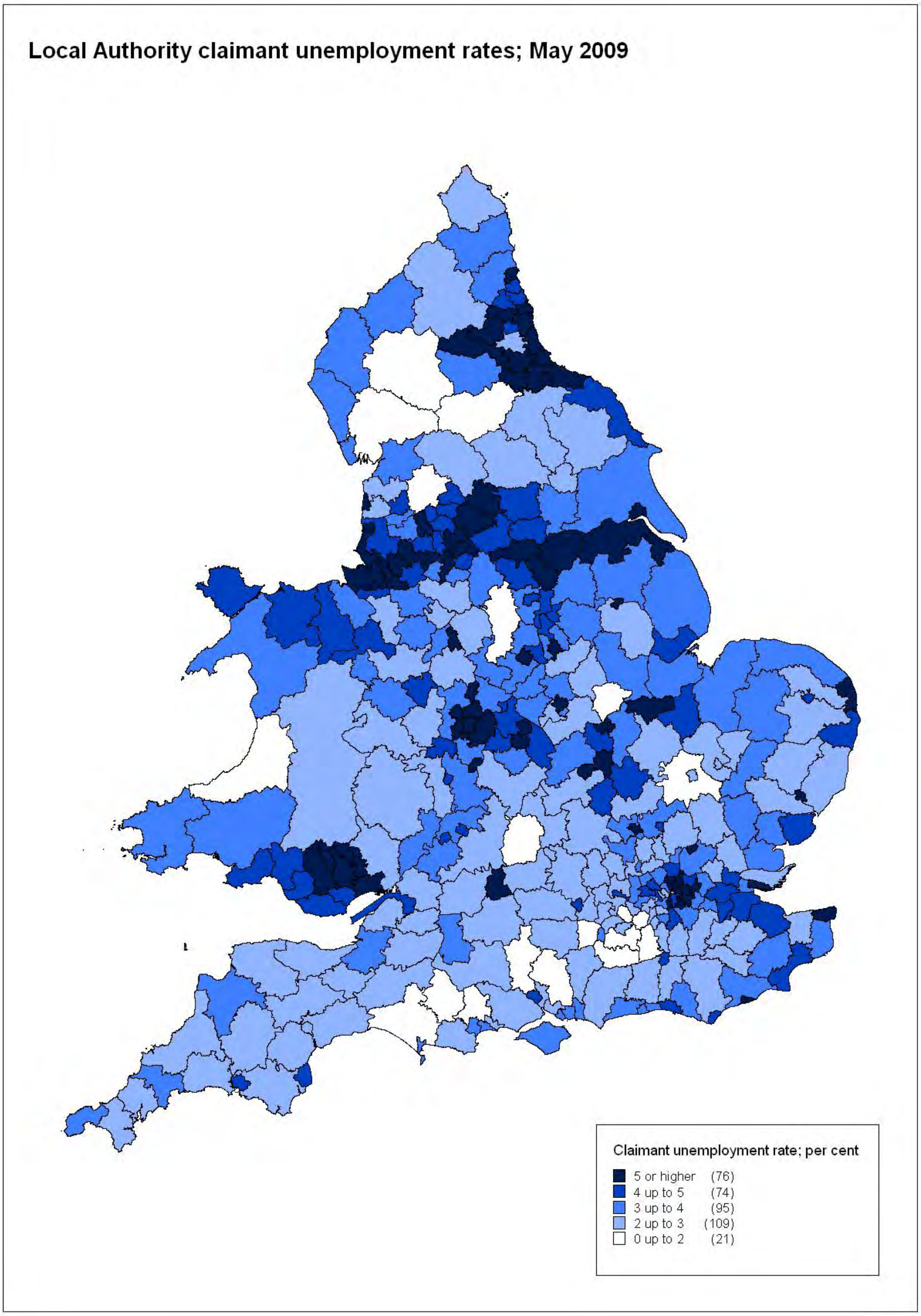
It should also be noted that unemployment amongst older age groups has to some extent been hidden, particularly in the early 1990s recession where those amongst older age groups have gone on to sickness related benefits rather than claimed unemployment benefit, and that unemployment tends to fall heaviest on those already in low paid and less secure forms of employment, often with the lowest levels of qualifications. This is not to say that job-loss does not affect other groups, but generally higher income groups are able to find employment albeit at lower income levels. This is not an option for those on low incomes, where unemployment provides the only option. Speculation in 2008 that we would experience a 'white collar recession' centred on London and the South East appears now to have little basis.

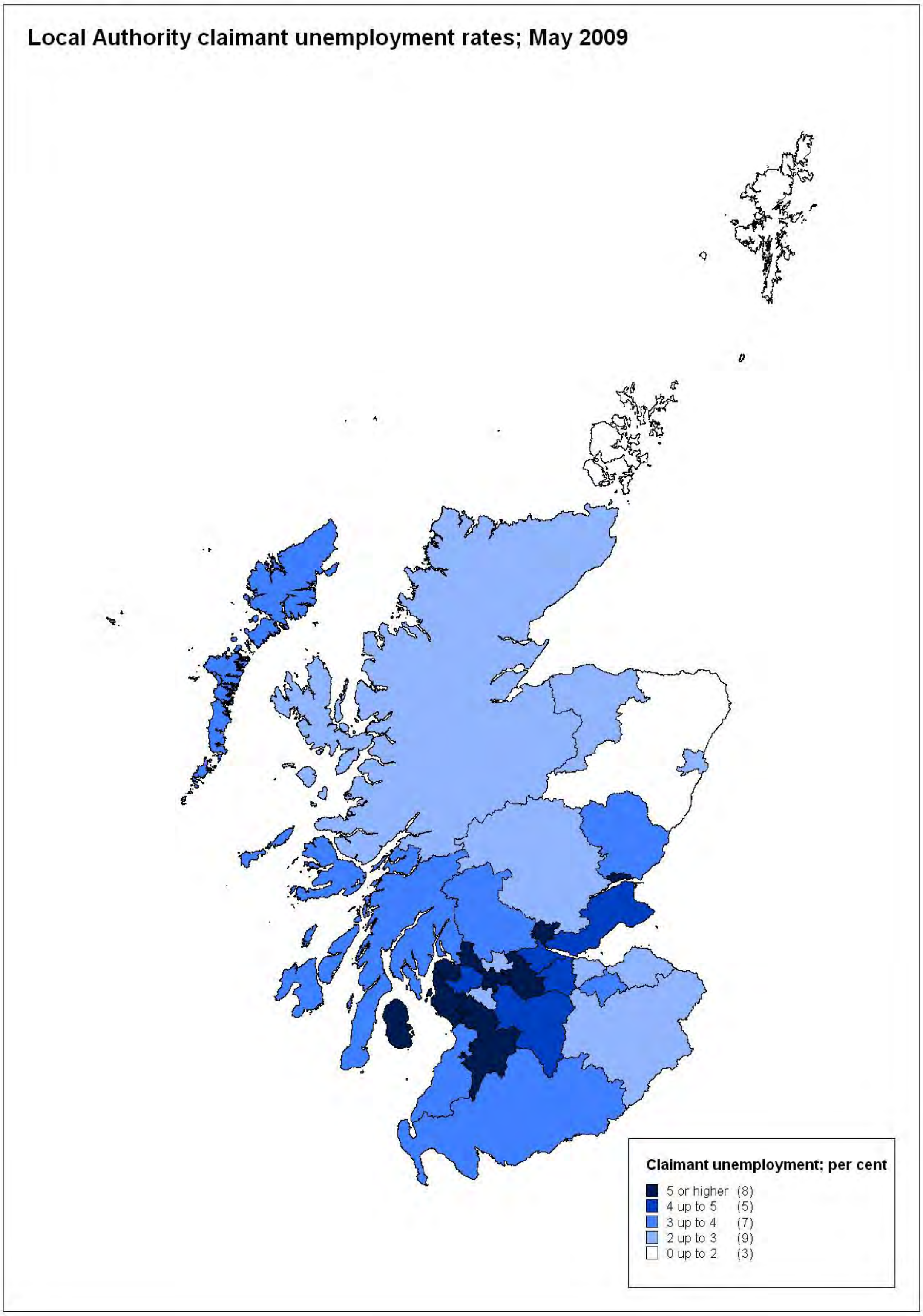
d) Predicted Changes in Unemployment

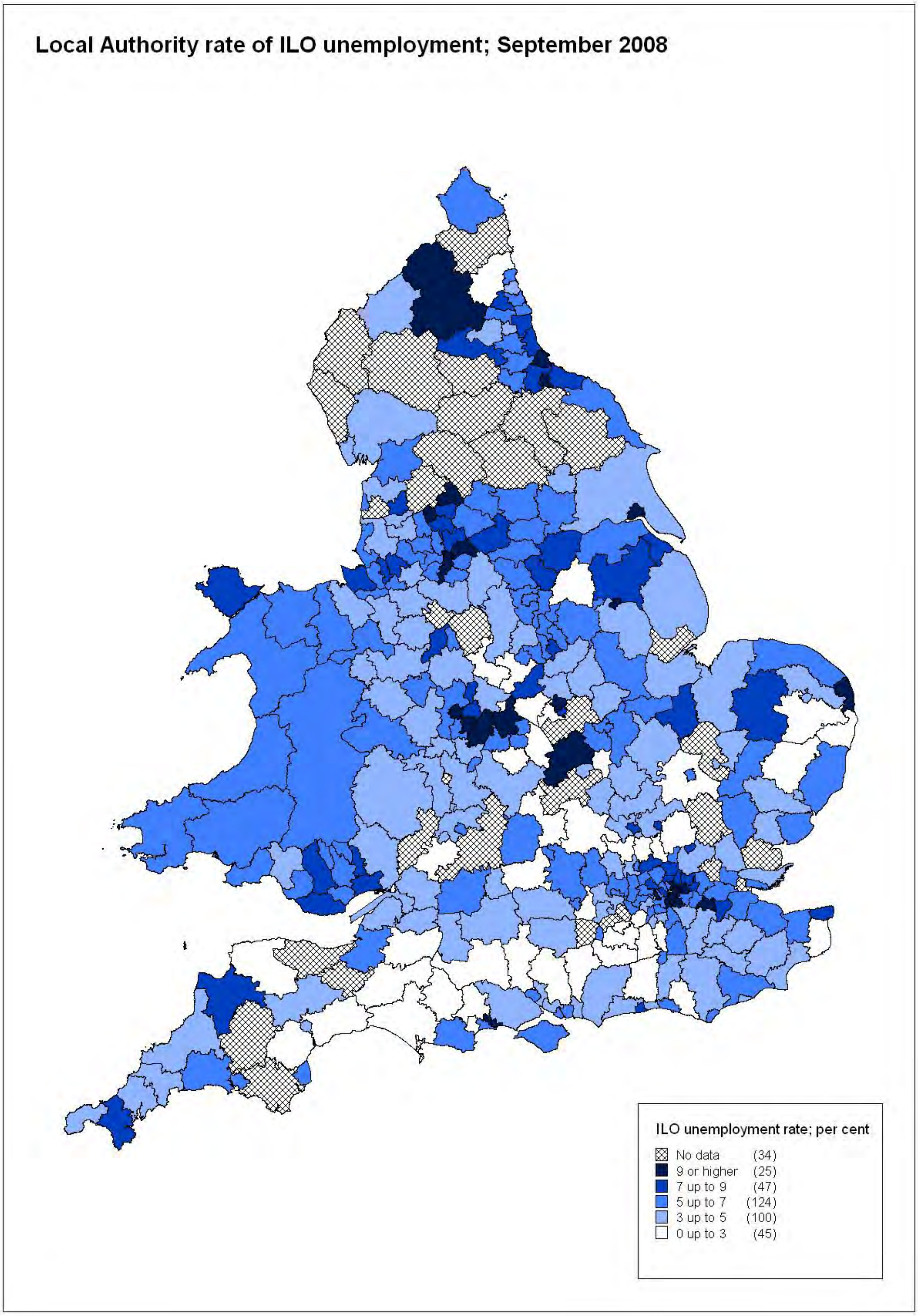
Increases in unemployment tends to lag behind changes in GDP. Estimates by NIESR suggest that unemployment will peak in 2011 at 3.1 million (using the ILO measure) or 9.6 per cent of the workforce. It is currently 7.2 per cent. As with previous recessions, unemployment can also bring a longer term negative legacy, often tied to the duration of unemployment by individuals.

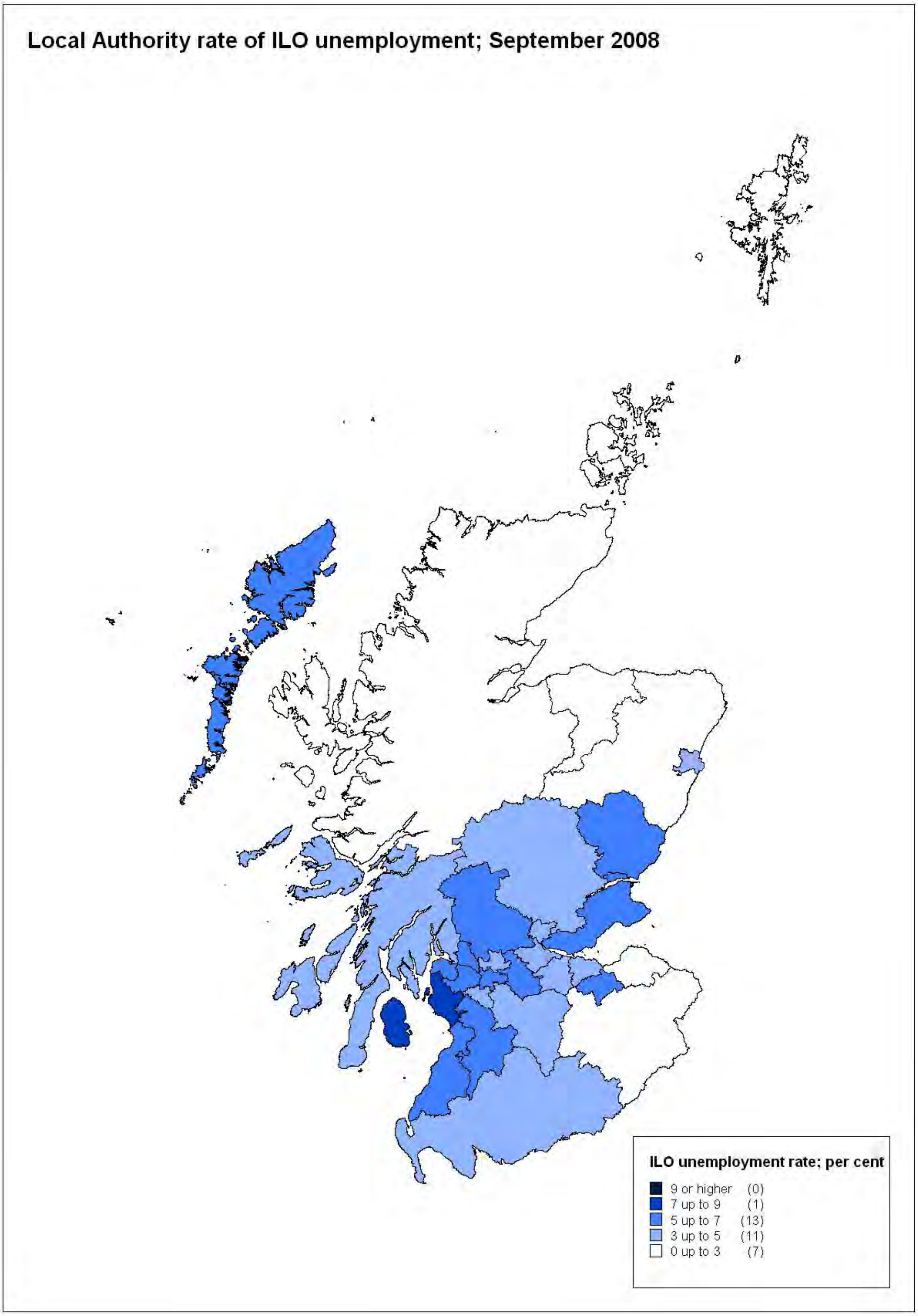
[3] England
- claimant unemployment May 2008 and change May 2008 to May 2009 is 0.597 (sig at 0.01 level)
- claimant unemployment May 2009 and change May 2008 to May 2009 is 0.820 (sig at 0.01 level)

GB
- claimant unemployment May 2008 and change May 2008 to May 2009 is 0.593 (sig at 0.01 level)
- claimant unemployment May 2009 and change May 2008 to May 2009 is 0.824 (sig at 0.01 level)

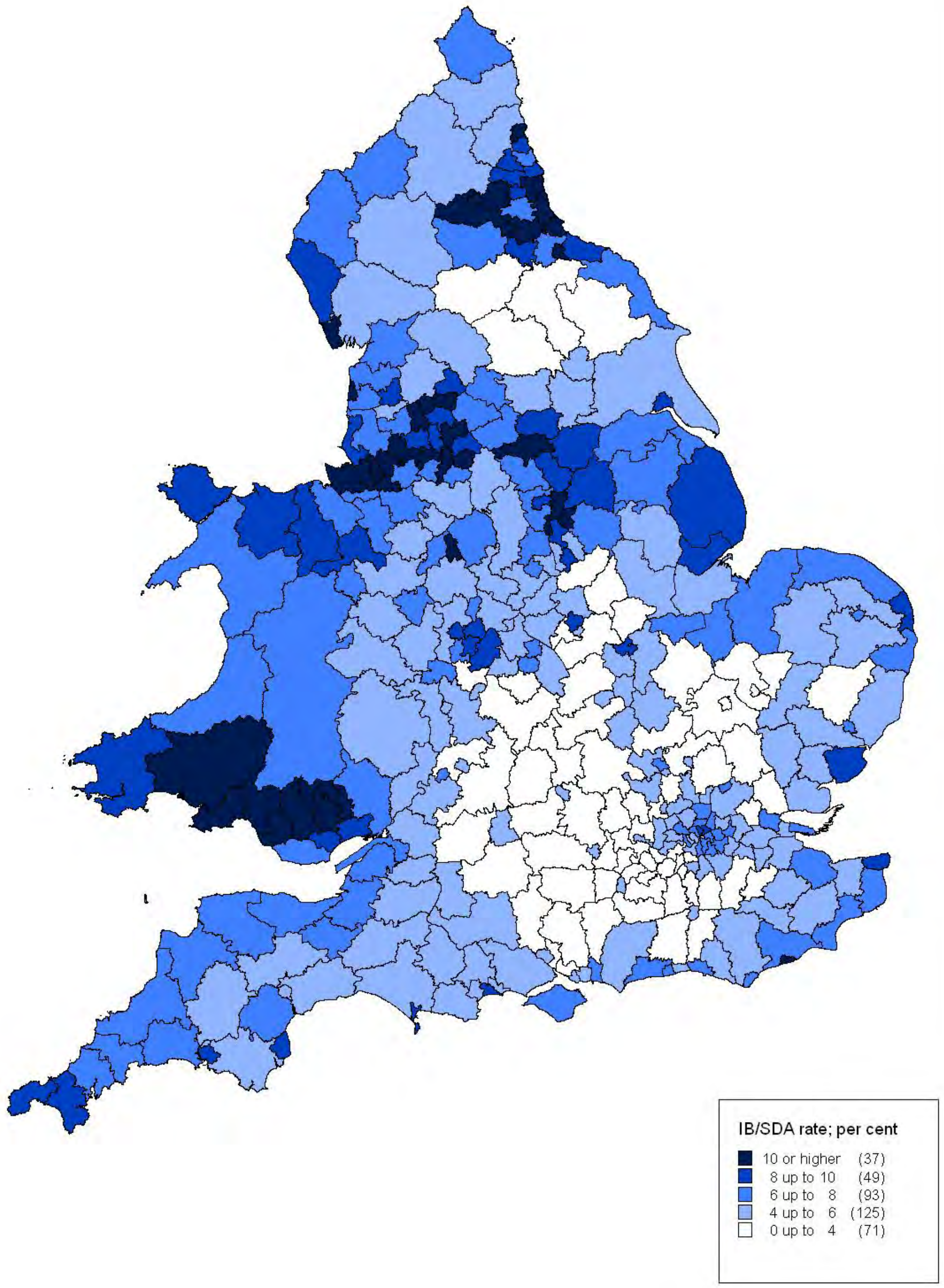

Local Authority claimant unemployment rates; May 2009
Claimant unemployment rate; per cent
5 or higher (76)
4 up to 5 (74)
3 up to 4 (95)
2 up to 3 (109)
0 up to 2 (21)

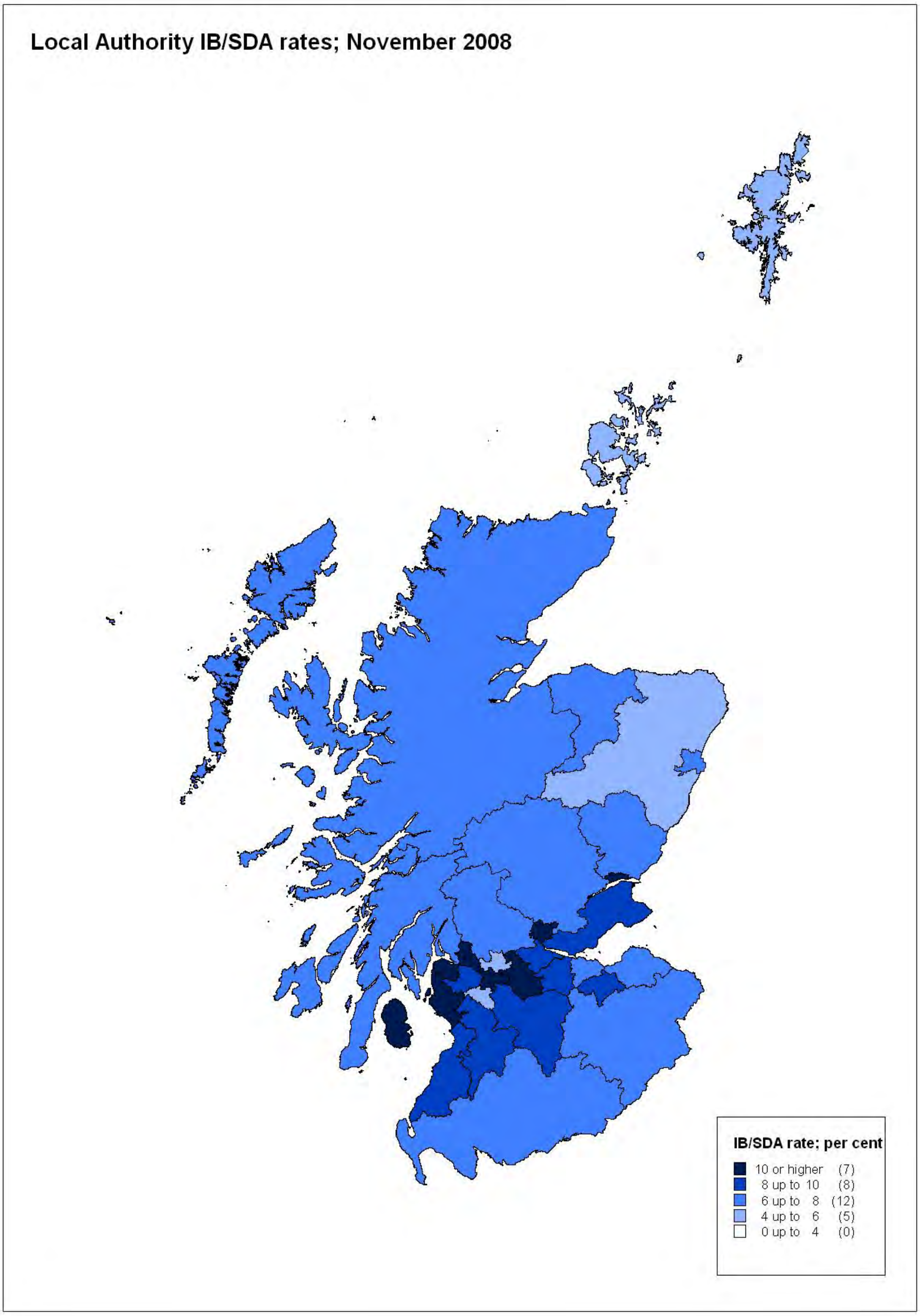

Local Authority claimant unemployment rates; May 2009
Claimant unemployment; per cent
5 or higher (8)
4 up to 5 (5)
3 up to 4 (7)
2 up to 3 (9)
0 up to 2 (3)


Local Authority rate of ILO unemployment; September 2008
ILO unemployment rate; per cent
No data (34)
9 or higher (25)
7 up to 9 (47)
5 up to 7 (124)
3 up to 5 (100)
0 up to 3 (45)

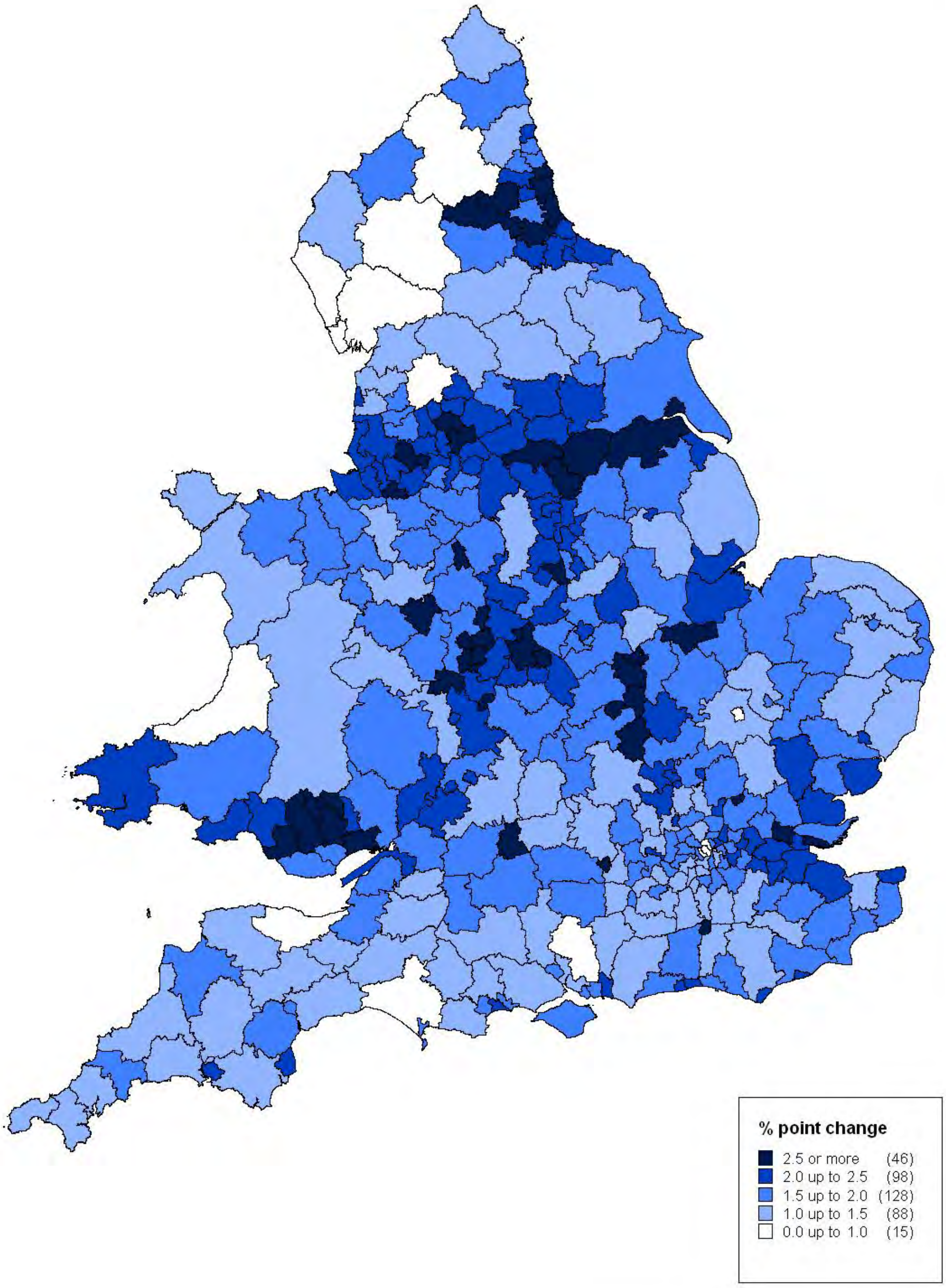

Local Authority rate of ILO unemployment; September 2008
ILO unemployment rate; per cent
9 or higher (0)
7 up to 9 (1)
5 up to 7 (13)
3 up to 5 (11)
0 up to 3 (7)

Local Authority IB/SDA rates; November 2008

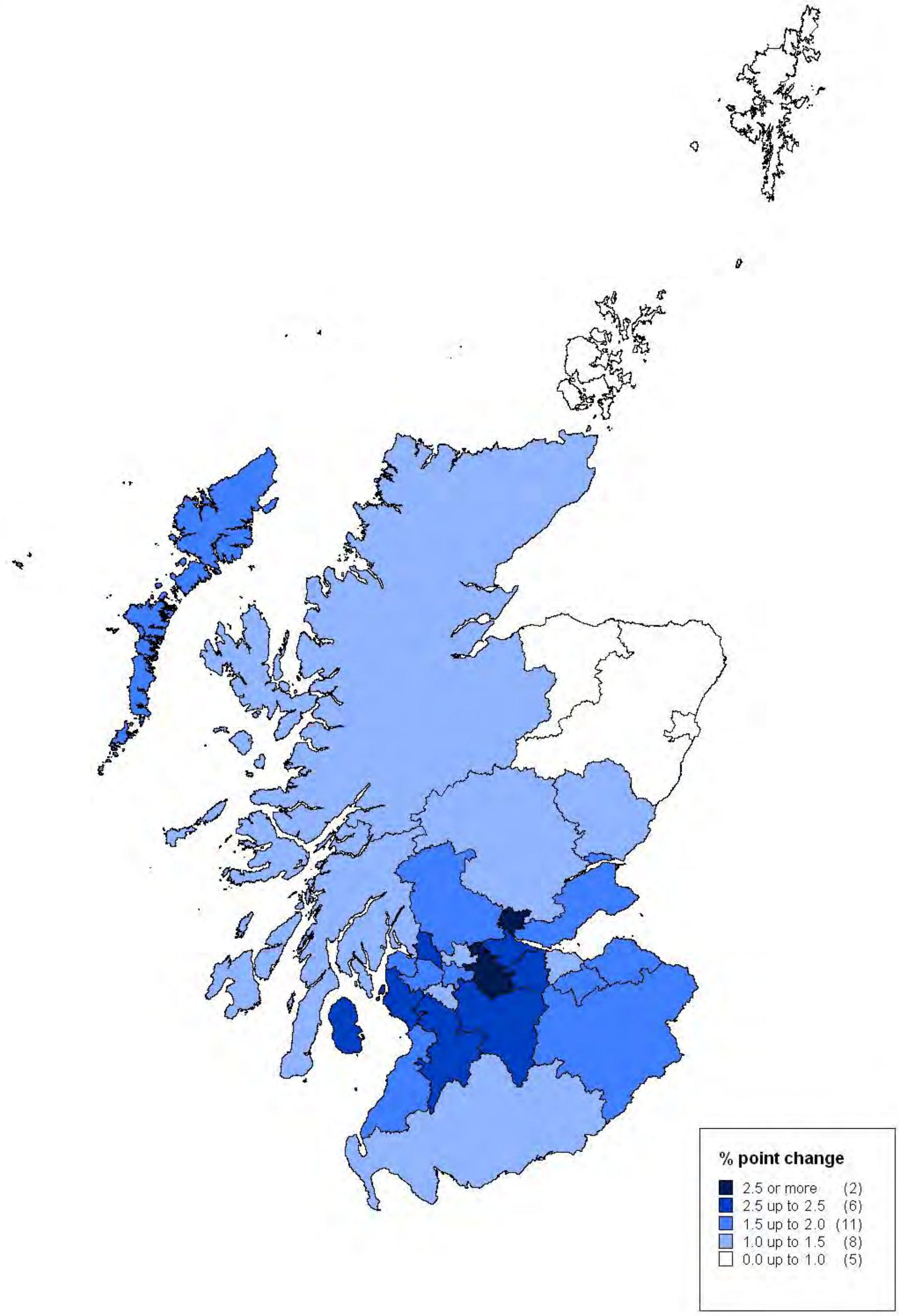



Local Authority IB/SDA rates; November 2008
IB/SDA rate; per cent
10 or higher (7)
8 up to 10 (8)
6 up to 8 (12)
4 up to 6 (5)
0 up to 4 (0)

Local Authority percentage point change in rate of claimant unemployment; May 2008 to May 2009



Local Authority percentage point change in rate of claimant unemployment; May 2008 to May 2009

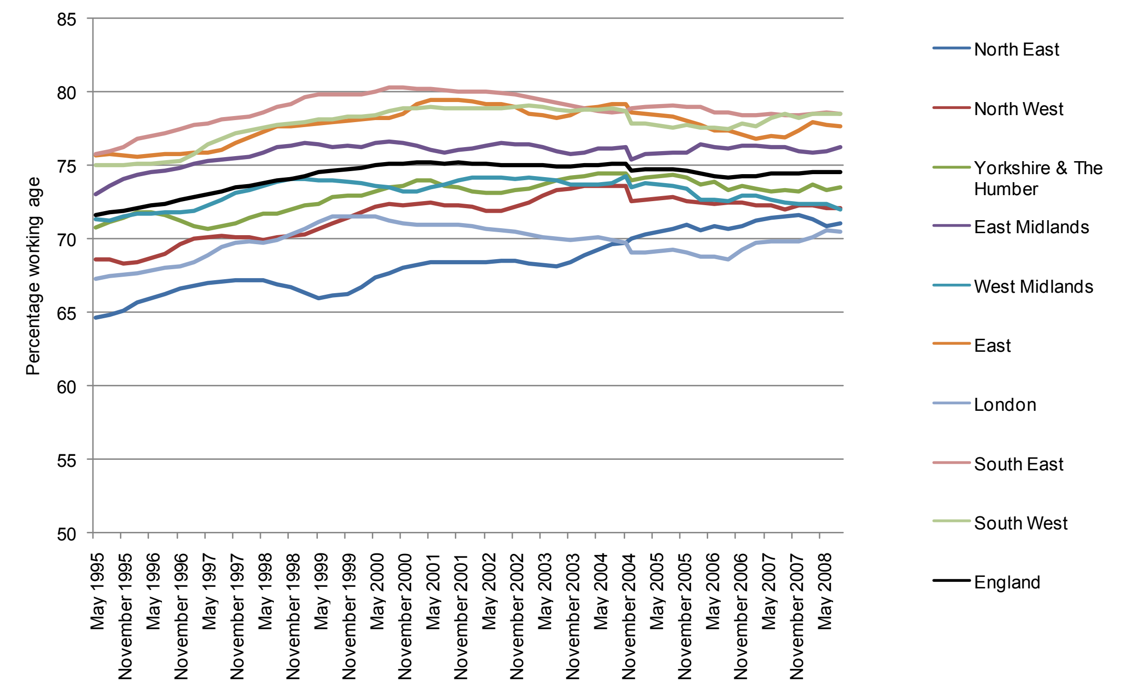


e) *Employment Rate*

The employment rate (the proportion of the working age population in employment) provides an additional measure of the labour market. The national (England wide) employment rate was 74.5 per cent in September 2008 with little variation (i.e. less than 1 percentage point) in the previous 10 years.

Figure 2.4 below shows regional variations in the employment rate since 1995.

Figure 2.4: Regional variations in the employment rate since 1995



Source: Labour Force Survey *1995-2005*, (Nomis: www.nomisweb.co.uk)

This suggests a general narrowing of the gap between regions in the employment rate since 1995. The difference between the region with the lowest employment rate and the highest employment rate was 10.9 percentage points in 1995 but only 8.0 percentage points in September 2008. In September 2008 the lowest employment rate was in London (70.5 per cent) and the highest was in the South East (78.5 per cent).

f) *Job Vacancies*

A final indicator of the state of the labour market is the number of job vacancies. This is available on a month basis and can be broken down by region. In February 2009 there were 309,573 vacancies in the UK compared to 459,053 in February 2008 - a net reduction of 149,480 vacancies and a fall of 32.5 per cent. Table 2.4 below shows regional variations in job vacancies between February 2008 and February 2009.

Table 2.4: Regional variations in job vacancies February 2008 - February 2009

Region	February 2009	Feb 2008-Feb 2009 Net Change	Feb 2008-Feb 2009 % Change
North East	19,703	-4,299	-17.9
North West	44,331	-22,208	-33.4
Yorkshire and The Humber	29,348	-17,693	-37.6
East Midlands	21,356	-12,352	-36.6
West Midlands	30,238	-16,025	-34.6
East	26,947	-9,415	-25.9
London	31,045	-13,289	-30.0
South East	36,968	-16,493	-30.9
South West	26,051	-13,063	-33.4
England	265,987	-124,837	-32.0

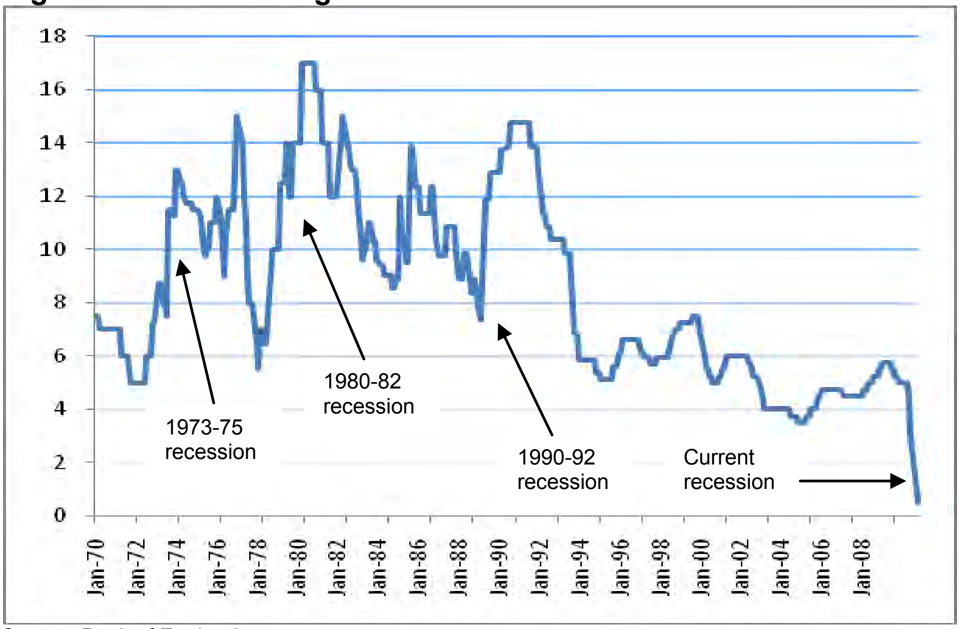
Source: Nomis: www.nomisweb.co.uk

This shows that job vacancies declined in every English region between February 2008 and February 2009. The largest proportionate declines in job vacancies were in Yorkshire and the Humber (-37.6 per cent) and the East Midlands (-36.6 per cent) while the smallest declines were in the North East (-17.9 per cent) and the East (-25.9 per cent).

2.5. Bank of England Base Rate

The Bank of England Base Rate is set on a monthly basis by the Bank's Monetary Policy Committee. The current rate was reduced to 0.5 per cent in March 2009, having been as high as 4.5 per cent as recently as October 2008. Figure 2.5 below shows the Bank of England Base Rate between 1970 and 2009.

Figure 2.5: Bank of England Base Rate 1970-2009



Source: Bank of England

This shows that previous recessions have been characterised by much higher interest rates: in the 1973-75 recession it ranged between 9 per cent and 12 per cent; in 1980-83 it ranged between 16 per cent and 12 per cent; and in 1990-92 it ranged between 13.9 per cent and 6.9 per cent.

However, the nature of this recession, driven initially by the financial crisis, has meant that shifts in the Bank of England Base Rate have not necessarily been reflected in reductions in the cost of borrowing, either to individuals or to organisations, although interest rates for savings and investments have fallen considerably (for both individuals and organisations).

2.6. Inflation

Inflation is measured in two ways: the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). Both are calculated on the change in the weighted average for a basket of goods but the CPI excludes housing costs such as mortgage repayments and council tax. RPI is generally used in wage bargaining whilst CPI is seen as a more accurate measure of the 'real economy'.

At the end of June RPI was -1.6 per cent, its lowest level since March 1960, having been 4.2 per cent as recently as October 2008. CPI was higher at 1.8 per cent, having peaked at 5.2 per cent in September 2008. The sudden fall in RPI can be attributed to the sharp decrease in interest rates and subsequent falls in the cost of mortgage repayments since October 2008. Figures 2.6 and 2.7 below show RPI since 1970 and CPI since 1988.

Figure 2.6: RPI since 1970

Source: ONS

Figure 2.7: CPI since 1988[4]

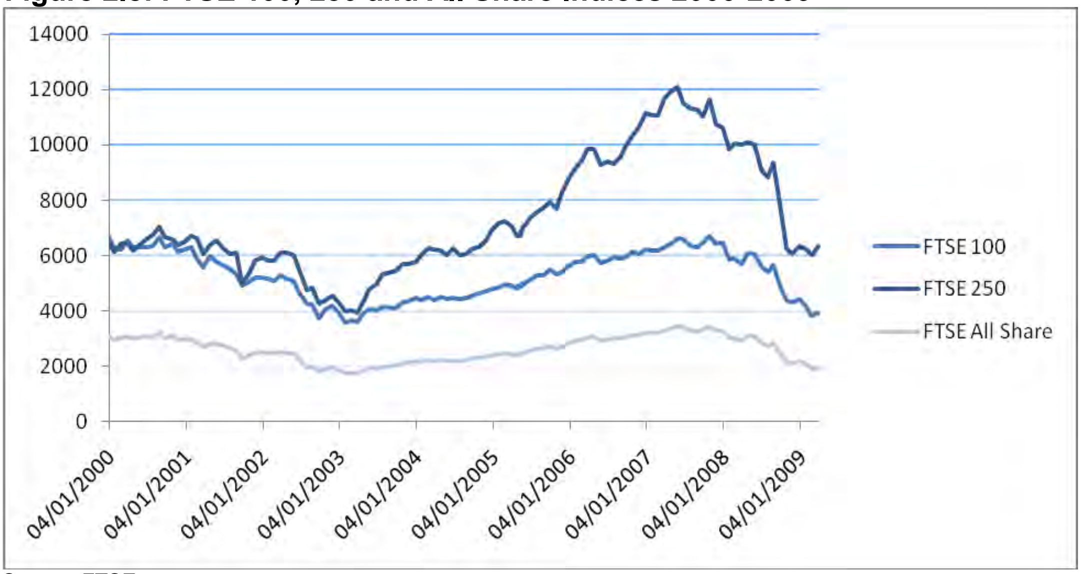
Source: ONS

Both tables show how previous recessions have been characterised by high inflation: in 1973-75 RPI peaked at 26.9 per cent; in 1980-82 it peaked at 21.9 per cent; and in 1990-92 it peaked at 10.9 per cent. Similarly CPI peaked at a much higher rate (8.5 per cent) in 1990-92.

2.7. Stock Market

The performance of the UK Stock Market can be measured through the FTSE 100, 250 and All Share Indices. Performance since 2000 for all three indices is shown in figure 2.8.

Figure 2.8: FTSE 100, 250 and All Share Indices 2000-2009



Source: FTSE

The chart shows that the value of the UK stock market grew rapidly between 2003 and 2007, but began gradually falling towards the end of 2007 and during 2008

[4] The official CPI index starts in 1996 but historical estimates back to 1988 have been calculated based on archived RPI data.

before falling rapidly at the end of 2008 when the reality of the economic downturn became apparent.
Table 2.5 below compares the current index values (as of 7 April 09) with the 52 week high and low points.

Table 2.5: FTSE 100, 250 and All Share Indices 52 week performance

	7 April 2009 closing value	52 week high		52 week low	
		Value	% difference	Value	% difference
FTSE 100	3871.88	6376.50	64.7	3512.09	-9.3
FTSE 250	6630.31	10557.30	59.2	5491.46	-17.2
FTSE All Share	1968.44	3243.48	64.8	1781.64	-9.5

Source: FTSE

This shows that all FTSE indices are currently considerably lower than their 52 week high: the FTSE 100 is down 64.7 per cent; the FTSE 250 is down 59.2 per cent; and the FTSE All Share is down 64.8 per cent. However, they are higher than their 52 week low: the FTSE 100 is up 9.3 per cent; the FTSE 250 is up 17.2 per cent; and the FTSE All Share is up 9.5 per cent. It should be noted that since April the FTSE indices have all increased but still fall short of the historic high levels at the end of 2007.

2.8. Household Finances

a) Household Debt

The financial position of British households is monitored by the Bank of England, who measure lending to individuals by banks, building societies and other lenders (e.g. credit card providers) on a monthly basis. At the end of February 2009 UK households had £1.46 trillion of debt outstanding - around 115 per cent of GDP (£1.275 trillion) of which £1.23 trillion was secured on property and £230 billion was consumer credit. However, net monthly lending is down considerably compared to 2007 and 2008: during 2007 UK banks, building societies and other lenders lent an average of £10.1 billion to individuals each month; in 2008 it was £8 billion; in the first two months of 2009 it was only £1.25 billion.

b) Repossessions and Arrears

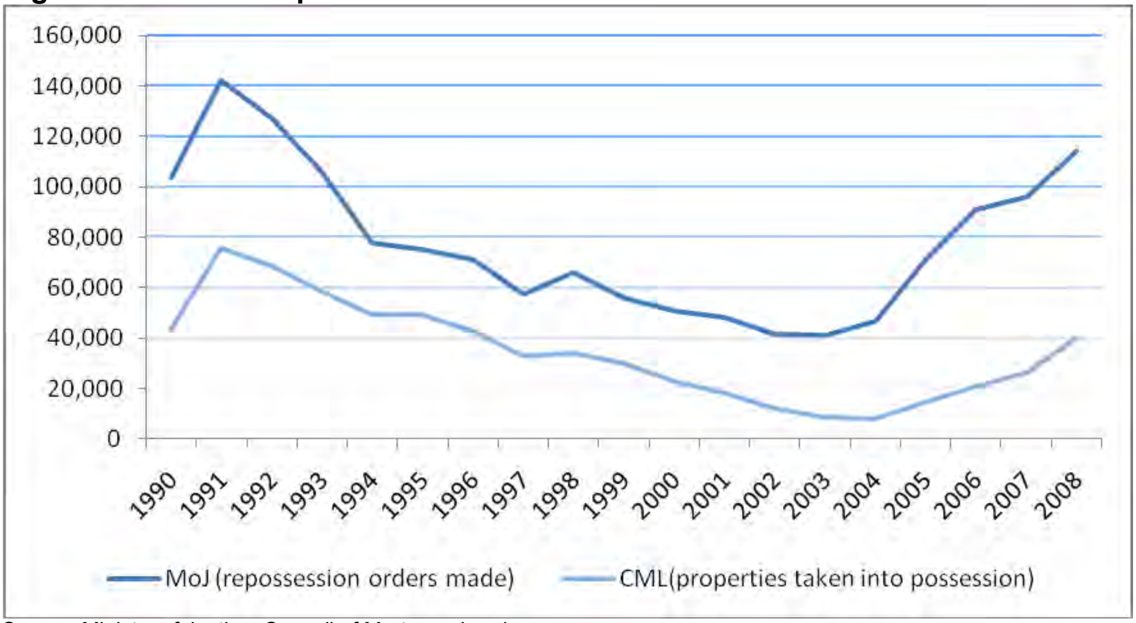
Quarterly data on house repossessions in England and Wales is collected by both the Council of Mortgage Lenders (CML) and the Ministry of Justice (MoJ). Although the two are not directly comparable due to different measurement methods, both point to an increase in repossessions and arrears during 2008 and forecast greater increases during 2009.

According to the CML there were 10,400 repossessions (number of properties taken into possession by its members) during the final quarter of 2008 compared to 11,100 in the previous quarter and 6,900 in the final quarter of 2007. In addition, 219,100 mortgages were in arrears of three months or more compared to 166,600 in the previous quarter and 127,500 in the final quarter of 2007. CML forecast that a total of 75,000 repossessions will be made in 2009, an increase of 87.5 per cent compared to 2008.

According to the MoJ 29,095 mortgage possession orders were made during the final quarter of 2008 compared to 19,163 in the previous quarter and 25,555 in the final quarter of 2007.

Figure 2.9 below compares annual CML and MoJ repossession figures since 1990.

Figure 2.9: Annual repossessions since 1990



Source: Ministry of Justice, Council of Mortgage Lenders

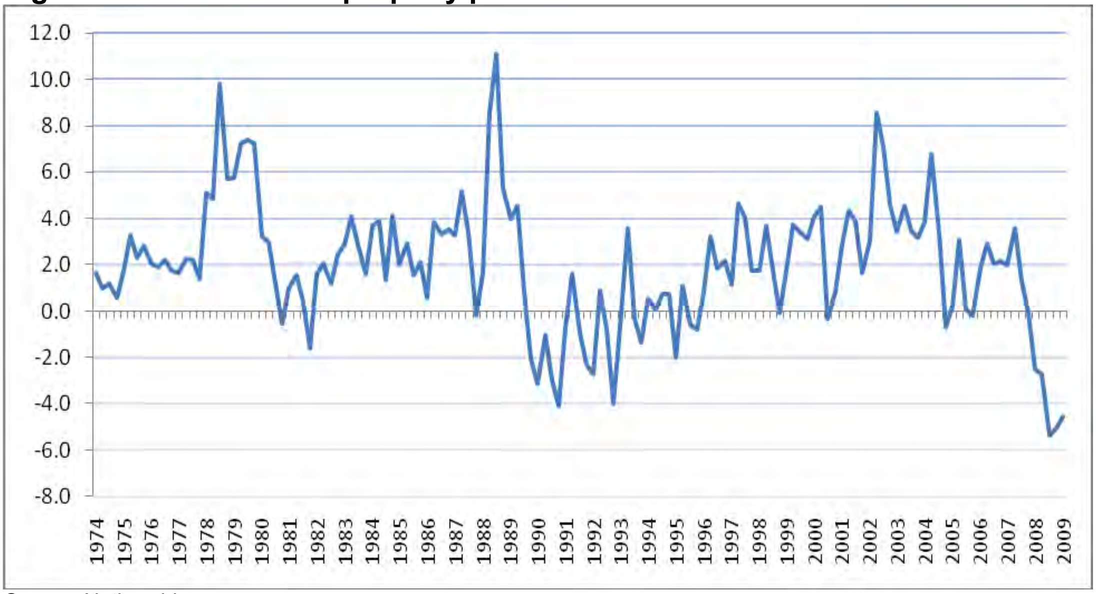
This shows that repossession figures peaked in 1991 during the previous recession, but then fell consistently between 1992 and 2003 (with the exception of 1998) before beginning to rise again. It also shows a sharp rise between 2007 and 2008 as the current recession began to take effect.

2.9. Property Prices

a) Residential Property

Changes in residential property prices are published on a quarterly basis by the Land Registry and major mortgage lenders such as Nationwide and Halifax. In the first quarter of 2009 UK house prices declined by -4.5 per cent compared to the previous quarter, and was preceded by five successive quarters of decline since the final quarter of 2007. Figure 2.10 below shows quarterly variations in residential property prices since 1974.

Figure 2.10: Residential property prices in the UK since 1974



Source: Nationwide

This shows that the recessions of 1980-82 and 1990-92 were both characterised by declines in the residential property market but during the 1973-75 recession the property market remained relatively stable. During the 1980-82 recession the market only declined in two quarters but during the 1990-92 recession it declined for six consecutive quarters and nine quarters in total.

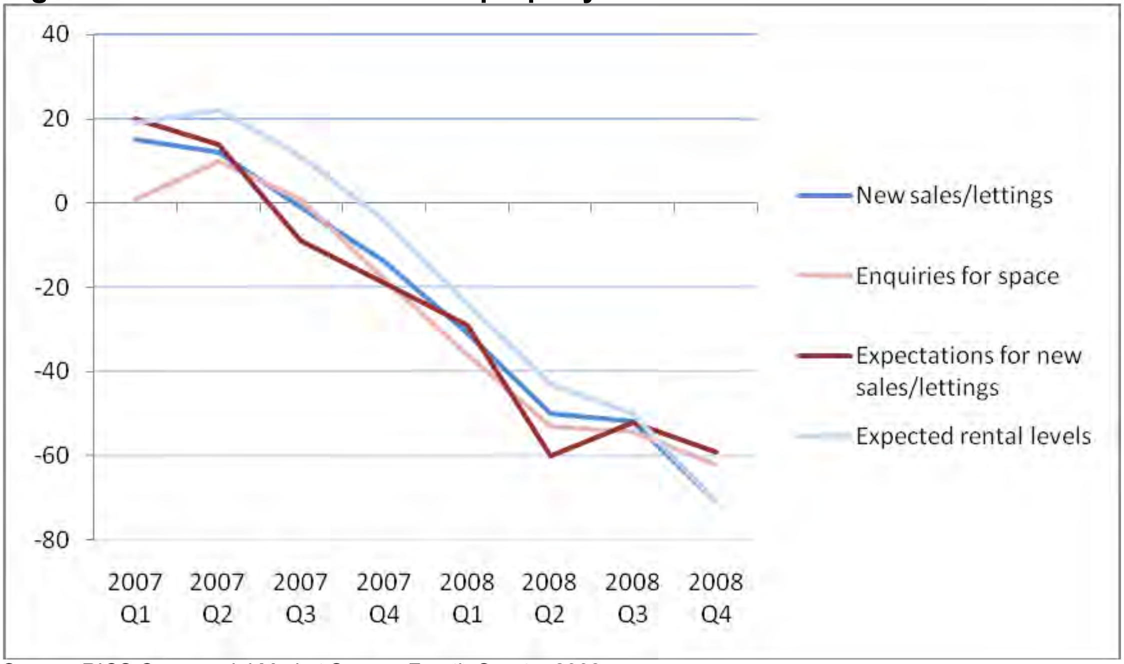
b) Commercial Property

Changes in the commercial property market are monitored by the Royal Institute of Chartered Surveyors (RICS) through their quarterly market survey of surveyor views and confidence. Their survey for the fourth quarter of 2008 found that activity across all sectors of the commercial property market declined significantly compared to the previous quarter.

The survey reports its findings as a percentage balance - the proportion of respondents reporting a rise/positive views minus the proportion reporting a fall/negative views. A positive percentage balance is therefore indicative of a healthy market while a negative balance is indicative of a market in decline.

Four demand based headline indicators are reported by the RCIS: change in new sales/lettings to occupiers; change in occupier enquiries for space; surveyor expectations for new sales/lettings for the next quarter; and surveyor expectations for rental for the next quarter. Trends in these indicators since 2007 are shown in figure 2.11 below.

Figure 2.11: Headline commercial property market indicators since 2007



Source: RICS Commercial Market Survey, Fourth Quarter 2008

This shows that all four indicators have been in decline since the final quarter of 2007, and reached a low point in the most recent quarter. In the final quarter of 2008 the percentage balance for new sales/lettings was -71; the percentage balance for enquiries for space was -62; the percentage balance for expectations for new sales lettings was -59; and the percentage balance for expected rental levels was -71.

The RICS survey also provides and indication of regional variations in the commercial property market. Of particular relevance is demand for office space, as rental income is an important source of revenue for Third Sector organisations with office accommodation assets. Table 2.6 below shows regional variations in demand for office space for three indicators in the final quarter of 2008: change in sales and lettings of space; confidence in sales and lettings space for the next quarter; change in enquiries for space.

Table 2.6: Regional variations in demand for office space, quarter 3 and 4 2008

	Sales and lettings		**Confidence in sale and lettings for the next quarter**		**Enquiries for space**	
	2008 Q3	*2008 Q4*	*2008 Q3*	*2008 Q4*	*2008 Q3*	*2008 Q4*
Central London	-64	-92	-68	-50	-68	-67
Greater London	-59	-82	-41	-70	-47	-91
East	-41	-100	-27	-71	-41	-100
East Midlands	-85	-67	-85	-71	-81	-83
West Midlands	-75	-93	-58	-60	-75	-80
North East	-33	-29	-33	-57	-67	-14
North West	-69	-56	-65	-76	-62	-60
South East	-55	-56	-23	-55	-48	-48
South West	-64	-41	-57	-36	-57	-50
Yorkshire and the Humber	-58	-64	-50	-45	-58	-55

Source: RICS Commercial Market Survey, Fourth Quarter 2008

This shows that demand for office space declined in every region in the final two quarters of 2008, and that surveyors in every region expected it decrease further during the first quarter of 2009. The Midlands (East and West), the East and London

(Central and Greater) reported the worst market conditions, while the North East, the South East and the South West reported slightly less negative market conditions.

2.10. Conclusion: implications for the Third Sector

Shifts in the state of the economy have wide ranging implications for Third Sector organisations. The evidence presented here suggests that the following are the main implications:

- **service demand**: rising unemployment, mortgage arrears and debt levels will feed through into increased demand for welfare rights, housing and debt counselling services. Many of these are provided by Third Sector organisations. Although demand will rise across the United Kingdom, the evidence around changes in unemployment suggests that this will be greater in certain localities. Two further issues should also be noted: there is some anecdotal evidence that the demand for debt and welfare advice has become more complex (than in previous recessions) and that official measures of unemployment (JSA and ILO) only reveal part of the full extent of worklessness
- **Third Sector income**: the recession will have direct effects on many of the key sources of income for organisations. Investment income (from shares as well as property) is likely to fall markedly and this will have immediate impacts on charities with large investment portfolios and especially grant making trusts and foundations. In a similar way legacy income is also likely to be affected. It is unclear the extent of the impact on private donations, but rising unemployment over the next two years will continually feed through into downward pressure on donations. Changes (due to the recession) in public sector income are initially likely to be less marked, although are set to increase markedly from 2010-11
- **expenditure**: expenditure on property and staff are likely to be constant in the medium term, with some organisations possibly better placed to benefit from short term downward pressure on property costs and a tightening of expenditure on staff. Other costs, notably utility bills are set to continue to increase in the medium to long-term
- **volunteering**: evidence from previous recessions suggests that volunteering falls during recessions. It is anticipated this will occur again. Evidence from the most recent Citizenship Survey (CLG 2009) suggests small but significant falls in both formal and informal volunteering. However, it is noted that significant shifts in the welfare agenda in the UK since the last recession have placed a far greater obligation on those claiming work related benefits to seek up training, work or volunteering opportunities. There is some evidence that this is feeding through into substantially increased demand on Volunteer Bureaux and Volunteer Involving Organisations. There is also speculation that the work of trustees is far more difficult during recessions and therefore retaining and recruiting trustees becomes harder.

These trends suggest that organisations may look at other options to reduce costs and these may include various forms of **collaboration**, through partnership, joint delivery or merger.

3. Third Sector Trends

3.1. Introduction

This section explores headlines changes in the stock of charities in England. It draws primarily on reported financial accounts submitted to the appropriate registrars.

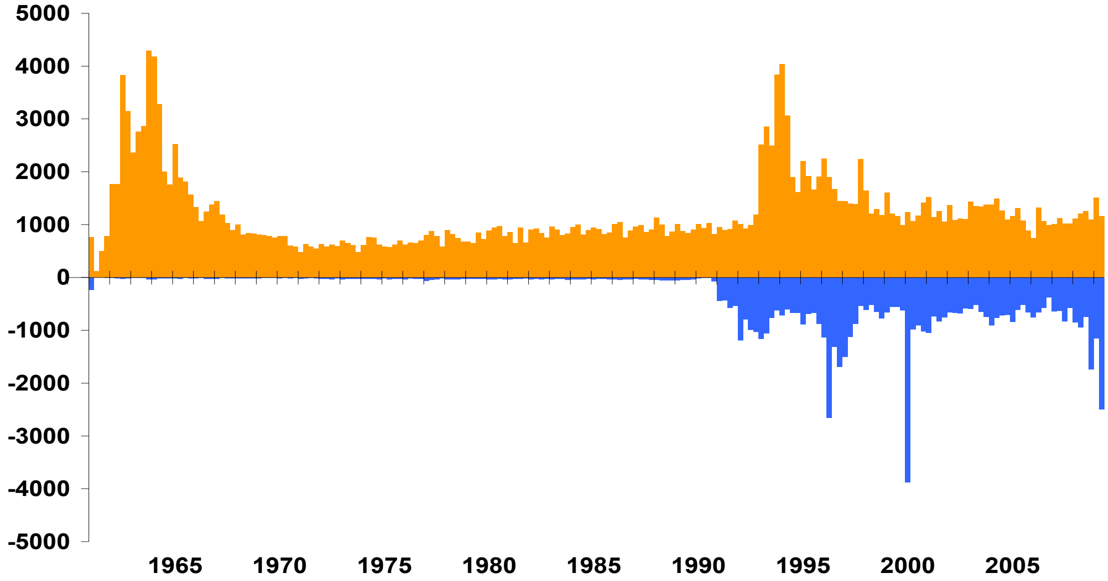
3.2. Stock of registered charities

The net stock of registered charities in England was 154,734 as of 12 June 2009. The net stock has increased by 5 per cent since 2000 (147,143 in 2000), 29 per cent since 1990 (119,909 in 1990), and 80 per cent since 1980 (85,704 in 1980).

a) Formation of registered charities (births)

It can be hypothesised that a recession will cause a slow down in the formation (births) of charities and an increase in the number of charities ceasing to exist (deaths). The following chart plots births (orange) and deaths (blue) in England by quarter since 1960[5].

Figure 3.1: Births and deaths of registered charities in England



Source: GuideStar 3rd Sector Database

Although charities have been formally recognised since Elizabethan times, the Charity Commission register was only established in 1960 – it is only since then that births have been systematically recorded. The task of formally registering existing

[5] The orange bars represent the number of charity registrations (births) each quarter, MINUS those registration which related to an existing charity becoming incorporated. The blue bars represent the number of charities that have „ceased to exist" (deaths) and are presented cumulatively for each quarter i.e. „on top" of the births in orange.

charities was considerable and this explains the high level of registrations during the early and mid part of the 1960s. The numbers of births rose steadily from 1970 through to 1990 - the recessions between 1973 and 1975, and 1980 and 1982 appear to have had little impact on births although the second and fourth quarters in 1981 were well below the quarterly norm.

During the 1970s and 1980s very few charities were removed from the register - it was only in the 1990s that the Charity Commission sought to purge the register of the charities which had become moribund over the previous decades. The Charities Act 1992 provided the basis for more formal regulation and the Charity Commission established procedures to help trustees wind up charities which had either become moribund or where their charitable objects had been achieved. These activities explain the high levels of "deaths" in the early 1990s.

The Charities Act 1992 and activities of the regulator also contributed to the increased number of "births" in the early 1990s. The launch of the National Lottery in November 1994 and government policies to promote the role of charities also contributed to the high levels of births. These influences on the levels of births and deaths mean that it is difficult to discern any relevant trend for the last recession between 1990 and1992.

The most recent quarterly pattern shows little change in the number of births but there has been a steep rise in the number of deaths since the fourth quarter of 2008 and the number of deaths in the second quarter of 2009 (incomplete at the time of analysis) has almost reached 2,500. This does not fit the pattern of volatility in previous quarters and requires further investigation before seeking to attribute this to the recession.

Table 3.1: Recent pattern of births and deaths (2007 Q1 to 2009 Q2)

Year	Q	Number of births (charities)	Number of deaths (charities)	NET TOTAL	NET BY QUARTER	Number of deaths (ceased to exist)	Charity becomes incorporated	Updated Births Column
2007	**1**	1,118	958	155,895	160	645	108	1,010
	2	1,158	920	156,133	238	633	43	1,115
	3	1,046	1,015	156,164	31	831	33	1,013
	4	1,060	772	156,452	288	576	41	1,019
2008	**1**	1,151	1,099	156,504	52	851	44	1,107
	2	1,266	1,179	156,591	87	943	63	1,203
	3	1,273	906	156,958	367	745	23	1,250
	4	1,165	2,055	156,068	-890	1,745	74	1,091
2009	**1**	1,562	1,390	156,240	172	1,152	52	1,510
	2	1,208	2,714	154,734	-1,506	**2,497**	48	1,160

Source: GuideStar 3rd Sector Database

3.3. Regional analysis of births

The pattern of births by region is – as expected – dominated by London and the South East - with one in five births (19 per cent) being charities based in London and almost as many births for charities based in the South East (18 per cent).

As noted above the pattern of births and deaths has been influenced by the activities of the regulator and government policy. Despite this the regional pattern has broadly been the same across the decades since the Charity Commission Register was established in 1960, however there are some interesting variations. Firstly, the proportion of births in London since 2000 has increased to almost one in four (24 per cent). Secondly, in the 1990s the proportion of births outside of London and the South East was higher for most regions than the average across all decades.

Looking at the more recent past - the proportion of births in London has increased year on year since 2000 (although the proportion so far this year has fallen back). In contrast the level of formation of new charities in the West Midlands has declined.

Table 3.2: Births by region for the decades since 1960

Year of registration	North East	North West	Yorkshire & Humberside	East Midlands	West Midlands	East of England	London	South East	South West	*England*
Total 2000-2009	1,897	4,945	3,571	3,297	4,368	4,959	11,493	7,908	5,289	47,727
%	*4.0%*	*10.4%*	*7.5%*	*6.9%*	*9.2%*	*10.4%*	*24.1%*	*16.6%*	*11.1%*	*100.0%*
Total 1990-1999	2,295	6,533	5,505	5,519	5,921	8,213	11,024	12,058	9,062	*66,130*
%	*3.5%*	*9.9%*	*8.3%*	*8.3%*	*9.0%*	*12.4%*	*16.7%*	*18.2%*	*13.7%*	100.0%
Total 1980-1989	1,137	3,701	2,498	2,349	3,157	4,144	7,707	6,619	4,184	35,496
%	*3.2%*	*10.4%*	*7.0%*	*6.6%*	*8.9%*	*11.7%*	*21.7%*	*18.6%*	*11.8%*	100.0%
Total 1970-1979	846	2,765	1,946	1,928	2,466	3,161	5,421	4,839	3,298	*26,670*
%	*3.2%*	*10.4%*	*7.3%*	*7.2%*	*9.2%*	*11.9%*	*20.3%*	*18.1%*	*12.4%*	100.0%
Total 1960-1969	1,890	6,056	4,510	5,498	5,571	7,801	9,405	10,859	8,477	*60,067*
%	3.1%	10.1%	7.5%	9.2%	9.3%	13.0%	15.7%	18.1%	14.1%	100.0%
All registrations 1960 - 2009	**8,065**	**24,000**	**18,030**	**18,591**	**21,483**	**28,278**	**45,050**	**42,283**	**30,310**	**236,090**
%	**3.4%**	**10.2%**	**7.6%**	**7.9%**	**9.1%**	**12.0%**	**19.1%**	**17.9%**	**12.8%**	**100.0%**

Source: GuideStar 3rd Sector Database

Table 3.3: Births by region since 2000

Year of registration	North East	North West	Yorkshire & Humberside	East Midlands	West Midlands	East of England	London	South East	South West	*England*
2000	3.5%	9.9%	7.0%	6.7%	10.5%	10.8%	21.5%	17.1%	13.1%	100.0%
2001	4.0%	10.7%	7.4%	7.1%	10.2%	10.6%	20.9%	16.9%	12.2%	100.0%
2002	5.0%	10.9%	8.8%	7.2%	10.3%	10.8%	20.1%	15.8%	11.1%	100.0%
2003	4.2%	11.2%	7.7%	6.7%	9.3%	10.4%	22.2%	17.2%	11.2%	100.0%
2004	3.6%	10.4%	7.8%	6.6%	8.7%	10.7%	24.4%	17.0%	10.8%	100.0%
2005	3.7%	10.5%	7.2%	7.0%	8.6%	10.9%	25.1%	16.4%	10.6%	100.0%
2006	3.6%	10.1%	7.4%	7.3%	8.1%	9.8%	27.1%	15.6%	11.0%	100.0%
2007	4.2%	9.3%	7.7%	7.7%	8.1%	9.8%	27.4%	15.2%	10.6%	100.0%
2008	4.6%	10.0%	6.6%	6.1%	9.0%	9.2%	29.4%	16.1%	9.1%	100.0%
2009	3.1%	10.2%	7.0%	6.8%	7.9%	11.0%	23.8%	19.2%	11.0%	100.0%
2000 onwards	1,897	4,945	3,571	3,297	4,368	4,959	11,493	7,908	5,289	47,727
%	4.0%	10.4%	7.5%	6.9%	9.2%	10.4%	24.1%	16.6%	11.1%	100.0%

Source: GuideStar 3rd Sector Database

3.4. Registered charities ceasing to exist (deaths)

It can be hypothesised that a recession will cause an increase in the number of charities ceasing to exist ("deaths").

The reason for removal from the register is systematically recorded by the Charity Commission and these can be categorised as: ceasing to exist; mergers or amalgamations; the transfer of funds relating to action of the Charity Commission; and incorporation[6]. The vast majority of removals form the register (84 per cent) are

[6] The trend is for charities to be incorporated which means that most charities now choose to be companies limited by guarantee instead of the trust or unincorporated association legal status. Over recent years charities entering into contracts to deliver public services, or to simply protect their trustees, have changed their legal status to be incorporated as a company limited by guarantee. To effect this incorporation the Charity

categorised as ceasing to exist but there are also significant numbers of removals which directly relate to the transfer of funds under actions of the regulator (7 per cent).

Table 3.4: Reasons for the removal of charities from the register

	Number of "deaths"	%
Ceased to exist	68,600	84.3%
Merger / amalgamation	1,816	2.2%
Funds transferred by Charity Commission	5,616	6.9%
Charity becomes incorporated	2,964	3.6%
Other reason	2,360	2.9%
Total	**81,356**	**100.0%**

Source: GuideStar 3rd Sector Database

This pattern of "deaths" parallels that of charity formation in terms of the activities of the regulator have a significant impact on the number of deaths. The pattern between 1960 and 1989 shows very few removals from the register. The subsequent peaks coincide with regulatory activities to "tidy up" the Register. This means that it is difficult to draw any inferences from previous recessions. The analysis of deaths has therefore focused on those categorised as ceasing to exist – which is the closest to company dissolution, and the most recent pattern of "deaths".

As noted above, the most recent quarterly pattern shows a steep rise in the number of deaths since the fourth quarter of 2008 and the number of deaths in the second quarter of 2009 (which is incomplete) has almost reached 2,500. This does not fit the pattern of volatility in early quarters and requires further investigation before seeking to attribute this to the recession.

Table 3.5: Recent Trends in Charity "Deaths"

Recent quarters	Number of "deaths"
2006 Q4	378
2007 Q1	645
2007 Q2	633
2007 Q3	831
2007 Q4	576
2008 Q1	851
2008 Q2	943
2008 Q3	745
2008 Q4	1,745
2009 Q1	1,152
2009 Q2 (to June 15th)	2,497

Source: GuideStar 3rd Sector Database

3.5. Regional analysis of charities ceasing to exist (deaths)

The pattern of deaths since 1990 across the regions broadly matches that of formations (births). A number of regional trends can be observed including:

- a reduction in deaths in London since 2006 (falling from over 20 per cent of the total to only 15 per cent)
- an increase in the proportion of deaths in the West Midlands – less than 10 per cent since 1990 but increasing to over 13 per cent in the last quarter

Commission Please create a new registration – which clearly does not constitute a "birth" – so these are removed from the analysis of births.

- an increase in the proportion of deaths in the South West – 13 per cent since 1990 but increasing to 19 per cent in the last quarter.

These trends require validation through further investigation.

Table 3.6: Registered charities which have "ceased to exist" by year and region

Deaths	North East	North West	Yorkshire & Humberside	East Midlands	West Midlands	East of England	London	South East	South West
Since 1990	**3.5%**	**10.5%**	**7.5%**	**7.3%**	**9.6%**	**11.0%**	**20.4%**	**16.9%**	**13.3%**
Since 2006	4.2%	10.6%	8.4%	8.2%	10.8%	11.4%	14.8%	17.5%	14.3%
Last 3 quarters	3.8%	10.1%	8.3%	8.8%	11.5%	12.3%	11.1%	17.8%	16.1%
2008 (q4)	*4.1%*	*13.0%*	*8.7%*	*7.6%*	*10.8%*	*11.1%*	*18.9%*	*14.3%*	*11.5%*
2009 (q1)	*3.8%*	*14.3%*	*7.2%*	*7.0%*	*8.9%*	*12.7%*	*12.6%*	*17.2%*	*16.2%*
2009 (q2)	*3.5%*	*6.2%*	*8.7%*	*10.5%*	***13.2%***	*13.0%*	*5.0%*	*20.6%*	***19.3%***

Source: GuideStar 3rd Sector Database

3.6. Regional analysis of the last known incomes of charities ceasing to exist (deaths)

The process of companies dissolving and charities being removed from the Charity Commission Register can follow a number of paths. Some organisations can follow an orderly wind down and close their affairs with low or indeed no economic activity, on the other hand organisations (or their creditors) can call in the administrators and the organisation can close despite having recorded high levels of economic activity.

These two paths to closure – and the spectrum in between is reflected in the analysis of the last known income of charities which have ceased to exist. Almost three-quarters had less than £5 thousand annual income on closure whilst the last known annual income of over 1,500 (5 per cent) charities was over £110 thousand.

3.7. The merger and amalgamation of registered charities

Over the last eighteen months the Charity Commission has established a register of mergers for registered charities. At this early stage the register covers mostly the merger of larger charities. Overall it is estimated that almost 2,000 charities have been removed form the register as part of a merger or amalgamation process.

3.8. Conclusion: implications for the Third Sector

The formation and registration (birth), end or de-registration (death) and merger (marriage) form the three changes which drive the organisational demography of the Third Sector. Historic evidence suggests that the overall Third Sector demography has largely not been affected by recession: conversely the most significant shifts have been driven by public policy action (most notably shifts in action by government, the Third Sector registrars or the National Lottery).

There is however evidence that the death rate of Third Sector organisations has increased markedly in the last 12 months, and contributed to a new loss in the number of charities. The proportion of Third Sector deaths has always been uneven, but it is notable that this pattern has shifted with increasing proportions of deaths occurring in the South West and West Midlands regions.

The rising death rate amongst Third Sector organisations suggests that the current recession may have a greater impact than previous ones. The following section explores whether certain types of organisation may be most vulnerable.

4

4. Third Sector Organisations at risk: financial vulnerability

4.1. Introduction

The following section explores the financial data of a sample of charities in more detail. It focuses on two regions - the West Midlands and Yorkshire and the Humber - and explores issues of financial vulnerability prior to the onset of the recession. These regions were selected because they have been particularly hard hit by the recession so far.

The analysis aims to identify if any particular types of organisation according to region, size (i.e. annual income) and category (i.e. purpose, target group) were more financially vulnerable prior to the recession and therefore less likely to be well-equipped to deal with any recessionary effects.

4.2. Understanding financial vulnerability

The concept of financial vulnerability in Third Sector organisations is relatively under-researched, particularly in terms of quantitative data analysis. Financial vulnerability is best described as an organisation's ability to withstand the impact of a 'financial shock' such as the loss of one or more income streams, a reduced rate of investment return, or the depreciation of an asset. A financially vulnerable organisation is one which is likely to have to reduce its service delivery as a result of a financial shock (Tuckman and Chang, 1991)[7] while those which are more financially resilient would be able to maintain service delivery levels despite such a shock. If support organisations such as Capacitybuilders can understand the types of organisations most likely to be financially vulnerable during the recession, and in what ways, they will be better able to focus their support in the areas where need is likely to be greatest.

4.3. Methodology

The following analysis seeks to identify which types of organisations were most likely to be financially vulnerable in the lead up to the recession through exploration of four key criteria thought to be indicative of limited flexibility to withstand financial shocks[8]:

- operating margin - organisations with expenditure which are high relative to income are less able to generate surpluses and have ready funds (i.e. reserves) to draw on following a financial shock

[7] This section of the report draws on research set out in two papers:
Tuckman, H.P. and Chang, C.F. (1191), 'A Methodology for Measuring the Financial Vulnerability of Charitable Nonprofit Organizations', *Nonprofit and Voluntary Sector Quarterly,* v. 20 pp. 445-460.
Hager, M.A. (2001), 'Financial Vulnerability among Arts Organizations: A Test of the Tuckman-Chang Measures', *Nonprofit and Voluntary Sector Quarterly,* v. 30 pp. 376-392.
[8] In establishing these criteria we drew on the work of Tuckman and Chang (1991) and Hager (2001), as well as GuideStar Data Services' early experiences of constructing similar variables for the ChangeUp Evaluation.

- staff costs - organisations with high staff costs as a proportion of expenditure are likely to find it harder to meet their salary commitments following a financial shock
- revenue concentration - organisations that are overly reliant on a particular income source will be vulnerable if that income source is reduced or withdrawn
- long term liabilities - organisations with high levels of long term debt (i.e. mortgages, loans, overdrafts etc) will be vulnerable to default on payments if income is suddenly reduced.

a) Variables

Using charity account data supplied by GuideStar Data Services seven operational variables were created based on the above criteria:

1. Operating margin

Two variables were created linked to the operating margin: an operating margin ratio and a reserves ratio. The operating margin ratio is calculated as:

> *Total annual income less total annual expenditure as a percentage of total annual expenditure.*

To account for year on year fluctuations a five year mean (2003/04-2007/08) was constructed. Each organisation was then categorised according to the quintile in which its mean was located. Organisations in the lower quintile (i.e. the bottom 20 per cent) were those with the lowest operating margin ratio and therefore the most vulnerable according to this variable. For this variable organisations with an operating margin ratio below -1.18 per cent were located in the lower quintile.

The reserves ratio is calculated as:

> *Net current assets as a percentage of total annual expenditure.*

The ratio was calculated for the 2006/07 financial year and each organisation was categorised according to quintile in which its ration was located. Organisations in the lower quintile were those with the lowest reserves ratios and therefore the most financially vulnerable according to this variable. For this variable organisations with a reserves ratio below 16.2 per cent were located in the lower quintile.

2. Staff costs

A variable was created based on a staff cost ratio. This is calculated as:

> *Annual staff costs as a percentage of total annual expenditure.*

To account for year on year fluctuations a five year mean (2003/04-2007/08) was constructed. Each organisation was then categorised according to the quintile in which its mean was located. Organisations in the lower quintile were those with the highest staff cost ratios and therefore the most financially vulnerable according to this variable. For this variable organisations with a staff cost ratio above 71.8 per cent were located in the lower quintile.

3. Revenue concentration

Three variables were created linked to revenue concentration based on the three key types of charity income: a voluntary income ratio; a sales income ratio; and an investment income ratio. The voluntary income ratio is calculated as:

Annual voluntary income as a percentage of total annual income

The sales income ratio is calculated as:

Annual sales income as a percentage of total annual income

The investment income ratio is calculated as:

Annual investment income as a percentage of total annual income

To account for year on year fluctuations a five year mean (2003/04-2007/08) was constructed for each variable. Each organisation was then categorised according to the quintile in which its mean was located. Organisations in the lower quintiles were those with the highest cost ratios and therefore the most financially vulnerable according to these variables. For voluntary income organisations with a ratio above 85.0 per cent were located in the lower quintile while for investment income the lower quintile was 20.5 per cent and above. For sales income organisations with a ratio above 0.9850 were located in the lower quartile and organisations with a ratio above 82.2 per cent were located in the lower two quartiles.

4. Long term liabilities

A variable was created based on a long term liabilities ratio. This is calculated as:

Total creditors falling beyond one year as a percentage of total annual income.

The ratio was calculated for the 2006/07 financial year and each organisation was categorised according to quintile in which its ration was located. Organisations in the lower quintile were those with the highest ratios and therefore the most financially vulnerable according to this variable

b) Categories

The analysis explored each of the above variables according to the following organisational categories based on the Register of Charities:

- region - West Midlands and Yorkshire and the Humber
- income size - Small (less than £100 thousand); Medium (£100 thousand-£1 million); Large (over £1 million)
- organisation purpose - Education and training; Medical/health/sickness; Disability; Accommodation/housing; Arts and culture; Environment/conservation/heritage; economic/ community development/ employment
- organisation target group - Children/young people; Elderly/old people; People with disabilities; People of a particular ethnic group or racial origin
- organisation type - Service providers; Infrastructure/umbrella orgs; Grantmakers; Volunteer development.

It should be noted that this is not an all encompassing list of organisational information collected through the Charity Commission register. However, in order to focus the analysis only those categories which are most closely linked to the work of Capacitybuilders and local infrastructure organisations more generally were examined.

c) Sampling

Following on from earlier sections in this report, data for Third Sector organisations in Yorkshire and the Humber and the West Midlands were analysed in more detail. The sample frame was drawn from the GuideStar Data Services database of registered Third Sector organisations and contained both registered charities and a range of other incorporated organisation types. Of a total sample of 20,180 organisations, 9,333 were based in Yorkshire and the Humber and 10,847 were based in the West Midlands. However, it should be noted that not every organisation in the sample was included in the analysis of every variable. This is because only organisations with an annual income over £10 thousand are required to provide the Charity Commission with a detailed annual financial return. This means that the actual sample is different for each variable, and only includes organisations who returned the financial information relevant to that variable. For example, only organisations with an annual income over £10 thousand which also employ paid staff provide the data required to calculate the staff cost ratio. As a result the total sample size for the staff cost ratio is only 5,951 organisations.

The sample sizes for each variable by organisation category is summarised in table 4.1 below.

Table 4.1: Sample sizes for each variable

Variable	**Sample size**	
	Yorkshire and the Humber	*West Midlands*
Operating margin	9,333	10,847
Reserves	3,941	4,398
Staff costs	2,875	3,076
Voluntary income	3,930	4,468
Sales income	5,250	5,767
Investment income	3,035	3,485
Long term liabilities	353	398

d) Analysing the data

The analysis focussed on identifying whether any particular types of organisation (based on the above categories) were more likely to be located in the lower quintile for each variable and therefore (prima facie) more likely to be financially vulnerable according to a particular criteria. The following sections summarise this analysis by highlighting where particular types of organisations were over represented in the lower quintile by more than 2 percentage points.

For example, if there were no differences between small organisations and medium and large organisations according to the operating margin ratio, you would expect to find 20 per cent of small organisations in the lower quintile. However, 22 per cent of small organisations are actually located in the lower quintile, suggesting that small organisations are more likely to be vulnerable due to low operating margins compared to larger organisations. It should be noted that for the sales income the lower two quartiles are considered. This is due to the high ratio (98.5 per cent) in the lower quintile.

To ensure that the results reported are statistically significant (i.e. that any differences are not simply due to chance), a Chi-square testing procedure was used to identify findings with a confidence interval of at least 95 per cent (i.e. $p < 0.05$)[9].

It should be stressed that the application of financial vulnerability measures to the UK Third Sector is still relatively novel, and some caution should be shown in interpreting these findings.

4.4. Analysis and Findings for Both Regions

The following section summarises by region and category the analysis of the operational variables described above and outlines some key findings. Findings are presented for both regions (i.e. Yorkshire and the Humber and the West Midlands taken together), and for each region separately.

The first series of analyses considers the results for both Yorkshire and the Humber and the West Midlands taken together.

a) Operating margin ratio

The findings for the operating margin ratio for both regions are summarised in table 4.2.

Table 4.2: Operating margin ratio - key findings for both regions

Organisation category	% in lower quintile
Purpose:	
Disability	22.7

This shows that for the operating margin ratio the only organisations identified as being more likely to be vulnerable were those whose purpose was linked to disability with 22.7 per cent located in the lower quintile. This suggests that there is not a particularly strong link between operating margin and an organisation's income, purpose, target group and type.

b) Reserves ratio

The findings for the reserves ratio for both regions are summarised in table 4.3.

[9] A full set of data tables is available on request from the authors.

Table 4.3: Reserves ratio - key findings for both regions

Organisation category	% in lower quintile
Income:	
Medium (£100k-£1m)	24.3
Large (over £1m)	45.5
Purpose:	
Education/ Training	23.3
Accommodation/ Housing	23.8
Economic/ Community Development/ Employment	26.8
Target Group:	
Children/ Young People	22.3
People of a particular ethnic or racial origin	28.1
Type:	
Service Provider	22.4
Attract/ Mobilise/Place Volunteers	23.1

This shows that a variety of different types of organisation appear more likely to be vulnerable according to the reserves ratio:

- *organisation income:* both medium (24.3 per cent in the lower quintile) and large organisations (45.5 per cent) were more likely to be vulnerable
- *organisation purpose:* organisations working in education/training (23.3 per cent in the lower quintile), accommodation/housing (23.8 percent) and economic/community development/ employment (26.8 per cent) were more likely to be vulnerable
- *organisations' target group:* organisations targeting children/young people (22.3 per cent in the lower quintile) and people of a particular ethnic or racial origin (28.1 per cent) were more likely to be vulnerable
- *organisation type:* service providing organisations (22.4 per cent in the lower quintile) and organisations that attract/mobilise/place volunteers (23.1 per cent) were more likely to be vulnerable.

Across the categories it appears that large organisations with annual incomes in excess of £1 million (45.5 per cent in the lower quintile), organisations targeting people of a particular ethnic or racial origin (28.1 per cent), and organisations working in economic/community development/ employment (26.8 per cent) were most likely to be financially vulnerable due to low levels of reserves.

c) *Staff cost ratio*

The findings for the staff cost ratio for both regions are summarised in table 4.4.

Table 4.4: Staff cost ratio - key findings for both regions

Organisation category	% in lower quintile
Income: Small (under £100 thousand)	22.8
Purpose: Education/ Training	22.9
Target Group: Children/ Young People	23.3
Type: Attract/ Mobilise/Place Volunteers	22.7

This shows that only one type of organisation in each category was more likely to be financially vulnerable according to the staff cost ratio:

- *organisation income:* organisations with small annual incomes under £100 thousand were more likely to be vulnerable (22.8 per cent in the lower quintile)
- *organisation purpose:* organisations working in education/training were more likely to be vulnerable (22.9per cent in the lower quintile)
- *organisations' target group:* organisations targeting children/young people were more likely to be vulnerable (23.3 per cent in the lower quintile)
- *organisation type:* organisations that attract/mobilise/place volunteers were more likely to be vulnerable (22.7 per cent in the lower quintile).

Although four types of organisation have been identified as more likely to be financially vulnerable according to proportionately high staff costs, it should be noted that none are significantly over-represented in the lower quintile (i.e. more than 25 per cent).

d) *Voluntary income ratio*

The findings for the voluntary income ratio for both regions are summarised in table 4.5.

Table 4.5: Voluntary income ratio - key findings for both regions

Organisation category	% in lower quintile
Income:	
Medium (£100 thousand-£1m)	22.1
Purpose:	
Medical/Health/ Sickness	26.1
Disability	22.7
Economic/ Community Development/ Employment	26.0
Target group:	
People of a particular ethnic or racial origin	33.1
Type:	
Solely a Grantmaker	24.0
Umbrella/ Infrastructure	25.0

This shows that a range of different types of organisation appear more likely to be financially vulnerable due to the concentration of voluntary income:

- *organisation income:* organisations with medium annual incomes of £100 thousand - £1m were more likely to be vulnerable (22.1 per cent in the lower quintile)
- *organisation purpose:* organisations working in the areas of medical/health/sickness (26.1 per cent in the lower quintile), disability (22.7 per cent) and economic/ community Development/ employment (26.0 per cent) were more likely to be vulnerable
- *organisations' target group:* organisations targeting people of a particular ethnic or racial origin were more likely to be vulnerable (33.1 per cent in the lower quintile)
- *organisation type:* grantmakers (24.0 per cent in the lower quintile) and umbrella/infrastructure organisations (25.0 per cent) were more likely to be vulnerable.

Across these categories it appears that organisations working with people of a particular ethnic origin (33.1 per cent in the lower quintile), organisations working in medical/health/ sickness (26.1 per cent), and organisations working in economic/ community Development/ employment (26.0 per cent) were most likely to be financially vulnerable due to a high concentration of income from voluntary sources.

e) Sales income ratio

The findings for the sales income ratio for both regions are summarised in table 4.6.

Table 4.6: Sales income ratio - key findings for both regions

Organisation category	**% in lower two quintiles**
Income:	
Small (under £100 thousand)	43.9
Large (over £1m)	42.8
Purpose:	
Education/ Training	43.0
Sport/Recreation	44.1
Target group:	
Children/ Young People	43.4

This shows that a number of types of organisations from different categories were more likely to be financially vulnerable due to the concentration of sales income:

- *organisation income:* small organisations (43.9 per cent in the lower two quintiles) and large organisations (42.8 per cent) were more likely to be vulnerable
- *organisation purpose:* organisations working in education/training (43.0 per cent in the lower two quintiles) and sport/recreation (44.1 per cent) were more likely to be vulnerable
- *organisations' target group:* organisations targeting children and young people were more likely to be vulnerable (43.4 per cent in the lower two quintiles).

Although five different types of organisation have been identified as more likely to be financially vulnerable due to concentration of sales income, it should be noted none are significantly over-represented in the lower two quintiles (i.e. more than 45 per cent).

f) Investment income ratio

The findings for the investment income ratio for both regions are summarised in table 4.7.

Table 4.7: Investment income ratio - key findings for both regions

Organisation category	**% in lower quintile**
Income:	
Small (under £100 thousand)	31.6
Purpose:	
Accommodation/ Housing	25.6
Organisation type:	
Solely a Grantmaker	67.9

This shows that three types of organisations from three categories were more likely to be financially vulnerable due to the concentration of investment income:

- *organisation income:* small organisations with annual incomes under £100 thousand were more likely to be vulnerable (31.6 per cent in the lower quintile)
- *organisation purpose:* organisations working in accommodation/housing were more likely to be vulnerable (25.6 per cent in the lower quintile)
- *organisation type:* organisations that were solely a grantmaker were more likely to be vulnerable (67.9 per cent in the lower quintile).

Although there were an apparently high proportion of grantmakers in the lower quintile this is to be expected - most grant making foundations and trusts rely on returns from large investments and endowments in order to provide funds to make grants.

g) Long term liabilities ratio

The findings for the long term liabilities ratio for both regions are summarised in table 4.8.

Table 4.8: Long term liabilities ratio - key findings for both regions

Organisation category	**% in lower quintile**
Income:	
Small (under £100k)	44.4
Target group:	
Elderly/Old People	26.0
People of a particular ethnic or racial origin	34.8

This shows that three types of organisations from two categories were more likely to be financially vulnerable due to proportionately high levels of long term liabilities:

- *organisation income:* small organisations (44.4 per cent in the lower quintile) were more likely to be vulnerable

- *organisations' target group:* organisations targeting elderly people (26.0 per cent in the lower quintile) and people of a particular ethnic origin (34.8 per cent) were more likely to be vulnerable.

Although only three types of organisation are more likely to be financially vulnerable due to high levels of long term liabilities, for those that are the risk appears to be significant. In particular small organisations (44.4 per cent in the lower quintile) and organisations targeting people of a particular ethnic or racial origin (34.8 per cent) are considerably more likely to be vulnerable in this way.

h) Summary

Although it would be unwise to aggregate the results for each variable to create a summative figure to describe overall vulnerability, the results can be summarised to demonstrate the number of variables a particular type of organisation has been identified as more likely to be vulnerable on. This is outlined in tables 4.9 - 4.13 below.

Table 4.9: Total number of vulnerable variables according organisational income

	No of vulnerable variables
Income:	
Small (under £100 thousand)	4
Medium (£100 thousand - £1m)	2
Large (over £1m)	2

This shows that small organisations with incomes under £100 thousand were more likely to financially vulnerable according to four of the seven variables while medium sized organisations with incomes between £100 thousand and £1 million and large organisations with incomes over £1 million were both only more likely to be vulnerable according to two variables.

Table 4.10: Total number of vulnerable variables according organisation purpose

	No of vulnerable variables
Education/ Training	3
Medical/Health/ Sickness	1
Disability	1
Accommodation/ Housing	2
Arts/Culture	0
Sport/ Recreation	1
Environment/ Conservation/ Heritage	0
Economic/ Community Development/ Employment	2

This shows that organisations working in education/training were more likely to be vulnerable according to three out of seven variables, while organisations working in accommodation and training and economic/ community development/ employment were more likely to be vulnerable according to two variables. All other types of organisations in this category were vulnerable according to only one or no variables.

Table 4.11: Total number of vulnerable variables according organisation target group

	No of vulnerable variables
Children/ Young People	3
Elderly/Old People	1
People with a Disability/ Special Needs	0
People of a particular ethnic or racial origin	3

This shows that organisations targeting children/young people and those targeting people of a particular racial or ethnic origin were both more likely to be vulnerable according three out of seven variables but that organisations targeting elderly/old people were only more likely to be vulnerable according to one variable and organisations targeting people with a disability/special needs were not more likely to be vulnerable at all.

Table 4.12: Total number of vulnerable variables according organisational type

	No of vulnerable variables
Solely a Grantmaker	2
Service Provider	1
Umbrella/ Infrastructure	1
Attract/ Mobilise/Place Volunteers	2

This shows that organisations who are solely grantmakers and organisations that work to attract/mobilise/place volunteers were both vulnerable according to two out of seven variables while umbrella/infrastructure organisations and service providing organisations were only more likely to be vulnerable according one variable each.

It is also possible to aggregate the results for each variable to provide an indication of whether there are any particular types of vulnerability to which a larger number of organisation types are susceptible to. This is outlined in table 4.13 below.

Table 4.13: Total number of vulnerable categories according to each variable

	No of vulnerable categories
Operating margin	1
Reserves	9
Staff costs	4
Voluntary income	6
Sales income	5
Investment income	3
Long term liabilities	3

This shows that the largest number of organisation categories (nine out of twenty) were vulnerable due to low a reserve ratio. Voluntary income (six categories out of twenty) and sales income (five categories out of twenty) also came through quite strongly.

This summary demonstrates that, when taking both the Yorkshire and the Humber and West Midlands regions together, several types of organisation across the categories stand as more likely to be vulnerable on at least three variables:

- small organisations with and annual income of less than £100 thousand are more likely to be vulnerable according to staff costs, sales income, investment income and long term liabilities
- organisations working in education and training are more likely to vulnerable according to reserve levels, staff costs and sales income
- organisations targeting children/young people are more likely to be vulnerable according to reserves, staff costs and sales income
- organisations targeting people of a particular ethnic or racial origin are more likely to vulnerable according to reserves, voluntary income and long term liabilities.

It also demonstrates that reserves ratio, and the voluntary and sales income ratios were the variables in which the largest number organisation categories were more likely to be vulnerable.

4.5. The Analysis and Findings for Yorkshire and the Humber

The second series of analyses considers the results for organisations based in Yorkshire and the Humber.

a) Operating margin ratio

The findings for the operating margin ratio for Yorkshire and the Humber are summarised in table 4.14.

Table 4.14: Operating margin ratio - key findings for Yorkshire and the Humber

Organisation category	% in lower quintile
Purpose:	
Economic/ Community Development/ Employment	22.2

This shows that for the operating margin ratio the only organisations identified as being more likely to be vulnerable were those whose purpose was linked to economic/ community development/ employment with 22.2 per cent located in the lower quintile. This suggests that in Yorkshire and the Humber there was not a particularly strong link between operating margin and organisation's income, purpose, target group and type.

b) Reserves ratio

The findings for the reserves ratio for Yorkshire and the Humber are summarised in table 4.15.

Table 4.15: Reserves ratio - key findings for Yorkshire and the Humber

Organisation category	% in lower quintile
Income:	
Medium (£100 thousand-£1m)	24.1
Large (over £1m)	47.6
Purpose:	
Education/ Training	22.7
Economic/ Community Development/ Employment	26.1
Target group:	
People with a Disability/ Special Needs	22.3
People of a particular ethnic or racial origin	28.4

This shows that six different types of organisation from three categories appear more likely to be financially vulnerable according to the reserves ratio:

- *organisation income:* medium sized organisations with annual incomes between £100 thousand and £1 million (24.1 per cent in the lower quintile) and large organisations with annual incomes over £1 million were (47.6 per cent) were more likely to be vulnerable
- *organisation purpose:* organisations working in education/training (22.7 per cent in the lower quintile) and economic/ community development/ employment (26.1 per cent) were more likely to be vulnerable

- *organisations' target group:* organisations targeting people with a disability/special needs (22.3 per cent in the lower quintile) and people of a particular ethnic or racial origin (28.4 per cent) were more likely to be vulnerable.

Across the categories it appears that large organisations with an annual income over £1 million (47.6per cent in the lower quintile), organisations targeting people of a particular ethnic or racial origin (28.4 per cent) and organisations working in economic/ community development/ employment (26.1 per cent) were most likely to be financially vulnerable due to low levels of reserves.

c) Staff cost ratio

The findings for the staff cost ratio for Yorkshire and the Humber are summarised in table 4.16.

Table 4.16: Staff cost ratio - key findings for Yorkshire and the Humber

Organisation category	**% in lower quintile**
Income: Small (under £100 thousand)	23.3
Purpose: Education/ Training	23.1
Target group: Children/ Young People	24.1
Organisation type: Attract/ Mobilise/Place Volunteers	22.7

This shows that four different types of organisation - one from each category - were more likely to be financially vulnerable according to the staff cost ratio:

- *organisation income:* small organisations with annual incomes below £100 thousand were more likely to be vulnerable (23.3 per cent in the lower quintile)
- *organisation purpose:* organisations working in education/training were more likely to be vulnerable (23.1 per cent in the lower quintile)
- *organisations' target group:* organisations targeting children/young people were more likely to be vulnerable (24.1 per cent in the lower quintile)
- *organisation type:* organisations working to attract/mobilise/place volunteers were more likely to be vulnerable (22.7 per cent in the lower quintile).

Although four types of organisation have been identified as more likely to be financially vulnerable according to proportionately high staff costs, it should be noted that none are significantly over-represented in the lower quintile (i.e. more than 25 per cent).

d) Voluntary income ratio

The findings for the voluntary income ratio for Yorkshire and the Humber are summarised in table 4.17.

Table 4.17: Voluntary income ratio - key findings for Yorkshire and the Humber

Organisation category	% in lower quintile
Income:	
Medium (£100 thousand-£1m)	22.3
Purpose:	
Medical/Health/ Sickness	27.2
Disability	23.0
Economic/ Community Development/ Employment	25.1
Target group:	
People of a particular ethnic or racial origin	31.6
Organisation type:	
Solely a Grantmaker	25.1
Umbrella/ Infrastructure	25.2

This shows that seven different types of organisation across the four categories were more likely to be financially vulnerable due to high concentrations of voluntary income:

- *organisation income:* medium sized organisations with an income between £100 thousand and £1 million were more likely to be vulnerable (22.3 per cent in the lower quintile)
- *organisation purpose:* organisations working in medical/health/sickness (27.2 per cent in the lower quintile), disability (23.0 per cent) and economic/ community development/ employment (25.1 per cent) were more likely to be vulnerable
- *organisations' target group:* organisations targeting people of a particular ethnic or racial origin were more likely to be vulnerable (31.6 per cent in the lower quintile)
- *organisation type:* grantmakers (25.1 per cent in the lower quintile) and umbrella/infrastructure organisations (25.2 per cent) were more likely to be vulnerable.

Across the categories it appears that organisations targeting people of a particular ethnic or racial origin were more likely to be vulnerable (31.6 per cent in the lower quintile) and organisations working in medical/health/sickness (27.2 per cent) were most likely to be financially vulnerable due to a high concentration of income from voluntary sources.

e) Sales income ratio

The findings for the sales income ratio for Yorkshire and the Humber are summarised in table 4.18.

Table 4.18: Sales income ratio - key findings for Yorkshire and the Humber

Organisation category	% in lower two quintiles
Income:	
Small (under £100 thousand)	45.5
Purpose:	
Education/ Training	43.5
Accommodation/ Housing	42.3
Sport/ Recreation	45.1
Target group:	
Children/Young People	44.4

This shows that five organisation types from three categories were more likely to be financially vulnerable due to a high concentration of sales income:

- *organisation income:* small organisations with an annual income under £100 thousand were more likely to be vulnerable (45.5 per cent in the lower two quintiles)
- *organisation purpose:* organisations working in education/training (45.5 per cent in the lower two quintiles), accommodation/housing (41.3 per cent), and sport/ recreation (45.1 per cent) were more likely to be vulnerable
- *organisations' target group:* organisations targeting children/young people were more likely to be vulnerable (44.4 per cent in the lower two quintiles).

Although five different types of organisation have been identified as more likely to be financially vulnerable due to concentration of sales income, it should be noted none are significantly over-represented in the lower two quintiles (i.e. more than 50 per cent).

f) Investment income ratio

The findings for the investment income ratio for Yorkshire and the Humber are summarised in table 4.19.

Table 4.19: Investment income ratio - key findings for Yorkshire and the Humber

Organisation category	% in lower quintile
Income:	
Small (under £100 thousand)	30.1
Purpose:	
Accommodation/ Housing	23.5
Organisation type:	
Solely a Grantmaker	67.1

This shows that three types of organisation from three different categories were more likely to be financially vulnerable due to a high concentration of investment income:

- *organisation income:* small organisations with an annual income under £100 thousand were more likely to be vulnerable (30.1 per cent in the lower quintile)

- *organisation purpose:* organisations working in accommodation/housing were more likely to be vulnerable (23.5 per cent in the lower quintile)
- *organisation type:* grantmaking organisations were more likely to be vulnerable (67.1 per cent in the lower quintile).

Although the were an apparently high proportion of grantmakers in the lower quintile this is to be expected - most grant making foundations and trusts rely on returns from large investments and endowments in order to provide funds to make grants.

g) Long term liabilities ratio

The findings for the long term liabilities ratio for Yorkshire and the Humber are summarised in table 4.20.

Table 4.20: Long term liabilities ratio - key findings for Yorkshire and the Humber

Organisation category	% in lower quintile
Income:	
Small (under £100 thousand)	31.9

This shows that for the long term liabilities ratio the only organisations identified as being more likely to be vulnerable were small organisations with an income under £100 thousand with 31.9 per cent located in the lower quintile. Although this may suggest that in Yorkshire and the Humber there was not a particularly strong link between operating margin and organisation's income, purpose, target group and type, the low numbers of organisations in the region returning information about their long term liabilities was low making statistically significant results less likely.

h) Summary

Although it would be unwise to aggregate the results for each variable to create a summative figure to describe overall vulnerability, the results can be summarised to demonstrate the number of variables a particular type of organisation has been identified as vulnerable on.

This is outlined in tables 4.21 - 4.25 below.

Table 4.21: Total number of vulnerable variables according organisational income - Yorkshire and the Humber

	No of vulnerable variables
Income:	
Small (under £100 thousand)	4
Medium (£100 thousand - £1m)	2
Large (over £1m)	1

This shows that in Yorkshire and the Humber small organisations incomes under £100 thousand were more likely to be financial vulnerable according to four of the seven variables while medium sized organisations with an annual income between £100 thousand and £1 million were more likely to be vulnerable according to two variables. Large organisations with an annual income over £1 million were more likely to be vulnerable according to only one variable.

Table 4.22: Total number of vulnerable variables according organisation purpose - Yorkshire and the Humber

	No of vulnerable variables
Education/ Training	3
Medical/Health/ Sickness	1
Disability	0
Accommodation/ Housing	2
Arts/Culture	0
Sport/ Recreation	1
Environment/ Conservation/ Heritage	0
Economic/ Community Development/ Employment	3

This shows that organisations working in education/training and economic/community development/employment were more likely to be vulnerable according to three of the seven variables while organisations working in accommodation and housing were more likely to be vulnerable according to two variables. All other types of organisations in this category were vulnerable according to only one or no variables.

Table 4.23: Total number of vulnerable variables according organisation target group - Yorkshire and the Humber

	No of vulnerable variables
Children/ Young People	2
Elderly/Old People	0
People with a Disability/ Special Needs	1
People of a particular ethnic or racial origin	2

This shows that organisations targeting children/young people and people of a particular ethnic or racial origin were more likely to be vulnerable according to two of the seven variables. Organisations targeting people with a special needs/disability and elderly/old people were more likely to be vulnerable according to one and no variables respectively.

Table 4.24: Total number of vulnerable variables according organisational type - Yorkshire and the Humber

	No of vulnerable variables
Solely a Grantmaker	2
Service Provider	0
Umbrella/ Infrastructure	1
Attract/ Mobilise/Place Volunteers	1

This shows that organisations whose main role was that of a grantmaker were more likely to be vulnerable according to two of the seven variables while all other types of organisations in this category were vulnerable according to only one or no variables.

It is also possible to aggregate the results for each variable to provide an indication of whether there are any particular types of vulnerability to which a larger number of organisation types are susceptible to. This is outlined in table 4.25 below.

Table 4.25: Total number of vulnerable categories according to each variable - Yorkshire and the Humber

	No of vulnerable categories
Operating margin	1
Reserves	6
Staff costs	4
Voluntary income	7
Sales income	5
Investment income	3
Long term liabilities	1

This shows that in Yorkshire and the Humber the largest numbers of organisation categories were more likely to be vulnerable according to the voluntary income ratio (seven out of twenty categories). Vulnerability due to reserves (six out of twenty categories) and concentration of sales income (five out of twenty categories) also came through strongly.

This summary demonstrates that in the Yorkshire and the Humber region three particular types of organisation across the categories stand as more likely to be vulnerable on at least three variables:

- small organisations with and annual income of less than £100 thousand are more likely to be vulnerable according to staff costs, sales income, investment income and long term liabilities
- organisations working in education and training are more likely to vulnerable according to reserve levels, staff costs and sales income
- organisations working in economic/community development/employment were more likely to be vulnerable according to their operating margin, reserves and voluntary income.

It also demonstrates that reserves ratio, and the voluntary and sales income ratios were the variables in which the largest number organisation categories were more likely to be vulnerable.

4.6. Findings and Analysis for the West Midlands

The third series of analyses considers the results for organisations based in the West Midlands.

a) Operating margin ratio

The findings for the operating margin ratio for the West Midlands are summarised in table 4.26.

Table 4.26: Operating margin ratio - key findings for the West Midlands

Organisation category	% in lower quintile
Purpose: Disability	22.5

This shows the for the operating margin ratio the only organisations identified as being more likely to be vulnerable were those whose purpose was linked to disability with 22.5 per cent located in the lower quintile. This suggests that there is not a particularly strong link between operating margin and organisation's income, purpose, target group and type in the West Midlands.

b) Reserves ratio

The findings for the reserves ratio for the West Midlands are summarised in table 4.27.

Table 4.27: Reserves ratio - key findings for the West Midlands

Organisation category	% in lower quintile
Income:	
Medium (£100 thousand-£1m)	24.6
Large (over £1m)	43.8
Purpose:	
Education/ Training	23.8
Accommodation/ Housing	26.2
Economic/ Community Development/ Employment	26.2
Target group:	
Children/ Young People	22.8
People of a particular ethnic or racial origin	27.8
Organisation type:	
Service Provider	23.3
Attract/ Mobilise/Place Volunteers	24.3

This shows that nine different types of organisation from across all for categories appear more likely to be financially vulnerable according to the reserves ratio:

- *organisation income:* medium sized organisations with annual incomes between £100 thousand and £1 million (24.6 per cent in the lower quintile) and large organisations with annual incomes over £1 million were (43.8 per cent) were more likely to be vulnerable
- organisation purpose: organisations working in education/training (23.8 per cent in the lower quintile), accommodation/housing (26.2 per cent) and economic/ community development/ employment (26.2 per cent) were more likely to be vulnerable
- *organisations' target group:* organisations targeting children/young people (22.8 per cent in the lower quintile) and people of a particular ethnic or racial origin (27.8 per cent) were more likely to be vulnerable
- *organisation type:* organisations that were service providers (23.3 per cent in the lower quintile) and organisations that attract/place/mobilise volunteers (24.3 per cent) were more likely to be vulnerable.

Across the categories it appears that large organisations with an annual income over £1 million (43.8 per cent in the lower quintile) and organisations targeting people of a particular ethnic or racial origin (27.8 per cent) were most likely to be financially vulnerable due to low levels of reserves.

c) *Staff cost ratio*

The findings for the staff cost ratio for the West Midlands are summarised in table 4.28.

Table 4.28: Staff cost ratio - key findings for the West Midlands

Organisation category	% in lower quintile
Income:	
Small (under £100 thousand)	22.3
Purpose:	
Education/ Training	22.7
Target group:	
Children/ Young People	22.6
Organisation type:	
Attract/ Mobilise/Place Volunteers	22.6

This shows that four different types of organisation - one from each category - were more likely to be vulnerable according to the staff cost ratio:

- *organisation income:* small organisations with an annual income under £100 thousand were more likely to be vulnerable (22.3 per cent in the lower quintile)
- *organisation purpose:* organisations working in education/training were more likely to be vulnerable (22.7 per cent in the lower quintile)
- *organisations' target group:* organisations targeting children/young people were more likely to be vulnerable (22.6 per cent in the lower quintile)
- *organisation type:* organisations that attract/mobilise/place volunteers were more likely to be vulnerable (22.6 per cent in the lower quintile).

Although four types of organisation have been identified as more likely to be financially vulnerable according to proportionately high staff costs, it should be noted that none are significantly over-represented in the lower quintile (i.e. more than 25 per cent).

d) Voluntary income ratio

The findings for the voluntary income ratio for the West Midlands are summarised in table 4.29.

Table 4.29: Voluntary income ratio - key findings for the West Midlands

Organisation category	% in lower quintile
Purpose:	
Medical/Health/ Sickness	25.2
Disability	22.4
Economic/ Community Development/ Employment	26.9
Target group:	
People of a particular ethnic or racial origin	34.2
Organisation type:	
Solely a Grantmaker	23.2
Umbrella/ Infrastructure	24.7

This shows that six different types of organisation from three categories were more likely to be financially vulnerable due high concentration of voluntary income:

- *organisation purpose:* organisations working in medical/health/sickness (25.2 per cent in the lower quintile), disability (22.4 per cent) and economic/community development/employment (26.9 per cent) were more likely to vulnerable
- *organisations' target group:* organisations targeting people of a particular ethnic or racial origin were more likely to be vulnerable (34.2 per cent in the lower quintile)
- *organisation type:* grantmaking organisations (22.6 per cent in the lower quintile) and umbrella/infrastructure organisations (24.7 per cent) were more likely to be vulnerable.

Across the categories organisations targeting people of a particular ethnic or racial origin were more likely to be vulnerable (34.2 per cent in the lower quintile) and organisations working in economic/community development/employment (26.9 per cent) were most likely to vulnerable.

e) Sales income ratio

The findings for the sales income ratio for the West Midlands are summarised in table 4.30.

Table 4.30: Sales income ratio - key findings for the West Midlands

Organisation category	**% in lower two quintiles**
Income:	
Small (under £100 thousand)	42.4
Large (over £1m)	45.7
Purpose:	
Education/ Training	42.5
Sport/ Recreation	45.3
Target group:	
Children/ Young People	42.6

This shows that five different types of organisation from three categories were more likely to be vulnerable due to high concentration of sales income:

- *organisation income:* small organisations with an annual income under £100 thousand (42.4 per cent in the lower two quintiles) and large organisations with am income over £1 million (45.7) were more likely to be vulnerable
- *organisation purpose:* organisations working in education/training (42.5 per cent in the lower two quintiles) and sport/recreation (45.3 per cent) were more likely to be vulnerable
- *organisations' target group:* organisations targeting children/young people were more likely to be vulnerable (42.6 per cent in the lower two quintiles).

Although five types of organisation have been identified as more likely to be financially vulnerable according to proportionately high concentration of sales income, it should be noted that none are significantly over-represented in the lower two quintiles (i.e. more than 50 per cent).

f) Investment income ratio

The findings for the investment income ratio for the West Midlands are summarised in table 4.31.

Table 4.31: Investment income ratio - key findings for the West Midlands

Organisation category	% in lower quintile
Income:	
Small (under £100 thousand)	32.8
Purpose:	
Accommodation/ Housing	27.3
Environment/ Conservation/ Heritage	25.3
Organisation type:	
Solely a Grantmaker	68.4

This shows that four different types of organisation from three categories were more likely to be vulnerable due to high concentration of investment income:

- *organisation income:* small organisations with an annual income under £100 thousand cent in the lower quintile) were more likely to be vulnerable
- *organisation purpose:* organisations working in accommodation/housing (27.3 per cent in the lower quintile) and environment/conservation/heritage (68.4 per cent) were more likely to be vulnerable
- *organisation type:* grant making organisations (68.4 per cent in the lower quintile) were more likely to be vulnerable.

Although there were an apparently high proportion of grantmakers in the lower quintile this is to be expected - most grant making foundations and trusts rely on returns from large investments and endowments in order to provide funds to make grants.

g) Long term liabilities ratio

The findings for the long term liabilities ratio for the West Midlands are summarised in table 4.32.

Table 4.32: long term liabilities ratio - key findings for the West Midlands

Organisation category	% in lower quintile
Income:	
Small (under £100 thousand)	54.5
Purpose:	
Accommodation/ Housing	24.6
Organisation target group:	
Elderly/Old People	30.6
People of a particular ethnic or racial origin	43.4

This shows that four different types of organisation from three categories were more likely to be vulnerable due to a high long term liabilities ratio:

- *organisation income:* small organisations with an annual income under £100 thousand cent in the lower quintile) were more likely to be vulnerable
- *organisation purpose:* organisations working in accommodation/housing (24.6 per cent in the lower quintile) were more likely to be vulnerable
- *organisation target group:* organisations targeting elderly/older people (30.6 per cent in the lower quintile) and people of a particular ethnic or racial origin (43.4 per cent) were more likely to be vulnerable.

Of the four types of organisation more likely to be financially vulnerable due to high levels of long term liabilities for three the risk appears to be significant. Small organisations (54.5 per cent in the lower quintile), organisations targeting people of a particular ethnic or racial origin (43.4 per cent) and elderly/older people (30.6 per cent) are considerably more likely to be vulnerable in this way.

h) Summary

Although it would be unwise to aggregate the results for each variable to create a summative figure to describe overall vulnerability, the results can be summarised to demonstrate the number of variables a particular type of organisation has been identified as more likely to be vulnerable on. This is outlined in tables 4.33 - 4.37 below.

Table 4.33: Total number of vulnerable variables according organisational income - West Midlands

	No of vulnerable variables
Income:	
Small (under £100 thousand	4
Medium (£100 thousand £1m)	1
Large (over £1m)	2

This shows that small organisations with incomes under £100 thousand were more likely to be financially vulnerable according to four of the seven variables while medium sized organisations with incomes between £100 thousand and £1 million and large organisations with incomes over £1 million were both only more likely to be vulnerable according to one and two variables respectively.

Table 4.34: Total number of vulnerable variables according organisation purpose - West Midlands

	No of vulnerable variables
Education/ Training	3
Medical/Health/ Sickness	1
Disability	1
Accommodation/ Housing	3
Arts/Culture	0
Sport/ Recreation	0
Environment/ Conservation/ Heritage	0
Economic/ Community Development/ Employment	2

This shows that organisations working in education/training and accommodation/housing are more likely to be vulnerable according to three out of seven variables, while organisations working in economic/ community development/ employment were more likely to be vulnerable according to two variables. All other types of organisations in this category were vulnerable according to only one or no variables.

Table 4.35: Total number of vulnerable variables according organisation target group - West Midlands

	No of vulnerable variables
Children/ Young People	3
Elderly/Old People	1
People with a Disability/ Special Needs	0
People of a particular ethnic or racial origin	3

This shows that organisations targeting children/young people and those targeting people of a particular racial or ethnic origin were both more likely to be vulnerable according three out of seven variables but that organisations targeting people with a disability/special needs were only more likely to be vulnerable according to one variable and organisations targeting elderly/old people were not more likely to be vulnerable at all.

Table 4.36: Total number of vulnerable variables according organisational type - West Midlands

	No of vulnerable variables
Solely a Grantmaker	2
Service Provider	1
Umbrella/ Infrastructure	1
Attract/ Mobilise/Place Volunteers	2

This shows that organisations who are solely grantmakers and organisations that work to attract/mobilise/place volunteers were both vulnerable according to two out of seven variables while umbrella/infrastructure organisations and service providing organisations were only more likely to be vulnerable according one variable each.

It is also possible to aggregate the results for each variable to provide an indication of whether there are any particular types of vulnerability to which a larger number of organisation types are susceptible to. This is outlined in table 4.37 below.

Table 4.37: Total number of vulnerable categories according to each variable - West Midlands

	No of vulnerable categories
Operating margin	1
Reserves	9
Staff costs	4
Voluntary income	6
Sales income	4
Investment income	3
Long term liabilities	4

This shows that the largest number of organisation categories (nine out of twenty) were vulnerable due to low a reserve ratio. Voluntary income (six categories out of twenty), sales income, staff costs and long term liabilities (all four categories out of twenty) also came through quite strongly.

This summary demonstrates that in the West Midlands several types of organisation across the categories stand out as more likely to be vulnerable on at least three variables:

- small organisations with and annual income of less than £100 thousand are more likely to be vulnerable according to staff costs, sales income, investment income and long term liabilities

- organisations working in education and training are more likely to vulnerable according to reserve levels, staff costs and sales income
- organisations working in accommodation/training were more likely to be vulnerable according to reserves, investment income and long term liabilities
- organisations targeting children/young people are more likely to be vulnerable according to reserves, staff costs and sales income
- organisations targeting people of a particular ethnic or racial origin are more likely to vulnerable according to reserves, voluntary income and long term liabilities.

It also demonstrates that reserves ratio, the staff cost ratio, the voluntary and sales income ratios, and the long term liabilities ration were the variables in which the largest number organisation categories were more likely to be vulnerable.

4.7. Extreme findings

In order to understand where the risk of financial vulnerability may be most acute categories where more than 30 per cent of organisations were located in the lower quintile have been identified. This is summarised in table 4.38 below.

Table 4.38: Categories with more than 30 per cent in the lower quintile

Variable	Category	Region (% in lower quintile)		
		Both regions	Yorkshire and the Humber	West Midlands
Reserves ratio	Income:			
	Large (over £1m)	45.5	47.6	43.8
Voluntary income ratio	Target group:			
	People of a particular ethic or racial origin	33.1	31.6	34.2
Investment income ratio	Income:			
	Small (under £100 thousand)	31.6	30.1	32.8
	Organisation type:			
	Solely a grantmaker	67.9	67.1	68.4
Long term liabilities ratio	Income:			
	Small (under £100 thousand)	44.4	31.9	54.5
	Target group:			
	Elderly/Old people	n/a	n/a	30.6
	People of a particular ethic or racial origin	34.8	n/a	43.4

This highlights how different types of organisation may be at high risk of financial vulnerability according to different variables and that regional variations (between Yorkshire and the Humber and the West Midlands) are limited:

- *reserves:* Large organisations with an annual income over £1 million were significantly more likely to financially vulnerable due low reserve ratios. This finding was consistent across both regions
- *voluntary income:* Organisations that targeted people of a particular racial or ethnic origin were significantly more likely to be financially vulnerable due to a high concentration of income from voluntary sources (i.e. grants, donations etc). This finding was consistent across both regions
- *investment income:* Small organisations with an annual income below £100 thousand were significantly more likely to be vulnerable due to a high

concentration of income from their investments. Grantmaking organisations were also significantly more likely to be vulnerable for the same reason, but this might be expected given that most grant making foundations and trusts rely on returns from investments and endowments. This finding was consistent across both regions

- *long term liabilities:* Across both regions small organisations with an annual income below £100 thousand and people of a particular racial or ethnic origin were significantly more likely to be vulnerable due to limited ability to generate reserves. In addition, in the West Midlands, organisations that target elderly/old people were also significantly more likely to be vulnerable for the same reason.

It also highlights how a number of organisation types appear to be at high risk of financial vulnerability according to more than one variable:

- *small organisations with an income under £100 thousand* were significantly more likely to be financially vulnerable due to a high concentration of income from their investments <u>and</u> due to limited ability to generate reserves
- *organisations targeting people of a particular ethnic or racial origin* were significantly more likely to be financially vulnerable due to a high concentration of income from voluntary sources (i.e. grants, donations etc) <u>and</u> due to limited ability to generate reserves.

4.8. Conclusion

Before concluding it is necessary to highlight the limitation of models of financial vulnerability: *while the existing prediction models provide insights into some indicators of future financial vulnerability, they are not very effective in distinguishing particular firms that will experience distress … predicting when nonprofit organizations will need to cut program expenses is the most difficult challenge*[10].

The findings from this section suggest that, taking the two regions of the West Midlands and Yorkshire and the Humber, that there is limited variation between the regions in terms of financial vulnerability. The main variation however is with respect to the long term liabilities of organisations.

Whilst there are no significant variations by category in terms of operating margin, what is far more significant are differences in reserve levels and the ability to generate reserves. In both Yorkshire and Humber (six different organisational types from three categories) and the West Midlands (nine different organisational types) reserve levels appears to have a strong relationship with financial vulnerability. There appears also some evidence that organisations with a high concentration of voluntary income may be most vulnerable.

With the exception of the grantmarkers organisational category, investment income is unlikely to be a major concern.

The findings around long term liabilities require further exploration. The analysis suggests that small organisations and BME organisations are highly geared and therefore vulnerable. This is not as might be expected.

[10] Keating, E.K. et al. (2005), *Assessing Financial Vulnerability in the Nonprofit Sector,* John F Kennedy School of Government Faculty Working Papers RWP05-002, p.22.

A key finding from this section is that different types of organisation will be vulnerable in different ways. For instance, small organisations are more vulnerable around staff costs, sales income and long term liability incomes. Conversely, organisations working in education and training tend to be vulnerable because of reserve levels, staff costs and sales income variables.

Of more immediate concern may be what can be termed the extreme cases - where more than 30 percent of organisations from a certain group appear in the lowest quintile and where they appear more than once across the different variables. For instance, organisations with an income of under £100 thousand are vulnerable in terms of a high concentration of income from investments and their ability to generate reserves; and organisations targeting people of a particular ethnic and racial origin because of a high concentration from voluntary sources (e.g. grants and donations) and their ability to generate reserves.

5

5. Conclusion

5.1. Introduction

The aim of this research is to provide quantitative evidence as to the emerging impact of the recession and its possible impact on the Third Sector. To do this we have explored the characteristics of the recession (State of the Economy), the emerging trends in the Third Sector and undertaken multivariate statistical analysis to explore whether different variables can be used to identify financial variability.

In the brief for this research project, Capacitybuilders highlighted their need to identify those areas in the Third Sector which are being hardest hit by the recession, and to use this evidence to better direct government support. This recognises that some sectors maybe worse off than others.

The research finds that the number of organisational “deaths” (leaving the Charity Commission and the other Third Sector registrars) has risen rapidly over the last two quarters, something which has not occurred to the same extent in any recession since the creation of the Charity Commission.

5.2. The Case for Government Intervention

Before turning to those areas likely to be hardest hit by the recession, it is worth reflecting on the rationale or case which should be made for supporting organisations at this time - there appears little case for sustaining financially vulnerable organisations which may have limited wider benefits, whether to government or the communities they serve. The obvious group of organisations requiring support are those which have and are experiencing significant rises in service demand (due to the wider effects of the recession) and they are best placed to deliver that support. These are typically organisations working in the fields of debt counselling, welfare rights and housing.

However, there are probably further groups which while in the long term are viable and provide benefits to users, have been unprepared for the extent of the recession and its effects. Such organisations may typically require short term assistance which may involve financial (grants and loans) and non-financial support. Such organisations may not necessarily be threatened by closure, but a significant loss in their capacity to provide support or deliver services. Government and those organisations who provide support on its behalf can only do so much to support organisations hardest hit by the recession. This is the rationale for government support reflected in the implementation of the OTS Hardship Fund.

5.3. Rising Service Demand

The research undertaken here outlines reasonably clearly those geographic areas which might be experiencing greatest increases in service demand. The focus on unemployment is important as it is from this that the greatest social costs of recession occur. Of course, those areas experiencing the highest increases in unemployment may not necessarily have a strong Third Sector, particularly in debt counselling, welfare rights and housing, although it is anticipated that many will.

There is also a need for a note of caution in focusing on the headline unemployment (JSA claimant) measure: it is also necessary to consider existing levels of worklessness (including those of sickness related benefits) and that rates of unemployment do not measure the volume of unemployed. Whilst the areas experiencing the largest per cent point increases include Corby, Swindon and Walsall, the areas experiencing the largest rises in the number of unemployment include, not surprisingly the largest local authority districts of Birmingham, Leeds, Glasgow, Sheffield, Manchester and Liverpool.

5.4. Financially Vulnerable Organisations

The effects of the recession will be transmitted in many ways to the Third Sector: through falling incomes from investment in property and shares, donations, and charitable grants and through the prospect of tighter public funding through services and grants. Whilst there may be some savings for organisations through cuts to staff expenditure and property costs, utility costs and bank charges are likely to continue to rise. Moreover, headline cuts to the Bank of England base rates have not necessarily fed through to reductions in the credit costs faced by organisations.

It has been possible to explore different categories of organisation including income size, organisational purpose, organisational target group, and organisational type. Four groups of variable group were then constructed for operating margin, staff costs, revenue concentration and long-term liabilities. The rationale being that a sudden external shock in the funding environment is likely to have an adverse effect on one or all of these variables and therefore jeopardise the organisation.

Looking across two regions in our sample (West Midlands and Yorkshire and the Humber) we found that the following categories of organisation were vulnerable on at least three variables:

- small organisations with an annual income of less than £100 thousand are more likely to be vulnerable on staff costs, concentration of sales income, investment income and long term liabilities
- organisations working in education and training are more likely to be vulnerable according to reserve levels, staff costs and sales income
- organisations targeting children/young people are more likely to be vulnerable according to reserves, staff costs and sales income
- organisations targeting people of a particular ethnic or racial origin are more likely to be vulnerable to reserves, voluntary income and long term liabilities.

A strong caveat should be made when reading these findings: they are drawn without evidence of wider non-financial contextual variables. This has two implications: financially vulnerable organisations maybe resilient or sustainable organisations in many other respects and this will ensure their survival; and it is necessary to identify the most likely shocks which will occur. Hypothetically, the likelihood of a shock to the service income of organisations working in education or training might be far lower than to the small grant income necessary to sustain small organisations. Therefore, in light of this contextual information, it is the small organisations which appear more financially vulnerable.

5.5. Monitoring the Recession and Identifying Scenarios

For Phase 1 of this study we identified a set of reliable quantitative indicators which if routinely collected will provide reasonably timely insights into those parts of the Third Sector which are being hardest hit. These are outlined throughout this report.

At the same time it is possible to continually maintain up to date information on the organisations which are most financially vulnerable. What is important in understanding financially vulnerability however is to explore the impact of a range of possible scenarios (either in terms of different income streams or in costs) and in particular for those organisations which may be facing greatest increases in demand due to the recession.

A1

Annex 1: About the Project - the Capacitybuilders research brief

We want to gather intelligence about how the economic downturn is affecting Third Sector organizations across the country. We know that Third Sector organizations will face a range of challenges in the coming months and years. Falling incomes and rising demands for services will place pressure on many organizations, and some will struggle to survive while others will thrive.

We want to be aware of the hardest-hit areas in the sector so that we can better direct government support. There is speculation about which sub-sectors will be worse-off than others, but we cannot yet be certain who will be most affected.

We want to establish whether there are any reliable, quantitative data sources that could be examined for regular updates on the effects of the economic downturn. If such sources exist, we want to know what they tell us about the situation of the Third Sector.

We want researchers to examine the potential quantitative data sources on the effects of the economic downturn on the Third Sector, and determine the robust information we could obtain from these sources. We would like an initial report to present a range of options, including different sources and different types of data we could obtain from each source, and recommendations for the most useful approach.

We would then discuss whether to proceed to a second stage of the project where we collect the data. If we do proceed, we would like the researchers to facilitate the data collection and to present the findings with an interpretive commentary.