Since the financial crisis of 2008, small and medium-sized charities lost a higher proportion of their income than larger organisations. Income from local and central government fell by up to 44% for small and medium-sized charities and increases in income from individuals were insufficient to offset those losses. These charities are more likely to have been dependent on single income sources, and are more vulnerable to shocks as a result.

Small and medium-sized charities play a part in tackling disadvantage that the bigger charities, business and the public sector cannot. Evidence for the distinct contribution made by small and medium-sized charities suggests they play a critical but often unseen role, including being flexible and responsive to need, embedded in the community and offering a holistic service to those facing the greatest disadvantage.

The finances of small and medium-sized charities are volatile, and the smaller the charity the more volatile the change. Since 2008, half of small and medium-sized charities experienced a rise or fall in income of more than 20%. For charities with income between £100k-£500k in 2008, one quarter had moved into a lower income band by 2013.

The dynamics of government funding have shifted radically towards competitive commissioning and contract models. These changes have failed to create a level playing field for small and medium-sized charities, which has exacerbated their vulnerability. Large organisations, including some large charities, are dominating the market for providing public services, to the detriment of small and medium-sized charities and the individuals they reach. Those working in deprived neighbourhoods are more likely to have been affected, as well as those who work with BAME communities.

Small and medium-sized charities have responded in diverse ways to survive this challenging era. Many cut staff, merged with others and stepped up trading and fundraising from individuals. The economic climate proved too much for some: across the voluntary sector over 23,000 charities stopped operating during the period, the majority with an income under £500k.
**1 What do small and medium-sized charities offer that others can’t?**

IPPR North’s evidence review found small and medium-sized charities play a critical and valued role in creating healthy communities and responding to disadvantage at a local level. Although small and medium-sized charities work in diverse contexts and geographies and tackle social problems in diverse ways, some common themes emerge.

- **Local knowledge and understanding**
  Many small and medium-sized charities are rooted or embedded in their local community, which brings an intimate knowledge and understanding of its strengths and needs. This can apply to both a geographical community or to communities linked in other ways – like culture, ethnicity or need. They are able to draw upon a willing pool of local volunteers and can act as “anchors” within their community, providing stability and mutual support to other community groups.

- **Boosting local social capital**
  Small and medium-sized charities can also build and nurture social networks, creating positive relationships between people living and working in a particular community. They can help to boost levels of local social capital by building capacity and developing links, both within and between communities and other networks, including national and local government.

- **Working with complex needs**
  Many small and medium-sized charities are described in the review as uniquely placed to engage directly with those hardest-to-reach, because their independence, history and local volunteer base foster greater levels of trust. Many such organisations have experience in working “holistically” or in a “person-centred” way that is responsive to individual and local context. In other words, they strive to offer care for the ‘whole person’ – whether their needs are practical, emotional or social.

- **Innovation in service delivery**
  Voluntary organisations, and small and medium-sized charities in particular can often deliver more effective services for disadvantaged or marginalised client groups. A number of studies critique a one-size fits-all approach to public service delivery for the most vulnerable service users, who often require a responsive and adaptive local system that allows frontline staff to work proactively to meet their specific and varied needs.
What’s happened to small and medium-sized charities?

There are over 40,000 charities with an income between £25,000 and £1 million, accounting for one third of the sector in England and Wales. Evidence from NCVO’s analysis of almanac data suggests that since 2008/09, the number of small and medium-sized charities has stagnated – and numbers of micro-charities have fallen – while the number of charities with incomes in excess of £1m have grown dramatically. In that time, nearly 18,000 new charities were created but over 23,000 charities disappeared, most of which had an income under £500,000. (See Figure 1)

Small charities have been through a period of critical financial strain since the financial crisis of 2008. The research identifies four major trends for small and medium-sized charities:

- Small and medium-sized charities lost more income proportionally than larger charities

  The income mix of small and medium-sized charities shifted from one in which government and individuals contributed to overall income in roughly equal measure to one where the majority of income came from individuals. Central and local government income for both contracts and grants decreased for all income bands except the largest (over £100 million). For small and medium-sized charities, increases in income from individuals of up to 21% were insufficient to offset losses of government income of up to 38%, resulting in an overall shortfall.

- Charities experience substantial income fluctuation over time

  The income of small and medium-sized charities is unstable. Up to a third moved in and out of Charity Commission income bands between 2008/09 and 2013/14.
Smaller charities experienced higher income volatility than larger charities

Between 2008/09 and 2013/14 over half of all small and medium-sized charities experienced rises or falls in income of more than 20%. For charities that were in the £100k-£500k income band in 2008/09, a quarter had moved into a lower income band by 2012/13. Small and medium-sized charities are particularly affected by insecure income, with charity accounts suggesting that a major cause is dependency on single sources of income. By contrast, larger charities mainly experienced stable or rising income trajectories. (See Figure 2)

Income loss was uneven across geographic regions and sectors

Small and medium-sized charities in the North East, North West and West Midlands lost the highest proportion of overall income. (See Figure 3) Overall income declined for every sector, with legal services, social services and health seeing particularly large decreases.
IPPR North’s research found that since 2010, the direction of public funding and service delivery has shifted radically towards competitive commissioning models, where all types of provider compete for contracts to deliver public services. There is compelling evidence to suggest that large organisations, including some large charities, are increasingly dominating the market for public service provision to the detriment of small and medium-sized organisations.

NCVO’s research shows that in general, the smaller the income of a charity the more they lost in income from both local and central government, despite an increase in demand for services. Small and medium-sized charities saw the biggest losses of local government funding, losing 30-44% of their income. (See Figure 4)

The role of public funding

Addressing the shortfall

Small and medium-sized charities adapted to a new financial landscape in a number of ways. They decreased their overall spending and, in general, increased the amount that they spent on generating funds. Between 2008/09 and 2012/13, small and medium-sized charities increased their income through fundraising and charitable trading by up to 60%. This was not enough to offset losses in reduced public income.

Other tactics included mergers and takeovers, staff redundancies and reducing staff hours, reducing services to core activities, diversifying income sources, and increasing partnerships and joint ventures with other voluntary sector organisations. In particular, since 2008/09 charities with income between £100,000 and £500,000 nearly halved the proportion of their spending that went towards staff costs, making them more reliant on volunteers.

Problems compounded

Much of the instability facing small and medium-sized charities stems from short-term funding streams. It appears to be a more critical issue for smaller charities, for whom the removal or retention of single funding awards can be the difference between survival and closure. IPPR North observed that those working in deprived neighbourhoods are more likely to have been affected, as well as those who work with BAME communities. These organisations are also likely to see the greatest increases in demand as a result of changes and reductions in public spending.
Recommendations

Small and medium-sized charities are critical in delivering services to those most in need and they must be supported to do this. Both independent and public funders need to ensure their processes enable these charities to access resources and compete on a level playing field against larger organisations.

1 Public commissioning has to be reformed to ensure resources can reach small and medium-sized charities

Smaller, local charities are often best placed to support those facing multiple disadvantage, particularly those in deprived areas and BAME communities. These organisations must be able to access the resources they need to deliver services. Approaches to commissioning must ensure that they no longer place smaller organisations at an unfair disadvantage.

2 Funders, both independent and public, need to take steps to reduce the volatility of small and medium-sized charities’ income

Funders’ processes must reduce the risks facing smaller charities by offering longer term funding, with greater lead-in times. They need to confirm any reduction or ending of funding in good time to allow charities to plan effectively and adapt accordingly.

3 Funders, both independent and public, need to support charities to build their capacity

Small and medium-sized charities need to be able to access resources and support to diversify their income and better evidence their value and impact. Funders must make money available that enables charities to improve their capabilities and capacity in addition to delivering frontline services.

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Pentagon House
52-54 Southwark Street
London SE1 1UN

Telephone: 0870 411 1223

@LBFEW
/lloydsbankfoundation
Email: enquiries@lloydsbankfoundation.org.uk
www.lloydsbankfoundation.org.uk