

Third Force

An assessment of the economic impact of the Third Sector in West Sussex

-Report Summary

The County of West Sussex



July 2011

Third Force – An assessment of the economic impact of the Third Sector in West Sussex; Report Summary

In 2010 the University of Chichester was commissioned by West Sussex County Council (WSCC) to assess the economic impact of the third sector in the County. This study was to build upon previous research assessing the economic and social impacts of social enterprise.

The Core Working Group

The core working group consisted of Third Sector Partner: Adur CVS (Adrian Barritt), University Partners and Authors: University of Chichester (Dr David Cooper, David Simmonds, Anthony Ackon) and Statutory Partner: West Sussex County Council (Ana Fajardo).

Acknowledgements

The Core Working Group would like to express its sincere gratitude to the 120 organisations that so willingly and generously gave of their time and effort to complete the online questionnaires, and to the 11 of which agreed to further participate in the case study interviews. The Group is also indebted to Jonathan Lamb, West Sussex County Council, for his help in compiling these case studies for this report. Without all their input, the research would have been impossible.

Introduction

Third sector organisations; now also referred to as civil society organisations, very often feature characteristics from the public and private sector. They are social and community focussed, and they contribute to social mobility, employment and wealth creation. The third sector includes (amongst others) community groups, voluntary organisations, charities, social enterprises, co-operatives, trusts and clubs.

Third Sector Organisations (hereafter referred to as TSOs) have a significant impact helping people to acquire the skills they need to move into employment; giving a sense of community through participatory processes and acting as advocates for marginalised and disadvantaged groups in society. They play a role in community engagement, development and cohesion, whilst supporting enterprise and innovation.

Over the last two decades, the third sector has grown in scale, impact and diversity leading to a significant growth in income, volunteering and social enterprise. The sector has an important role to play in the local, regional and national economies by contributing; employment opportunities, income generation and community development. It also offers training and business support and is known to be a significant force for sustainable community development.

The UK government estimates that there are around 55,000 social enterprises' operating across all industries and sectors of the UK economy. Together they generate a collective turnover of £27 billion a year, contribute £8.4 billion to the UK economy and represent 5% of all UK businesses with employees.

Aims and Objectives

The key objectives of this assessment were to research the economic impact of the third sector and build upon the results of previous surveys, whilst providing a comprehensive profile of the changing nature of TSOs between 2008 and 2010.

Finally it aims to provide an audit of TSOs across the county and undertake a PESTLE analysis to provide an overview of the current issues impacting the sector.

The Third Sector - The Wider Context

Below is an analysis of the third sector within a national context and follows a structure based around a PEST (Political Economic Social Technological) approach.

Political:

The Government in the UK has recognised the role of the third sector in the provision of public services for some time but only comparatively recently has this been more formally translated through policy. With the transfer of power to the Coalition Government has come an increased emphasis on the role of the community, and a growing localisation agenda captured in the “Big Society” initiative, and with that the idea of Civil Society, committed to supporting co-ops, mutuals, charities and social enterprises as providers of services to the public. These ideas were further developed recently with the proposal of the Big Society Bank, which will be funded by unclaimed assets and is expected to stimulate private sector investment to provide new funds for the third sector.

The other major change politically is the dissolution of Regional Development Agencies. The idea is that Economic Development receives a more locally focused approach implemented by Local Enterprise Partnerships, led by businesses and entrepreneurs and supported by Local Authorities. The LEP covering West Sussex is Coast to Capital. LEPs must take account of social enterprises as contributors to the local economy.

Economic:

It is clear that the sector faces an increasingly uncertain and complex economic environment, brought about by increasing demand for services and reduced funding from traditional public sector sources. In recent years TSOs have become increasingly dependent on public sector grants and payments for services; the proportion of income from the public sector has grown from 28% (in 1995) to 38% (in 2008), income over the same period from internal sources has fallen as a proportion of total income, from 22% to 12%.

In West Sussex, there has been a need to save some £79 million in the 3 years to 2014, with the resulting loss of some 1,300 jobs. It is clear, despite Government protestations, that this will have an impact on grants that can be made to TSOs.

As a result the Government launched a £100m Transition Fund in October 2010. It aims to help the charities, voluntary groups and social enterprises that are most vulnerable to public spending cuts. The Fund will run over two financial years, with £10m to be allocated in 2010-11 and £90m in 2011-12. The maximum level of grant for organisations will be 50% of their total loss of taxpayer funded income for front line services in 2011-12 compared to 2010-11.

UPDATE:

Allocation of the first round of the Transition Fund:

- ***9.9% allocation of the total amount of transition fund went to the South East of England (Total of 92 organisations)***
- ***Of those 92 organisations 66% received under 100,000***
- ***39% of the total 92 organisations received under £50,000***
- ***The amount available to bid for was between £12,500 and £500,000***

In addition, the Community Interest Companies (CIC) regulator has lifted the cap on their share dividend payments to 20% (from 5%) and the cap on loan interests to 10% (from 4%) of the loan value. Increasingly there are a range of financial support organisations targeting TSOs with products and services such as those offered by The Social Enterprise Loan Fund.

Another significant change in economic terms is the use of direct payments and individual budgets; essentially this creates a market for the provision of relevant services with TSOs facing the prospect of marketing their services in competition with private sector providers.

The economic downturn of course has created other potential areas of uncertainty. Interest rates are low and are likely to remain low for some time. This may impact on charities investment portfolios and asset values. Income may decline, impacting on donations. Whilst employment will decline, this may impact in different ways, increasing the demand for services but also increasing the availability of volunteers. It is likely that commissioners of services will be seeking increasing value for money and demanding greater efficiencies in the delivery of services. This in itself will favour larger organisations, better able to utilise economies of scale.

Social:

The Big Society rhetoric has induced a change in the concept of social justice by replacing it with 'fairness' and a renewed sense of social action, which is in turn expected to increase the number of volunteers. With ever reducing funding from the statutory sector it is expected that this renewed social action will help mobilise people to work on local and community projects previously undertaken by paid employees.

The economic downturn has had a mixed effect on TSOs with some reporting a reduction in volunteering, whilst others suggest that there has been a marked increase in volunteers made redundant or are unable to get a job. Conversely the downturn has also had an increased demand for support as individuals become increasingly dependent on charitable help and advice.

Although it might be argued that the economic downturn is transitory in nature, changes in demographic and public sector organisations are likely to create a changing and increasing demand on TSOs. Life expectancy in the UK is rising and birth rates are falling. In the next 25 years 23% of the population is projected to be aged 65 or over – within which an estimated 3.5 million will be aged over 85. On the one hand this is likely to increase the number of volunteers from the recently retired, but also amplify the demand for services for older people, with a similar rise in costs for both the state and TSOs.

Technology:

The effective use of technology is having a significant impact on TSOs, equally though, the lack of access to technology either through insufficient knowledge, access to skilled resources, or insufficient funds can cause inequalities. The internet has become a vital tool for TSOs in communication and marketing, it can also allow them to develop new ways of delivering services such as online security and panic call systems for the elderly.

The rapid rise in the use of social and mobile media will magnify the importance of technology and the need for TSOs to embrace its benefits and to attract a new range of stakeholders. In addition to on-line technology office based IT systems are also having an impact on the way in which TSOs manage their back-office functions.

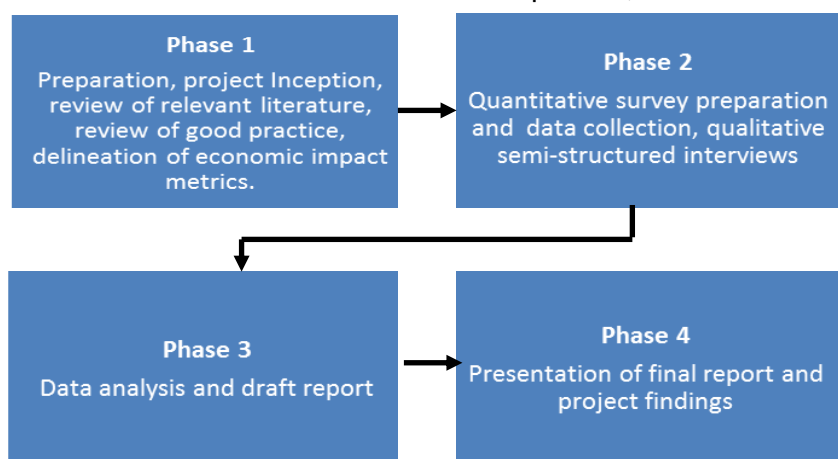
Some are exploring the efficiencies but it is a lack of skills that is frequently the constraining issue particularly amongst the elderly volunteers.

Other Studies:

The CVSF (Community and Voluntary Sector Forum) survey (2008) served as a benchmark for the current study. The 2008 research outlined the ways in which social enterprises were engaged in the commercial, social, environmental, human development and sustainable economic development of West Sussex. The report informed the public and private sectors of the funding and support requirements of the sector locally. In addition the 2008 study clarified the role of social enterprises in West Sussex as the main intersection where market activity, public policies and civil society meet.

Methodology

In order to achieve the aims and objectives of the project a number of research methods were chosen. These are outlined in four phases;



Similar audits of the third sector have been carried out by other bodies at local and regional levels; these studies complement other large scale national investigations undertaken at regular intervals. Due to the lack of homogeneity among TSOs, it was decided that it would be fruitful to investigate the variations that exist within the sector across a number of specific dimensions: Finances, Employment and Volunteering, Sources of Income, Geographical remit, Business Activities and Target Groups.

After compiling a questionnaire, an electronic link was emailed to around 1,300 TSOs across the county. In total only 120 respondents to the survey submitted data that could be analysed. 11 semi-structured interviews also took place to assess the indirect economic benefits, social benefits, outcome values and effects of participatory processes.

Limitations of the study

Only around 10% of those invited to complete the survey took the opportunity to participate. TSOs in West Sussex vary greatly in size, scope and function, for these and other reason any extrapolation or generalisation from this study may be difficult to achieve.

Findings

Third Sector Organisations are significant contributors to employment and the economy of West Sussex

The results indicate that the total annual turnover of TSOs in the survey is £123m with a mean of £1.25m. The combined annual turnover of the ten largest TSOs in the county is £113m, which is 92.3% of the third sector's total annual income. Clearly, most organisations therefore have an average income at a much more modest level. This is consistent with results elsewhere as country-wide figures show that there are only a few large TSOs with income of several million pounds.

Based on a number of extrapolations, it is estimated that TSOs in the County employ about 7,000 full-time-equivalent members of staff, which would rank the sector collectively as amongst the largest employers in West Sussex. If these figures are correlated with other more comprehensive surveys such as those undertaken nationally and in Lincolnshire, and Brighton and Hove, it is estimated that the value of the third sector in West Sussex is approximately £400m per annum. It is further estimated that the employees earn a total of about £120m.

Public Sector Contracts and Grants contribute a significant portion of many TSO income streams

It is clear that many of the organisations interviewed are heavily reliant on the public sector for funding and most are concerned that with the impact of budgetary cuts, their sustainability will be compromised. It is equally clear from the findings that the majority of TSOs have been impacted by the economic downturn and are worried by the further impact of public sector cuts to sources of funds. A significant number believe that their income will decline in the next 12 months. This concern is further reflected in the perceived barriers to growth.

Lack of access to appropriate financial resources is the main barrier to growth of TSOs in West Sussex

It is no surprise given the current level of economic uncertainty that nearly every organisation responding to the survey and the interviews raised the issue of decreasing funds, access to funding sources and public sector contracts, and lack of knowledge on funding sources as key challenges to their sustainability: "... *this next financial year is the biggest challenge with the degree of efficiency savings hitting the public sector and (the uncertainty over) how this will affect the voluntary/community sector.*"

Of some concern is that there is little evidence to see that smaller TSOs especially, are yet considering alternative funding sources such as loans, and few were briefed on the availability of the Transition Fund.

Many of the organisations surveyed still struggle to bid for public sector contracts and there are very few private sector opportunities. Many also expressed apprehension about having to participate in a new 'marketplace'

The general belief amongst the case study organisations was that commissioning should be more easily accessible. Many respondents echoed the findings from an earlier survey by Adur Voluntary Action, and commented negatively on the new commissioning arrangements being adopted by the public sector. Tendering documents were often focused on meeting specific quantitative targets set by Government for local authorities to meet, rather than allowing TSOs to demonstrate their more intangible strengths. The bidding process was usually time consuming and often produced few results. Conversion rates were often low.

The sector is completely reliant on the activities of the volunteer community. The numbers of volunteers are increasing

For most organisations, volunteers were considered as being vital to their current and future operations. Many had maintained or increased their supply of volunteers, and expected to do so for the foreseeable future, which is reflected nationally. A third of all TSOs in the survey said that they had no paid employees.

Volunteers may be net beneficiaries from the activity through skills acquisition and training; enhanced experience; a great sense of self-esteem; and increased employability.

Despite the current recession, the amount of money spent on supporting volunteers through, for example, recruitment, training and expenses, has on the whole remained the same during the last two years. Moreover, TSOs within the county did not anticipate any significant change for the foreseeable future.

The sector continues to provide a remarkable service to the people and economy of West Sussex

The majority of the organisations surveyed are respected providers of social support and enterprise in one form or other to their service users and customers. Whilst this is of direct benefit to the individual, it is having a wider impact on the community, often economic nature.

“... Individuals with learning disabilities. Within our social enterprise activities, the local community - in terms of the customers who come in to purchase our activities - that in turn supports people to become more independent and access the local community. People will spend some of their own money (wages, benefits, income support etc) themselves in local shops and people moving into employment will hopefully reduce their reliance on benefits, gain wages and then spend it in the local community.”

Over half of the organisations were involved in supporting children and young people - many of them disadvantaged – by often providing them with purpose and focus.

“Well it improves the quality of life of the young people involved in volunteering. It helps them gain some skills and qualifications and experience and quite often some confidence especially if they do not really know what to do. Maybe they have left school and are not quite sure what they are doing or they are struggling along so they do some volunteering once a week and gain some confidence and yes the other people they work for, they do conservation projects and these have an outcome which benefits the community as well”

At least one of the organisations interviewed went even further by providing means for young people to become volunteers themselves.

Direct economic benefits were quoted.

“The greater beneficiaries are the community as a whole because a lot of the work we do at the moment is preventative work so we try to catch clients at an early stage of their problem which means that we prevent them from losing their home, prevent them from getting themselves into serious debt”

Conclusions

With regard to the commissioning arrangements set by Central Government, respondents felt that tendering documents with quantitative targets and current bidding processes were a distraction to their main operations but that they were obliged to participate in such projects in order to restore previous funding levels.

Of greatest anxiety though was the probability that, unless major policy changes were effected, beneficiaries of third sector services were more likely to suffer in the future.

In order to derive a greater sense of financial stability, TSOs may prefer a loan-based, rather than grant-based model of income as it would introduce a more stable revenue platform that was less prone to annual spending revisions.

Increasingly TSOs are being encouraged to move away from grant dependency, become more professional, earn income, develop an asset base and consider loan finance. The change in focus, moving from grants to commission based activity is a concern, and the associated increasing regulation is perceived to be stifling charitable fervour and local entrepreneurship. In many respects this represents a paradox as the move towards a social enterprise market may actually be positive for many organisations if they have the skills and structure to take advantage of it.

TSOs make a vital and significant contribution to the economy of West Sussex:

- **By collectively being one of the largest employers in the county**
- **By delivering services and selling products that may otherwise not be available to marginalised individuals and groups**
- **By equipping many thousands of people with employability skills and thus helping them to re-enter the labour market**
- **By reducing costs for public services by enabling beneficiaries to lead more independent and healthy lives**
- **By reducing the amount spent by the public sector on service delivery**
- **By directly spending in the local economy an estimated £400m**

Recommendations:

In constructing these recommendations, it is recognised that the ability of WSCC to provide financial support to TSOs within the County in the form of grants is significantly restricted. The Council is unable to meet directly the financial needs of TSOs, unless it is through the commissioning of services. However, it is clear that central government is placing increasing reliance on the ability of TSOs, and in particular social enterprises, to deliver core components of what were previously publicly delivered services. This commitment, whilst it is being backed by the publication of significant policies, is not receiving much in the way of financial backing. It is becoming increasingly difficult for the typical smaller TSO to interpret the volumes of information being published, and to assess the implications for their own organisations. It may also be harder for them to identify sources of funds and bid successfully. It is likely that they will be operating in an increasingly competitive environment and will need a range of business and marketing skills that they do not have and which are in some respects counter-cultural.

Recommendations for West Sussex County Council:

In many respects some of these issues have already been recognised by WSCC and they have shown genuine leadership through the West Sussex Social Enterprise Network (WSSSEN) and it must continue to do so. Specifically the Council should:-

1. Continue to actively support and maintain WSSSEN and its associated online Portal offering a focus for communication with TSOs throughout the County. In doing this it should consider making it more overtly appropriate to TSOs that would not necessarily consider themselves as social enterprises.
2. Actively maintain, promote and enhance the services that it already offers for example, assisting with the identification of funding sources, provision of advice and guidance, promotion of best practice through events, conferences and awards.

3. Consider how best to support the creation of support networks and clusters of social enterprises both to share best practice but to partner for larger opportunities.
4. Act as a single point of contact for the monitoring and interpretation of national policies and initiatives such as Transition Funds and Big Society Bank Loans; these implications and opportunities should be communicated to TSOs.
5. Consider the development of new support services such as active support for preparing cases for loans and bids for funds.
6. Ensure that TSOs operate in a level playing field when commissioning services and demonstrate a commitment to measuring the broader social impact of consequent proposals.
7. Using the publication of the revised Compact as a trigger, review, revise and re-launch the West Sussex Compact last issued in March 2005. This should begin with a fundamental review of its effectiveness in commissioning third sector activity.
8. Any review of commissioning should also take account of the aims of the Public Services: Social Enterprise and Social Value private member's bill currently progressing through Parliament.
9. Within the context of the Compact, specifically consider the extension of contracts to cover multiple years.
10. Work with FE and HE in the County to provide a range of training programmes targeted at the sector to develop the management and leadership disciplines required to set up and operate sustainable organisations.
11. Work with partners to develop and promote a range of initiatives to promote the creation of social enterprises actively supported through; idea evaluation, enterprise incubation, mentoring, and enterprise support services.
12. Broker a mentoring service to provide support to TSO managers and trustees to include; mentor training, a database of mentors, and a mentor matching service.
13. Consider how best to provide a West Sussex focused volunteer recruitment service as opposed to the more national service provided to date. This might include maintaining a database of "experts" to support specific high level management activities.
14. Ensure that the interests of TSOs and Social Enterprises are truly represented by the Coast to Capital Local Enterprise Partnership.

Recommendations for Infrastructure Support Organisations:

There are a number of organisations that act as a conduit between the TSOs and the commissioning agencies. Fundamentally they seek to promote and support voluntary action within the community. They often seek to represent the views of TSOs and also support them through the provisioning of for example, training, advice and guidance and signposting of funding sources. Examples include the Councils for Voluntary Service and Action for Rural Sussex. The following recommendations are specific to these organisations but are a flavour of some of those provided to the County Council:

1. Work with FE, HE and WSCC to develop and promote a range of training programmes targeted at the sector to develop the management and leadership disciplines required to set up and operate sustainable organisations.
2. Work with WSCC to develop and promote a range of initiatives to promote the creation and marketing of social enterprises.
3. Promote the development of a mentoring service to provide support to TSO managers and trustees.
4. Provide guidance and training to ensure that TSOs have appropriate management skills and are conversant with funding and bidding processes.
5. Broker partnerships to develop more competitive responses to bid opportunities.
6. Continue to provide support and guidance on fundraising but develop specific expertise in identifying and understanding alternative sources of finance.
7. Continue to promote volunteering from within the community.
8. Contribute to the review and reissue of a revised Compact for West Sussex

Recommendations for TSOs:

Whilst these recommendations, by the nature of the report, are more focused on the support that WSCC can provide, there is a good deal that TSOs can do to help themselves. Specific recommendations would include:

1. Becoming more business-like and undertaking strategic audits in order to ascertain the likely benefits of changes to their governance, aims, structure, and client groups.
2. Developing clear marketing and business plans to promote and develop their activity.
3. Developing staff to ensure that they have appropriate management skills and are conversant with funding and bidding processes.
4. Becoming more creative in the sourcing and development of volunteers, investigating for example, internships and work placements.
5. Investigating innovative multi-media methods to increase direct sales of products and services and promote capabilities.
6. Proactively seeking contracts and partnerships with private sector organisations
7. Collaborating and partnering with other TSOs in order to win more of the competitive tenders from the public sector.
8. Maintaining support networks to share best practice and knowledge.