



# The Effects of the Recession On Third Sector Organisations In Southend-on-Sea



***“In these turbulent times it is more important than ever for the Government to provide real help for those who need it, when they need it.”***

**Gordon Brown  
Prime Minister**

**Contents:**

Introduction	3
The National Picture	4
Local impact	6
Tips for Surviving the Recession	8
How Statutory Partners can help	10
Conclusion	12

## **Introduction**

On 23rd January 2009, the UK officially went into recession for the first time in 18 years. Figures showed the economy shrank by 1.5 % in the final three months of 2008. It was the second successive quarterly contraction in a row – the technical definition of a recession.

The signs are that things will get a lot worse before they get better with negative equity, difficulty of getting loans, unemployment and low return from savings having an increasing impact on all sectors of the population. It is anticipated that when the recovery does eventually come it will be gradual.

Much has been written about the possible and actual impact on the Third Sector. Although we can't rely on what happened in previous recessions to give us a definitive view of what will happen now, it could give us an indication of what we might expect from the current world financial crisis. The National Council for Voluntary Organisations<sup>1</sup> has explored what has happened in previous economic downturns and found that in previous recessions around two thirds of charities reported an increase or no change in their income while only 33% reported a decrease over a two year period. It seems that mid-sized organisations with little or no reserves are more susceptible to short-term falls in income whilst larger organisations tend to be more resilient.

As regards individual giving, there tends to be a slow down in the increase in charitable giving rather than it halting. Again, the larger charities weather the storm better in this area.

In terms of government funding, as a result of the downturn in the early nineties, both local and national government funding decreased between 1991-93 although the need for services in some areas increased. Advice, housing and counselling services all saw an increase in demand.

Falling profits in the corporate sector saw a reduction in donations in the 1990s and this seems to be happening already as there is evidence that fundraising events are being cancelled.

Research recently carried out by the National Association for Voluntary and Community Action<sup>2</sup> (NAVCA) into the effects of the recession on the Third Sector has identified that the full impact of the recession has yet to be felt by many Third Sector organisations – particularly those with reliance on public bodies for funding. The full effect may not be felt until 2010 or even 2011.

What is clear is that the recession is not affecting everyone in the same way. Research suggests that areas most affected are those already facing high levels of

---

<sup>1</sup> An historical perspective on civil society during periods of financial downturn: NCVO

<sup>2</sup> Crunch Time: NAVCA August 2009

deprivation<sup>3</sup>. The government highlighted Southend as one of the areas most likely to be affected by the recession and was the only area in the Eastern region selected to receive the Targeted Support Fund to support Third Sector organisations which provide advice, guidance and support to the local community.

It is thought that it generally takes between six and eighteen months longer for the impact of the recession to be felt by the Third Sector<sup>4</sup>. Keeping this in mind, in July 2009, Southend Association of Voluntary Services (SAVS) conducted a brief survey of its members to identify whether they had been affected yet and whether they expected to be in the future.

The results are largely in line with the national picture.

The National Headline findings from the recent survey of Third Sector organisations by NAVCA (the National Association for Voluntary Action) are:

- The demand for services has increased overall with a 50% rise in some areas and sub sectors such as those giving information, advice and guidance.
- People are mainly seeking financial, debt and benefit advice; employment and redundancy advice; housing advice and support and advice due to experience or exposure to domestic violence.
- Organisational income is reducing with donations, sponsorship, grants from trusts and foundations and earned income all hit.
- Third Sector organisations with income ranging from £10,000 to £150,000 are hit the hardest.
- There are mixed levels of confidence with some organisations feeling they can meet the demand whilst others are less certain.
- For some, particularly those with reliance on funding from public bodies, the full impact has yet to be felt and it may not be until 2010 or 2011.
- There has been an increase in volunteers and those seeking placement. The 'demand' for and 'supply' of volunteers is stretching the sector's resources. Different types of volunteers are emerging; people with professional qualifications who are newly unemployed. They may only be available to volunteer in the short-term and opportunities to cater for these individuals need to be developed as well as additional resources for their training and volunteer expenses.
- There is an increased commitment from organisations to collaborate.

---

<sup>3</sup> Real Help for Communities: Volunteers, Charities and Social Enterprises 2009

<sup>4</sup> Action Planning Research Report on the Impacts and Implications of the Current Economic Climate For the Essex, Southend and Thurrock Infrastructure Consortium February 2009

- Local infrastructure organisations (such as SAVS) have a critically important role to play in supporting the Third Sector during the recession by:
  - offering a voice for the sector
  - providing financial advice
  - providing information and advice on all aspects of sector development
  - brokering, co-ordinating and facilitating partnerships and collaborative work
  - enabling organisations to learn tendering skills and support joint working that can open up new contract opportunities
  - identifying ways for organisations to reduce costs, particularly back office functions
  - support groups to deal with an increase in demand, especially volunteering
  - collate accurate information to help local groups describe the impact of their work clearly and enable decision makers to target help where it will have the greatest impact.

The Charity Commission found similar results in its recent survey carried out in September 2009<sup>5</sup>:

- 56% charities stated that have been affected by the recession and 58% of these have seen their income reduced
- 9% of charities overall had considered merging, collaborating or forming consortia with other charities. Although it is the larger charities that are more likely to have considered one of these measures.
- Charities are relatively optimistic for the coming 12 months but have concerns about the longer term and were preparing for 2 – 3 years down the line when their current grants or contracts come to an end.
- 52% of charities had taken action to counteract the effects of the downturn, for example, some were using reserves, diversifying income streams and making efficiency savings.

---

<sup>5</sup> Charities and the Economic Downturn: Charity Commission Survey September 2009

## **Local Impact**

In Summer 2009 SAVS sent surveys to 180 of its members to discover what, if any, effect the economic downturn was having on their organisations so far.

A total of 66 surveys were returned which is a very good response rate of over 33 per cent and could indicate the level of interest and perhaps concern the sector has regarding the current climate.

The surveys that were returned could be divided into two distinct groups; with quite different results. As the NAVCA survey highlighted that the organisations most likely to be hit by the recession were those with an income of over £10,000, we decided to consider the results of our survey in two parts.

### **Very small charities and community groups ...**

It was interesting to see that half of the groups that returned the surveys are small community groups, mainly run by volunteers and with relatively small overheads, and certainly with an income of less than £10,000. Ninety two per cent of these low cost groups had not been affected by the recession and did not think they would be in the future. However, of the 8% of respondents who had noticed a negative impact, this was mainly due to increasing costs such as telephone costs, utilities and hall charges. This had meant they have had to increase subscriptions which they felt could result in less members able to contribute. One group had had a cut in their usual grant but no increase in donations to counteract it.

***“We had to increase subscriptions to pay hall charges, postage, telephone etc.”***

These small groups are predominantly made up from church groups, lunch clubs, drop in centres, campaigning groups.

### **Larger charities ...**

The remaining 50% of respondents had a different story to tell. These organisations have greater levels of income (over £10,000 per annum) and most employ staff, hire offices, etc.

55% of these organisations said that the economic downturn has had an impact on their services for a variety of reasons.

27% of these organisations were facing an increased demand for their services especially those that provided advice, guidance and counselling.

*“We are getting quite a lot of money related questions, especially from people whose income is down as a result of reduced interest rates”*

***“Clients are seeking our services regarding debt advice, this has made the waiting list rise”***

An additional 21% of organisations who relied on paying customers had seen a decrease in people’s ability to pay (some organisations said they tried not to turn people away so provided services for free); or a decrease in numbers of people accessing their services at all.

***“Because we never turn away genuine cases of hardship this uses up our limited resources”***

30% of organisations said they have had cuts in grants, funding or public donations. Sometimes grants had been frozen whilst running costs have increased. Of those that had not yet experienced cuts, the majority of respondents feared they would in the future. This supports NAVCA’s view that the full impact will not be felt until 2010/11.

***“It is sometimes hard to keep things going, but we are always trying for funding and new grants”***

***“The economic downturn has not impacted upon our services to date, we are endeavouring to maintain our level of service as far as reasonably possible”***

30% of these organisations have seen an increase in volunteers, whereas only 6% reported a decrease in volunteers. Of those new volunteers offering their services, organisations have reported many are coming via the Job Centres and wish to enhance their CV’s.

It is clear from our survey that the position in Southend-on-Sea is in line with what is happening in the rest of the country. Demand from service users, particularly in the areas of information, advice and counselling, is increasing, whereas funding is not. Income from grants and donations is decreasing as is revenue from providing services. Costs of running groups and organisations are going up. Smaller, volunteer led community groups are pretty much unscathed and do not appear to be too worried about the future.

Whereas grants on the whole have not been cut yet, the sector in Southend is bracing itself for the difficult times ahead.

## **Tips for Surviving the Recession**

**In preparation for uncertain times there are a number of options open to voluntary and community organisations to consider:**

- Ensuring that your mission and the needs of your users are at the heart of all actions taken in relation to the recession. In particular consider how the users of your services may be affected by the recession. Make sure your services adapt to the changing needs of users and involve users in making changes.
- Ensuring that trustees and staff work closely together in providing effective leadership to their organisations and causes. Balancing optimism and realism will be more important than ever. Frequent honest communication with all internal and external stakeholders will also be crucial and celebrating successes will be more important than ever. Remember for many managers this will be their first recession – they will need support and guidance.
- Considering scenario planning for a range of different incomes that your organisation may receive in the years ahead.
- Considering a range of scenarios in terms of potential changes in demand for services.
- Ensuring you have in place good systems for receiving information about financial performance and can act quickly and decisively to a sudden downturn in income. Keep a close eye on cash-flow as well as income and expenditure.
- Diversifying your range of income sources – this has the potential to have benefits in the medium and long term.
- Considering ways in which you can reduce your costs including through making use of bulk purchasing schemes and more effective use of technology. Renegotiate with your suppliers, including finance providers, and search out the best deals.
- Ensuring you are maximising tax incentives, including Gift Aid, wherever possible.
- Considering all the resources at your disposal to support your fundraising – patrons, trustees, key donors and supporters.
- Considering whether your missions could be better fulfilled by merging with other organisations.
- Considering whether working more in collaboration will make you more efficient.

- Considering any opportunities that you can responsibly take advantage of for example increased demand for services, low property prices, new people entering the labour market and, inexpensive loan finance.
- Planning for the long term and for the upturn that follows a recession.
- Being aware of the increased risk that partners and suppliers may face difficulties, and consider the implications of this for your organisations.
- Investing in your staff and volunteers. It is important that you continue to nurture this key asset, and what is more, the costs of recruiting staff that leave can often outweigh the cost of training that makes staff feel empowered, valued and, encourages them to stay.
- Keep talking to your funders. Should issues arise, talk to them early to explain the situation. Be honest and look to develop mutually acceptable solutions. If you leave things too late there will be no opportunity to find positive ways forward.
- Communicating with your staff, trustees and stakeholders. It is possible to be upbeat at the same time as being honest - but honesty is the key.
- Planning at the earliest stage. By starting early you are better able to develop workable ways to meet any challenges.

## **How statutory partners can help ...**

A report carried out by the National Council for Voluntary Organisations and the Local Government Association has explored how the Third Sector<sup>6</sup> and statutory sector can work together to respond to the recession. The report 'backing communities; local solutions' highlights the importance of positive, mutually supportive relationships between local government and the Third Sector to reap the benefits for both parties and for the local communities they serve.

A good working relationship can increase local capacity to respond to changing needs and circumstances. It can help to strengthen communities and create local areas where people actively participate and are happy to live, work and spend their leisure time. During a recession, these mutually supportive relationships will prove to be more valuable than ever.

By strengthening ties in difficult times, the two sectors can potentially make a significant difference to how society as a whole can withstand the social and economic impacts of an economic downturn.

The key to managing many of the difficulties likely to arise, particularly where funding decisions are up for review, is to establish a good ongoing dialogue with Third Sector colleagues and keep them informed of potential changes that may affect them. In essence statutory and Third Sector partners should remind themselves of the commitments they have made to the local Compact and abide by them.

Despite the potential of the Third Sector to contribute to a constructive local response, there are significant fears amongst Third Sector organisations that local authorities will be looking to withdraw funding as they renegotiate agreements in the coming years. Evidence from the last recession suggests that this was a common factor in changing relationships between the two sectors.

This matters to local government because a struggling local Third Sector organisation will have a negative impact on the:

1. Continuity of service to some vulnerable groups within the community
2. Number of paid jobs locally
3. Volunteering opportunities available and the added social and economic value this brings to communities
4. Range of potential partners responding to needs in the area
5. Amount of external funding and resources brought into the area

---

<sup>6</sup> Backing communities: local solutions Local Government Association and National Council for Voluntary Organisations

6. If local organisations fail they cease to contribute to the economy via their own expenditure and that of any paid employees
7. Where organisations offer front-line services or services that are preventative in nature (respite for carers or support for young parents) their closure can have substantial knock-on effects and considerable costs for local public sector agencies.

This is not to say that it is possible, even if it were desirable, for local authorities to seek to sustain every organisation in their area that is struggling due to the recession. Councils have their own considerable financial constraints and are experiencing demand for services. There are, however, many things that both Third Sector organisations and the statutory sector can do to minimise the negative effects of the recession on themselves and their partners.

**The statutory sector should:**

- Involve Third Sector partners in planning their local response to the recession – they can bring insight into the impact on their communities, emerging need and demand for certain services
- Talk to Third Sector partners about the impact the recession is having on them – being aware of their financial constraints and demands on their services will help you make more informed funding decisions
- Keep organisations informed about any potential changes to funding and timescales for decision making. This enables organisations to plan better and respond to any likely changes.
- Make sure the consequences are fully understood if making any decision to reduce funding, including consequences for the organisation/s involved, the people they work with and for local Third Sector capacity in the longer term.
- Give fair notice of any reduction in funding – give at least three months notice wherever possible
- Pay all fees and instalments on existing contracts and agreements on time. Most Third Sector organisations have low levels of capital and are vulnerable to cash flow difficulties. Late payment can cause severe problems.

The local Compact will provide a valuable guide to both the Third Sector and Statutory Sector and will be vital to helping the Third Sector survive the challenging times ahead.

## **Conclusion**

It would appear from our research and anecdotal evidence that the picture in Southend is very much in line with what is happening around the country. Although funding has not yet decreased, the Third Sector cannot be described as thriving and is bracing itself for difficult times ahead.

There are opportunities with an increase in the numbers of potential volunteers coming forward and, particularly more highly skilled volunteers. We are certainly seeing this already. The Sector needs to consider how it can take advantage of these volunteers who may only be able to offer their time for a short period whilst looking for work, or retraining. Volunteers need supporting and training and whereas they give their time for free, they are not without cost. Resources do need to be identified in order to make the best advantage of these volunteers.

The increased demand for some services need to be balanced with the difficult funding climate ahead. Trustees have an important part to play in ensuring their organisations survive the recession and should be asking themselves searching questions including: If the organisation has reserves, are they willing to dip into these to subsidise the delivery of services to meet client demand? What can they do to cut costs whilst meeting increased demand? Is there the potential for working more closely with another organisation to share costs or combine services? Do they have a diverse range of funding sources?

It is likely that those who have the best chance of surviving the recession are organisations who are prepared to be flexible, adapt to change and accept new ways of working.