

Third Sector Leaders

**ACEVO**

## ┌ **Cuts to the Third Sector**

What can we learn from  
Transition Fund applications?

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# Summary

This report is based on analysis of applications to the Government's Transition Fund, intended to support civil society organisations facing public spending cuts. It finds that:

- 1,725 organisations applied to the Transition Fund, 81% of them registered charities and 12% social enterprises not registered as charities.
- They reported facing total cuts of £524.4 million in 2011/12. Of this, £412 million was accounted for by registered charities.
- On average, applicants to the Transition Fund faced losing 45% of their total income as a result of the cuts.
- The registered charities applying to the Transition Fund account for roughly 7% of state spending on the charity sector in the UK (that is to say that for every £14 spent by the state on the voluntary sector before the cuts, £1 was going into the budgets of the organisations applying to the transition fund, with the rest going to the remainder of the 38,000 charities in receipt of public money).
- On the basis of an analysis of where statutory funding to the charity sector goes, we estimate that cuts to the charity sector in the UK in 2011/12 will range from just under £1 billion (£970.0 million) in the very best case scenario, to just over £5.5 billion (£5,556.9 million) in the very worst case scenario. Given that cuts to non-charities add another 27% again to the total cuts reported in the Transition Fund by charity applicants, the sector-wide figures for civil society as a whole (as opposed to charities only) are likely to be larger.
- Whilst comparisons between different regions must be treated with care, it appears that charities in the North West and North East of England are overrepresented in the Transition Fund sample, whilst charities from the East of England and the South East are underrepresented.
- There is a clear link in the dataset between cuts and levels of deprivation in the area where organisations are based: 66.4% of the cuts reported are to organisations in the 25% most deprived local authority areas, compared to 7.5% to organisations in the 25% least deprived areas.
- Amongst applications to the Transition Fund from the 20 most deprived local authority areas, 450 organisations face losing £142.4 million. The equivalent figures for the 20 least deprived areas are 22 organisations losing £3.6 million.
- The majority of applications came from medium-sized organisations (income between £100,000 and £1 million), who accounted for 70% of all applicants. But small organisations applying to the Fund (income of less than £100,000) have been disproportionately hard hit by cuts.
- Organisations active in health and social care reported total losses of £285.1 million. The equivalent figures for education and training was £335.8 million; for children and families £287 million; for welfare to work £207.5 million; for homelessness £112.3 million; for offender rehabilitation £88 million; for debt counselling and legal advice £94 million. It should be noted that many applicants were active in more than one

public service delivery area, meaning that these figures double-count numerous organisations.

- Whilst the impact on the different public service areas in which applicants are operating must be treated with caution, organisations involved in employment and training appear to be facing losing a higher proportion of their income.
- Charities applying to the Fund lost less, as a percentage of their income, than social enterprises (42.72% on average as opposed to 56.01%), and tended to request less from the Transition Fund (with an average request for £97,004 compared to £113,997).

We see two major implications for policy makers from this data:

**1. The data suggests that it is highly likely that public sector agencies are passing on disproportionate cuts to civil society organisations (i.e. higher cuts to civil society funding than they themselves are facing).**

The cuts reported by charities applying to the transition fund already account for approximately 3.2% of the charity sector's total income from the state, and this from a group of applicants who account for only 7% of total state spending on the sector. Our analysis of Transition Fund applications suggests that even under our very best case scenario, the charity sector as a whole is likely to face losing 7.6% of its total statutory income (rising to 9.4%, 15.9% and 43.4% respectively as our posited scenarios get worse). On average, Transition Fund applicants report facing a 45% drop in income next year as a result of cuts. To put all this in context, English local authorities face an average 4.4% drop in their spending power next year, and none will face a drop of more than 8.9%.<sup>1</sup>

**2. The data suggests that cuts to civil society organisations are likely to have a bigger impact on deprived areas.**

The most deprived quartile of local authority areas accounts for 66.4% of the cuts reported in Transition Fun applications, compared to 7.5% from the least deprived quartile. The volume of cuts reported in Transition Fund applications in the 20 most deprived local authority areas is roughly 40 times higher than the volume of cuts reported for the 20 least deprived areas.

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<sup>1</sup> DCLG figures

# Introduction and context

Civil society organisations (charities, voluntary groups, social enterprises and other not-for-profit organisations) are central to both the Government's big society agenda and its plans to reform public services.

The charity sector, the civil society subsector for which we have the best data, currently delivers approximately £13 billion worth of public services annually, including key services such as social care, health, welfare to work, skills, education, children's services, and services to reduce re-offending. 52% of these services are local-government-funded, 41% funded by the NHS or Whitehall, and 7% funded by the EU or international sources.<sup>2</sup>

Given that the charity sector's biggest single source of income is state funding, public spending cuts are likely to have a significant impact on the sector – and potentially on the Government's big society and public service reform agendas.

This report seeks to improve our understanding of how public spending cuts will affect civil society organisations, using data from applications to the Transition Fund.

The Transition Fund is a £100 million fund set up by the Cabinet Office and administered by the Big Lottery Fund with the support of ACEVO. Its aim is to help civil society organisations delivering public services to survive the short-term pain of cuts and to transition to a new funding environment of increased opportunities resulting from the Government's public service reform agenda.

Civil society organisations were eligible to apply to the fund if they:

- delivered the majority of their services in England
- spent at least 50% of their total income delivering public services in one or more of 7 key areas (health and social care, homelessness, education and training, offender rehabilitation, welfare to work, children and families, or debt counselling and legal advice)
- had an annual income of between £50,000 and £10 million
- received at least 60% of their total income from taxpayer-funded sources
- had, by the application deadline of 21 January 2011, evidence or substantial reason to believe that in the financial year 2011/12 they would lose at least 30% of their taxpayer-funded income
- had free reserves which could pay for their organisation's total expenditure for no more than six months.

1,725 civil society organisations submitted applications to the Fund by the deadline of 21 January 2011. This report analyses those applications and explores what we can learn from the data about cuts more broadly.

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<sup>2</sup> National Council for Voluntary Organisations (NCVO) (2010), *The UK Civil Society Almanac 2010*, London: NCVO (hereafter referred to as "NCVO Almanac (2010)")

## ┌ Note on methodology

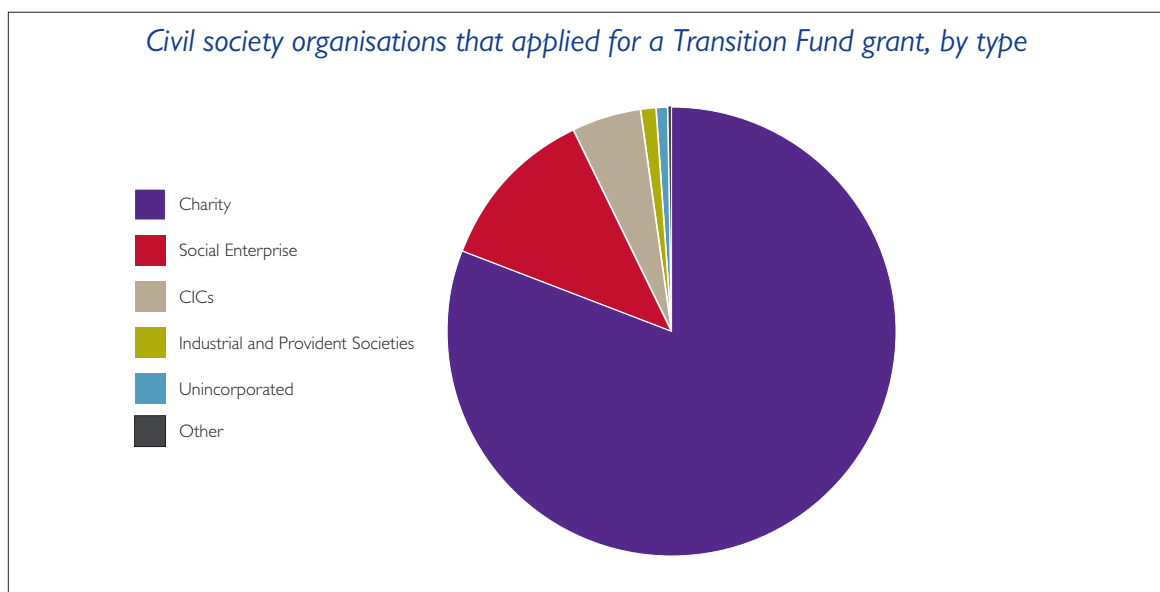
For different sections of this report, we have used different subsets of data from applications to the Transition Fund (e.g. taking only the charities who applied to the Fund when comparing them with national datasets for the whole of the charity sector; when making comparisons with the Multiple Deprivation Index of 2007, taking only those applicants whose local authority areas have not changed since the date that Index was drawn up, etc.) This accounts for variations in figures between different sections of the report.

# Overview of applications to the Transition Fund

## Who applied to the Transition Fund?

1,725 civil society organisations submitted applications to the Fund by the deadline of 21 January 2011.

Of these, 1,392 (81%) identified themselves as charities, 208 (12%) as social enterprises, 81 (5%) as community interest companies (CICs), 22 (1%) as industrial and provident societies, 21 (1%) as unincorporated, and 2 (<1%) as other.



## What is their typical income?

The average total income of the organisations that applied for the Transition Fund is just under £800,000 (£796,629.7). The median total income is £411,315.



## What cuts are they facing?

Taken together, applicants to the Transition Fund face cuts of £524.4 million.<sup>3</sup>

The income organisations faced losing ranges from just 4% of their income (this is accounted for by the fact that 77 organisations applied even though they received less than 60% of their funding from statutory sources, thereby in fact being ineligible for the fund) to as much as 100% (16 organisations). On average, applicants faced losing £314,567, or 45% of their total income.

Most organisations (781, or 47%) lost between 25 and 50% of their total income. 16% of all organisations that applied for a grant lost up to 25%, whereas 10% of the organisations lost more than 75% of their total income.

*Numbers of organisations that applied for a Transition Fund grant, by percentage income loss*

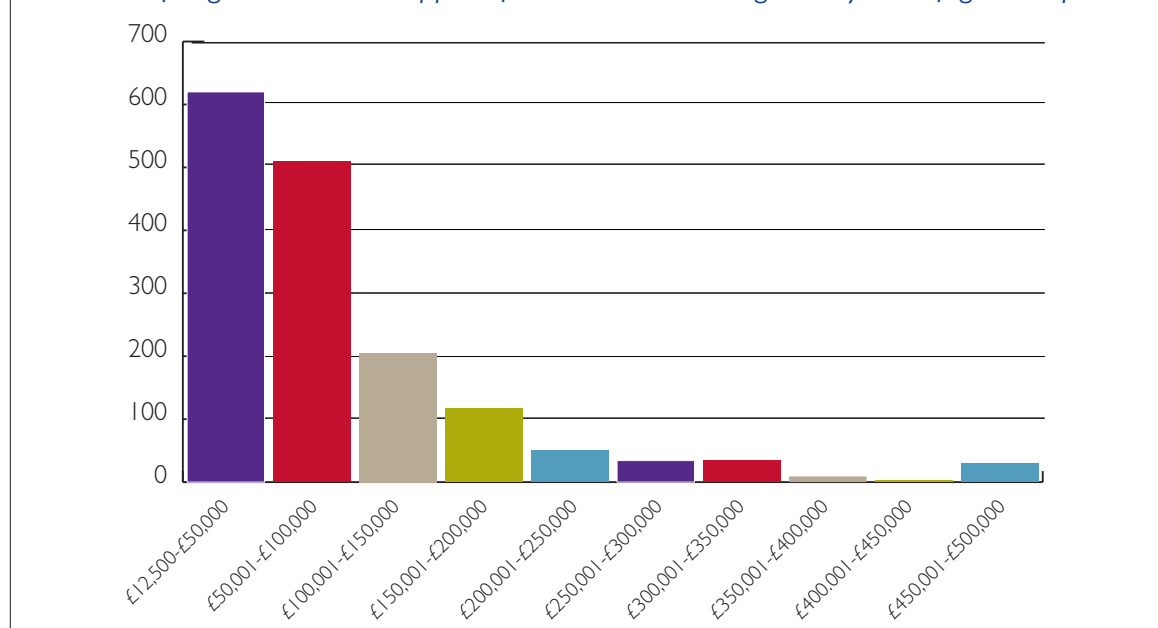
Income lost	Number of organisations	Proportion of all applicants
Up to 25%	269	16.14%
25.01% to 50%	781	46.85%
50.01% to 75%	442	26.51%
75.01% to 100%	175	10.50%
Totals	1667	100.00%

## How much money did they ask for?

The average amount of funding requested from the Transition Fund was £98,457, with requests ranging between the respective minimum (£12,500) and maximum (£500,000) for grants available.

Two thirds of all organisations applied for less than £100,000 each, with only one tenth requesting more than £200,000 for their organisation.

*Numbers of organisations that applied for a Transition Fund grant, by size of grant requested*



<sup>3</sup> For this and the following figures only 1,667 (rather than 1,725) organisation have been considered due to missing or faulty data.

## Geographic breakdown

Most of the organisations that submitted applications to the Transition Fund are based in London (405, i.e. 23%). The lowest number of applications was submitted from organisations in the East of England (103, i.e. 6%). The remaining applications were roughly evenly split between regions, with however noticeably more applications from the North West (269 or 16%) than from the other regions.

Region	Number of organisations	Proportion of all applicants
East of England	103	5.97%
East Midlands	150	8.70%
London	405	23.48%
North East	120	6.96%
North West	269	15.59%
South East	170	9.86%
South West	143	8.29%
West Midlands	181	10.49%
Yorkshire and the Humber	184	10.67%
Totals	1725	100.00%

We compared charities who applied to the Transition Fund with the distribution of charities across England, as per the NCVO 2010 Almanac. To do so we excluded social enterprises and other non-charitable organisations to enable comparison.

Though comparisons between regions should be treated with caution,<sup>4</sup> a disproportionately large number of organisations appear to have applied from the North East and North West in particular, while a disproportionately small number of organisations appear to have applied from the East of England and the South East. Charities in the North West account for 10.11% of charities in England but 15.87% of applicants to the Transition Fund, while for the North East the figures are 3.47% and 6.86% respectively. In the East of England the equivalent figures are 12.63% and 6.64%, and in the South East 18.47% and 9.82%. At first glance, a disproportionately large number of organisations appear to have applied from London, but we treat this with caution given the possibility that the Transition Fund eligibility criteria (organisations needed to have an income over £50,000 p.a.) may have skewed the numbers towards the capital.<sup>5</sup>

The region where the highest percentage of charities applied for a Transition Fund grant is the North East (1.93%), the region with the lowest percentage the East of England (0.51%).

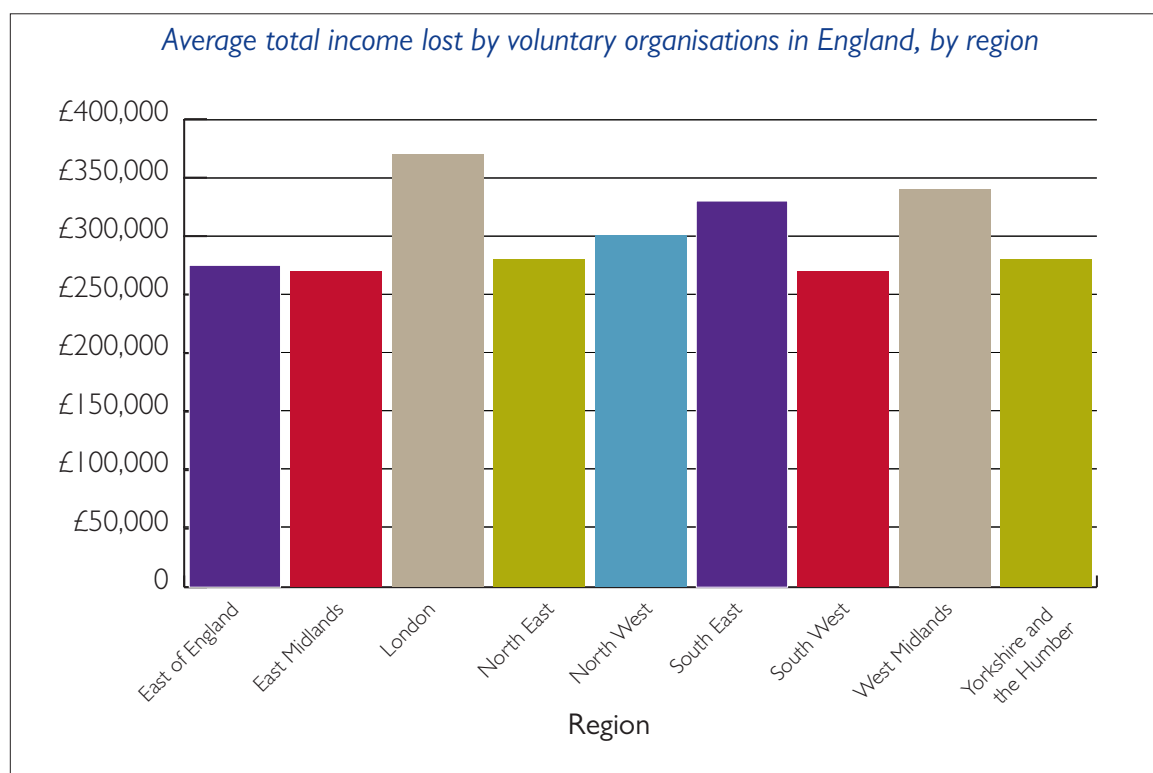
<sup>4</sup> The eligibility criteria for the Transition Fund may have skewed the geographical distribution of applicants. The regional breakdown for all charities in England contains micro organisations, small organisations with an income under £50,000, and major organisations, as well as those not delivering in the Transition Fund's priority public service areas – whereas the Transition Fund dataset does not.

<sup>5</sup> Data for all UK charities is drawn from the NCVO Almanac 2010

Overall regional distribution of charities in England (taken from NCVO Almanac 2010)  
compared with distribution of applicants to the Transition Fund

Region	Total number of charities	As proportion of all charities in England	Number of charities that applied to the Transition Fund	As proportion of all applicants	Difference in percentages overall/applied	Percentage (per region) that applied
East of England	17,515	12.63%	90	6.64%	-5.98%	0.51%
East Midlands	11,617	8.37%	123	9.08%	0.70%	1.06%
London	23,081	16.64%	330	24.35%	7.72%	1.43%
North East	4,818	3.47%	93	6.86%	3.39%	1.93%
North West	14,029	10.11%	215	15.87%	5.75%	1.53%
South East	25,616	18.47%	133	9.82%	-8.65%	0.52%
South West	18,555	13.38%	121	8.93%	-4.45%	0.65%
West Midlands	12,467	8.99%	121	8.93%	-0.06%	0.97%
Yorkshire and the Humber	11,023	7.95%	129	9.52%	1.57%	1.17%
Totals	138,721	100.00%	1,355	100.00%		(Mean: 1.09%)

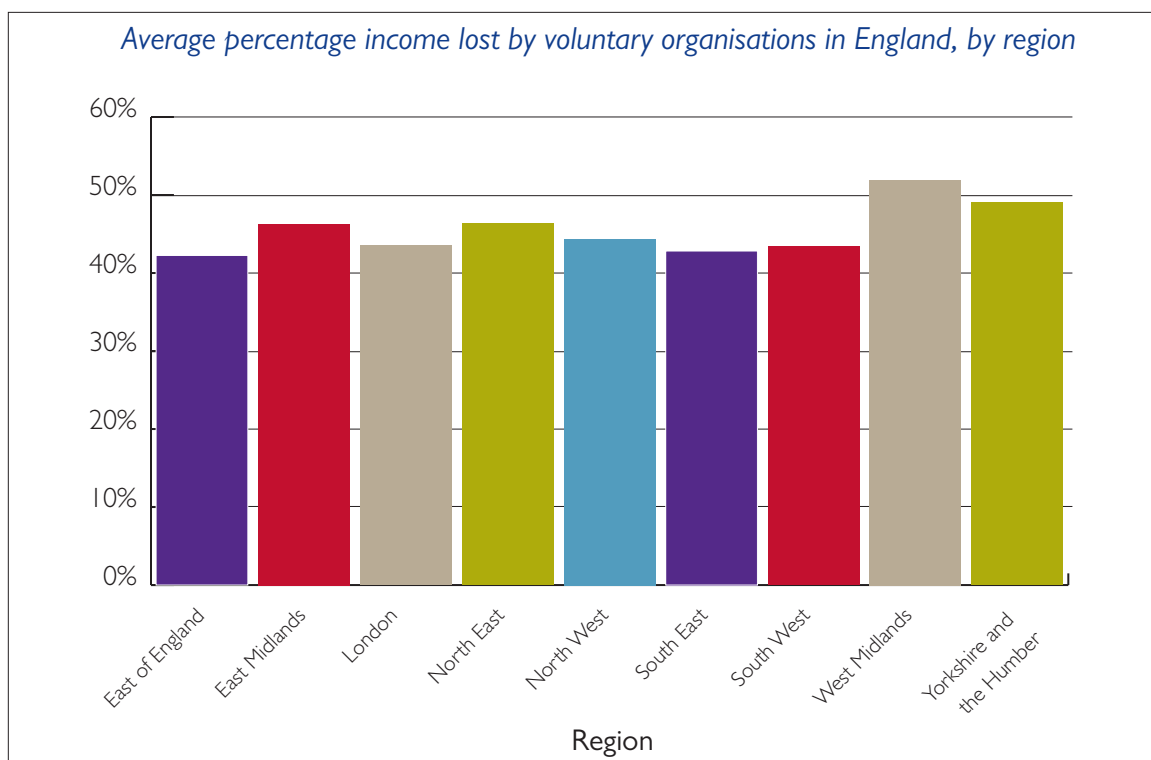
There is no statistically significant difference in total income lost between the nine different regions of England (East, East Midlands, London, North East, North West, South East, South West, West Midlands, Yorkshire and the Humber). Though organisations based in London have on average lost more income than organisations in other regions, this is likely to be due to their equally higher income, with no significant variation between the regions overall.



However, considering also the differences in income of voluntary organisations in different regions, differences in average percentage income loss become apparent. Whereas organisations in the East of England, for instance, have on average lost 42.25% of their total income, organisations based in the West Midlands have lost an average of 51.92% (see table below). Overall, the differences in average percentage income loss between the different regions are statistically significant at  $p < .001$  level ( $F = 4.02$ ).

*Average percentage income lost by voluntary organisations in England, by region*

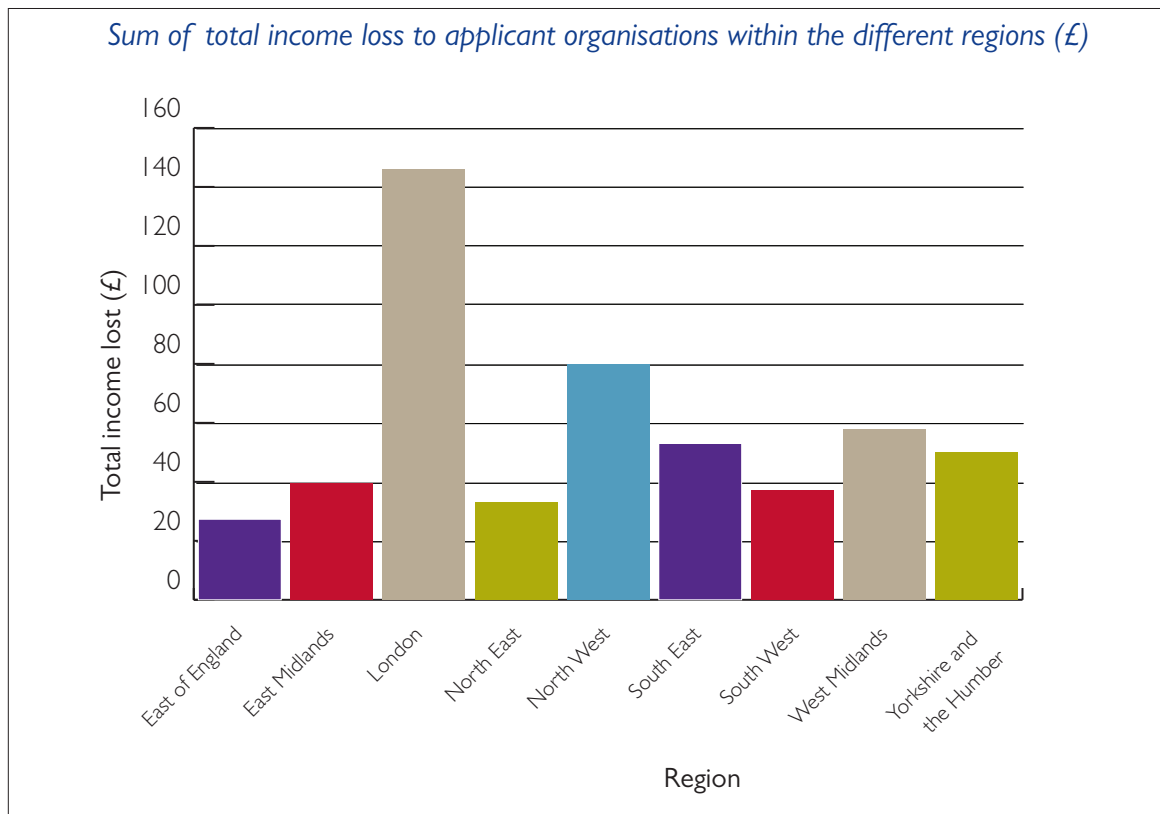
Region	Average percentage income loss
East of England	42.25%
East Midlands	46.28%
London	43.56%
North East	46.33%
North West	44.36%
South East	42.82%
South West	43.35%
West Midlands	51.92%
Yorkshire and the Humber	48.99%



Overall, given the large number of charities in London, this region has been most severely affected in terms of cumulative income loss to the voluntary sector. Given that the least applications were submitted by organisations from the East of England, this region has suffered least cuts among the applicants to the Transition Fund. The table below shows the sum of total income loss to the voluntary organisations that applied for a Transition Fund grant within the different regions.

*Cumulative total income lost per region (£)*

Region	Sum of total income lost
East of England	27,371,749
East Midlands	39,461,483
London	145,950,336
North East	32,611,607
North West	80,135,653
South East	53,270,035
South West	37,550,413
West Midlands	57,749,983
Yorkshire and the Humber	50,194,851
<b>Total</b>	<b>524,296,110</b>



# Breakdown by levels of deprivation

We compared the cuts in Transition Fund applications to the average score of multiple deprivation of the local authority area in which applicants are based.<sup>6</sup>

Average income loss does not vary significantly between those applicants based in more deprived areas and those based in less deprived ones.

However, there are significantly more applicants from more deprived areas. This accounts for a substantial difference in total income loss to applicants from areas ranked in the top 25% of deprived areas and those from areas ranked amongst the 25% least deprived.

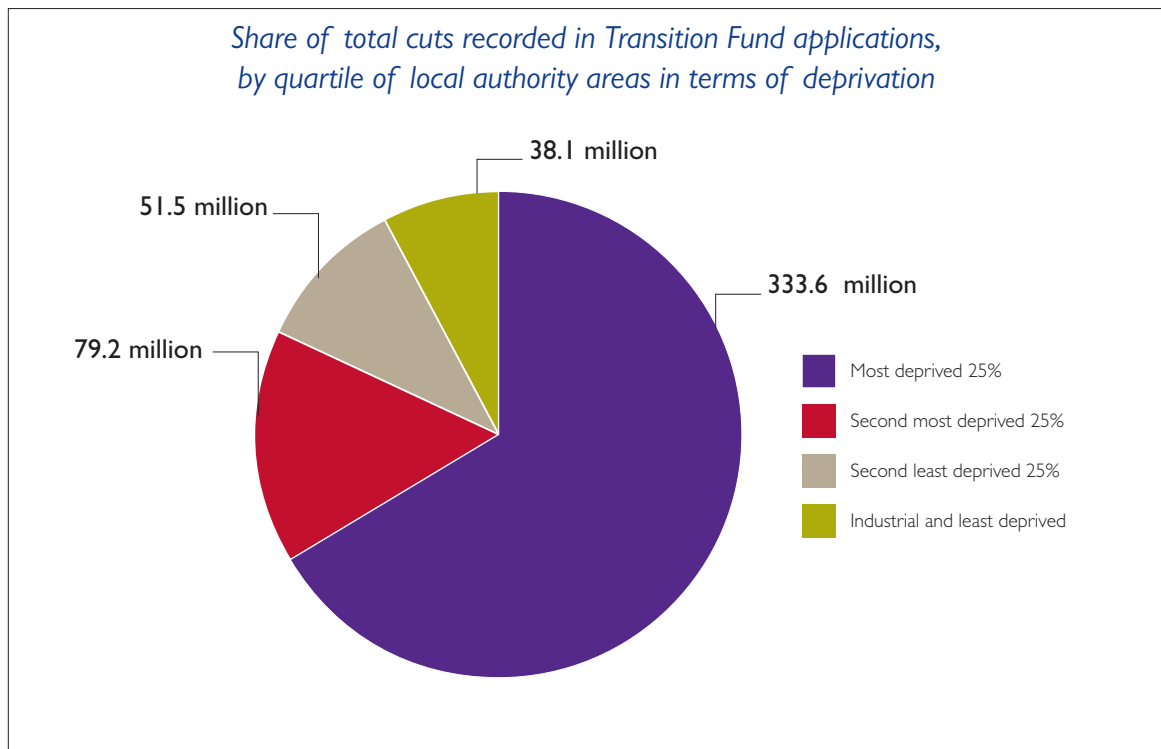
*Cuts to civil society organisations, by deprivation level*

	Number of organisations from these councils that applied	Total income loss	Average income loss	Average percentage income loss
Most deprived 25% of councils	1038	333,577,092.00	321,365.21	45.57%
25% - 50%	260	79,235,866.00	304,753.33	45.24%
50% - 75%	192	51,514,474.00	268,304.55	44.10%
Least deprived 25% of councils	121	38,062,235.00	314,563.93	44.99%

The analysis shows that organisations in the most deprived quartile of local authority areas collectively lost the largest amount of income (£333,577,092, or 66.4% of total income lost), whereas total income lost in the least deprived quartile of local authority areas was substantially less (38,062,235, or 7.5%).<sup>7</sup>

<sup>6</sup> The data used is taken from the Local Authority Summaries of the Indices of Deprivation 2007 for Super Output Areas, by Communities and Local Government (CLG). The dataset covers the period 2004-06 and constructs a score of multiple deprivation based on 17 different variables.

<sup>7</sup> Due to a revision of local authority boundaries and names, a deprivation score was unavailable for some of the organisations, which were therefore deleted from the dataset for this analysis.



The trend becomes even more obvious when applicants located in the 20 most deprived local authorities are compared with those located in the 20 least deprived local authorities. Due to the much higher number of applicant organisations from deprived areas than from less deprived areas, there are significant differences in overall impact to the 20 most and 20 least deprived local authorities. In the 20 most deprived local authority areas, applicants to the Transition Fund face a total of more than £142.4 million in cuts, whereas in the 20 least deprived local authority areas applicants face cuts of £3.6 million.

*Sum of total income loss to voluntary organisations in the 20 most and 20 least deprived local authorities in England*

	Number of organisations	Total income loss
20 most deprived	450	142,402,522
20 least deprived	22	3,600,465

# Breakdown by size of organisation

In analysing the distribution of organisations of different sizes in the Transition Fund dataset, we use NCVO's definitions of micro, small, medium, large and major organisations:

Income of charity	Name
Less than £10,000	Micro charities
£10,000 to £100,000	Small charities
£100,000 to £1 million	Medium charities
£1 million to £10 million	Large charities
More than £10 million	Major charities

*Source: National Council for Voluntary Organisations (NCVO), The UK Civil Society Almanac 2010, London: NCVO, p. 24*

In the Transition Fund dataset, significant differences in income loss can be ascertained between organisations of different size.

Medium-sized organisations are by far the most represented in the dataset, representing 69.89% of all applicants.

Size	Income	Number	Percentage
Small	£50,000 - £100,000	139	8.34%
Medium	£100,000 - £1,000,000	1165	69.89%
Large	£1,000,000 - £10,000,000	363	21.78%
Totals		1667	100.00%

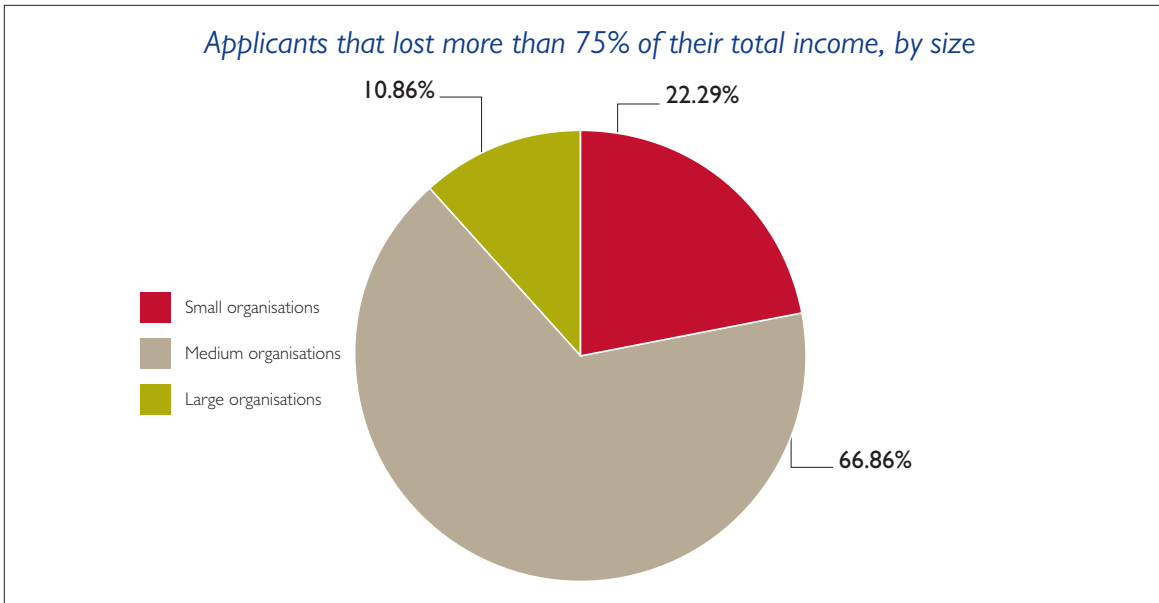
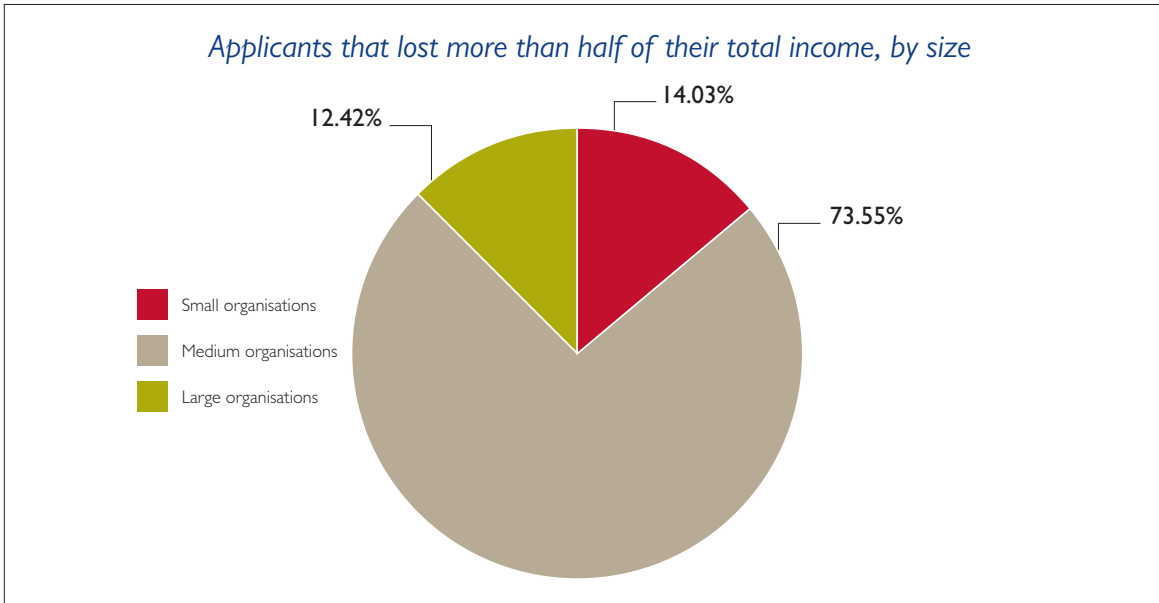
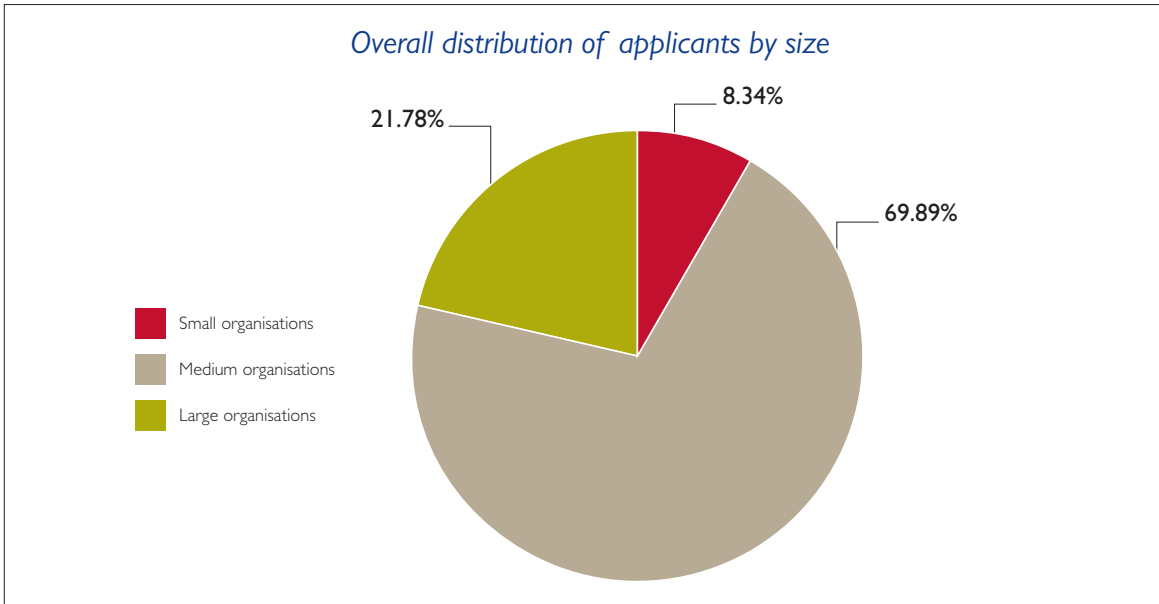
However, the Transition Fund data also suggests small organisations are being disproportionately hit by cuts.

Whereas some 8% of all civil society organisations that applied to the Transition Fund classify as small,<sup>8</sup> 14% of those applicants that face losing more than half of their income, and 22% of those applicants that face losing more than 75% of their total income, are small in size.

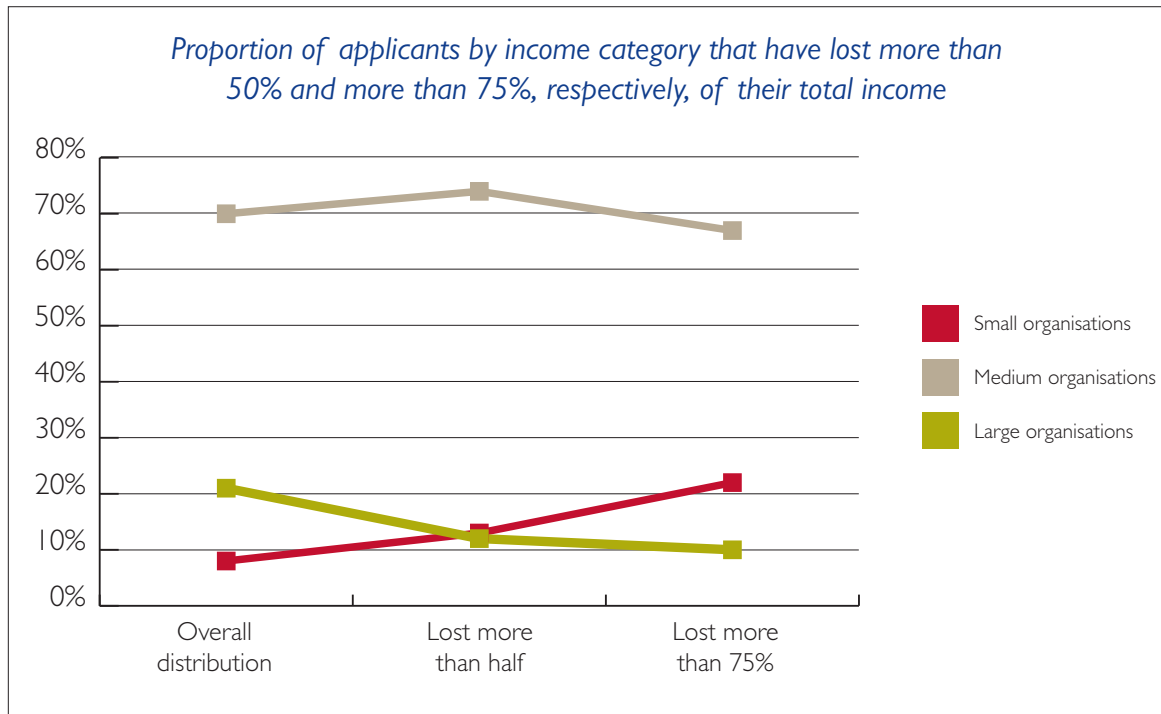
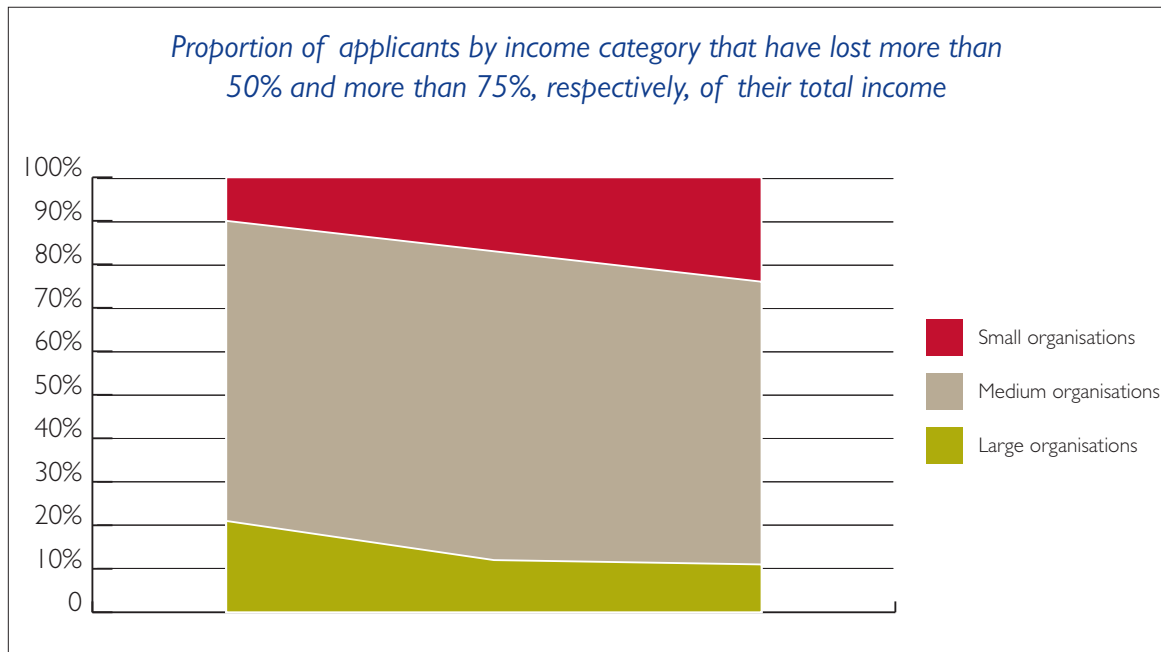
In contrast, whereas some 22% of organisations that applied for a Transition Fund grant were large organisations, only 12% of the organisations that have lost more than half of their total income are classified as "large", and among the ones that have lost more than 75% of their total income only 11% of organisations fall within this category.

<sup>8</sup> The size categories used here are based on those used in the NCVO Almanac (2010)





An analysis of variance in terms of percentage income loss within and between the different income categories shows an average 37% income loss for large applicants; an average 46% income loss for medium sized applicants; and an average 61% income loss for small applicants, the differences between which are statistically significant at  $p < .001$  level ( $F = 67.639$ ).



# Breakdown by service area

It should be noted that the work of most civil society organisations applying to the Transition Fund spans several service delivery areas.

## Health and social care

926 organisations active in health and social care applied to the Transition Fund. They recorded total losses of £285.1 million, with the average income loss being £307,888, and the average loss as a percentage of total income being 42.91%.

## Education and training

Education and training is the service area in which the largest number of organisations that have applied to the Transition Fund are (at least partly) active. Together, these organisations have lost £335.8 million of income, the average income loss being £331,464 or 47.77%.

## Children and families

In the service area of Children and Families, the 915 voluntary organisations that work in this area have suffered an income loss of £287 million in total. On average, an organisation active in this area has lost £313,753, which amounts to 45.83 of their total income.

## Welfare to work

All organisations working in the service area of welfare to work together (566 organisations) are faced with an overall income loss of £207.5 million. The average income loss per organisation is £366,679, or 50.33% of their total income.

## Homelessness

The 292 organisations that report to be active in the area of Homelessness have together lost £112.3 million. On average, each organisation working in this area has lost £384,767, the average percentage income loss per organisation being 42.09%.

## Offender rehabilitation

In the service area of Offender rehabilitation, 237 civil society organisations have together suffered an overall income loss of £88 million, the average loss per organisation being £371,638. On average, each organisation that is active in this area has lost 46.5% of their income.

## Debt counselling and legal advice

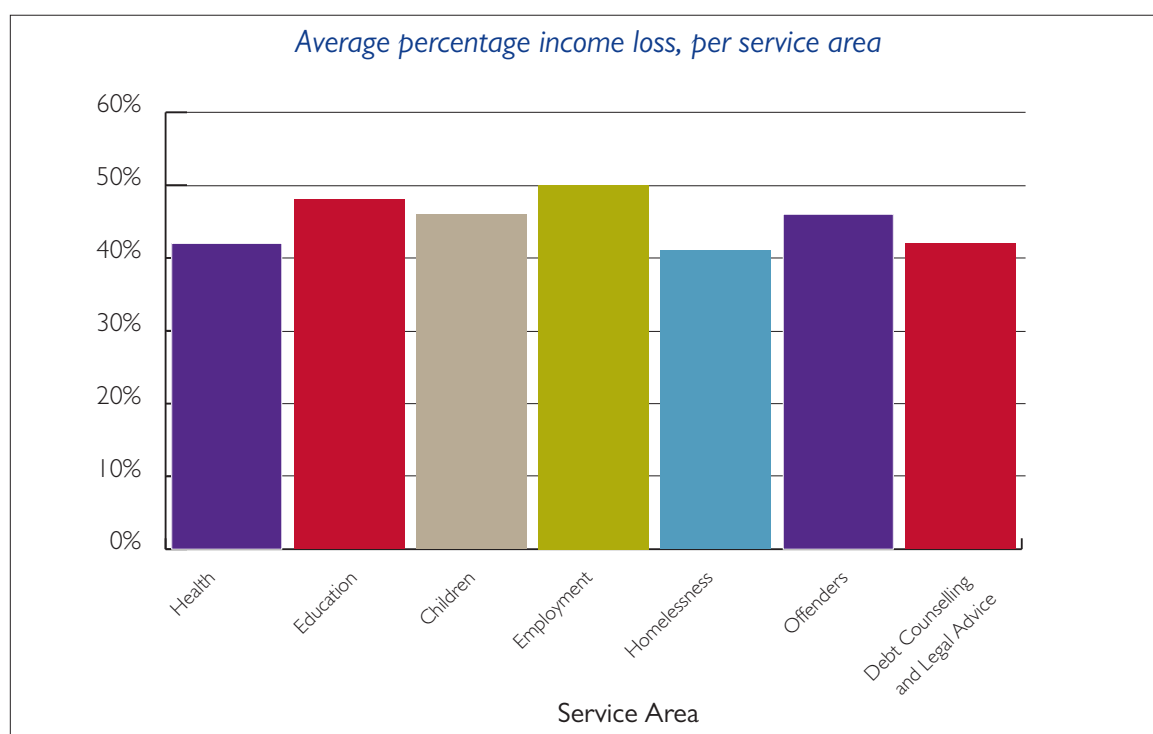
The 319 civil society organisations providing debt counselling and legal advice have together lost £94 million. The average income loss per organisation is £295,570, which amounts to 43.3% of their total income.

*Total and average income loss (in £) to applicants active in different service areas*

Service area	Number of organisations	Total income loss (£)	Average income loss (£)	Average percentage income loss
Health and social care	926	285,104,072.00	307,887.77	42.91%
Education and training	1013	335,773,340.00	331,464.30	47.77%
Children and families	915	287,083,772.00	313,752.76	45.83%
Welfare to work	566	207,540,376.00	366,679.11	50.33%
Homelessness	292	112,351,920.00	384,766.85	42.09%
Offender rehabilitation	237	88,078,203.00	371,637.99	46.50%
Debt counselling and legal advice	319	94,286,754.00	295,569.76	43.30%

Given that the work of most organisations applying to the Transition Fund spans several service delivery areas, comparisons between cuts to organisations operating in different service areas should be treated with caution.

The average percentage income loss recorded by Transition Fund applicants is shown below, divided into service areas. Those applicants working in welfare to work face the highest average percentage income loss, which is consistent with this subsector of the voluntary sector being amongst the most reliant on statutory sources.<sup>9</sup>



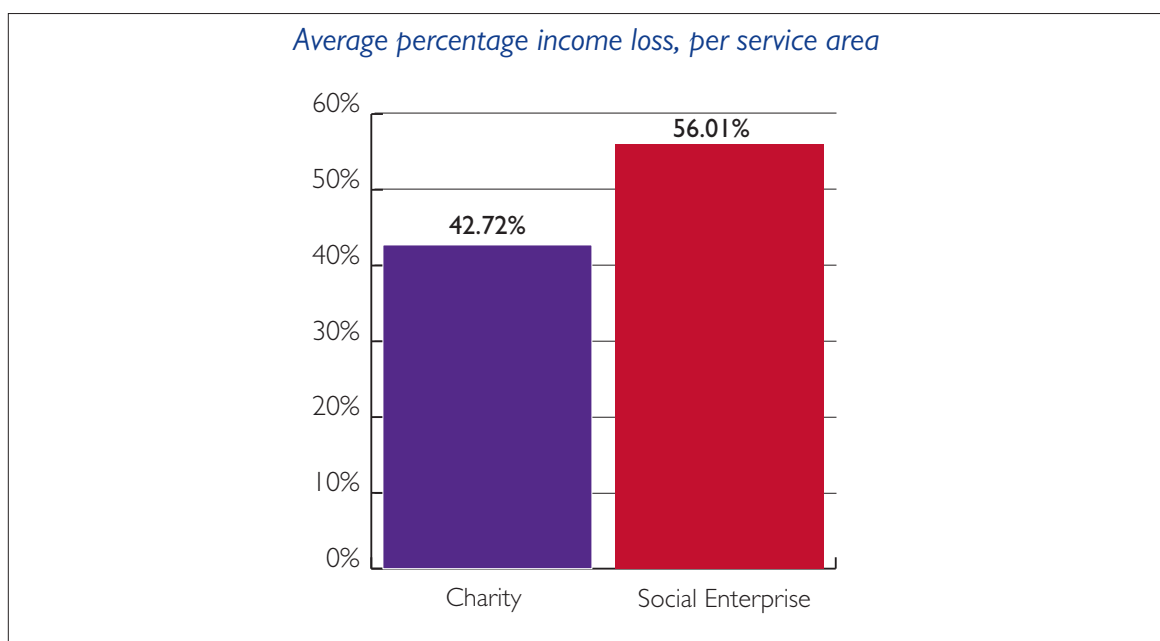
<sup>9</sup> NCVO Almanac (2010)

# Breakdown by different types of organisation

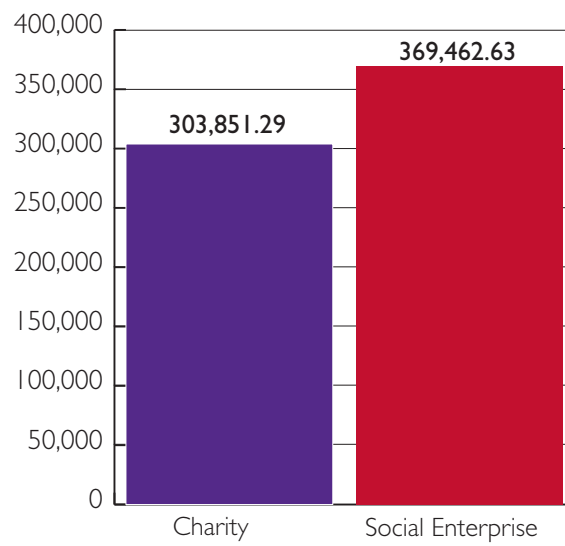
Comparisons of how different types of organisations applying to the Transition Fund have been hit by cuts need to be treated with caution, given the relatively low numbers of Community Interest Companies, Industrial and Provident Societies (IPSs), and unincorporated organisations applying. (We are comparing 1,356 charities, 195 social enterprises, but only 74 CICs, 22 IPSs and 19 unincorporated organisations).

The larger numbers of charities and social enterprises applying, however, make comparison between these two types of voluntary organisations easier:

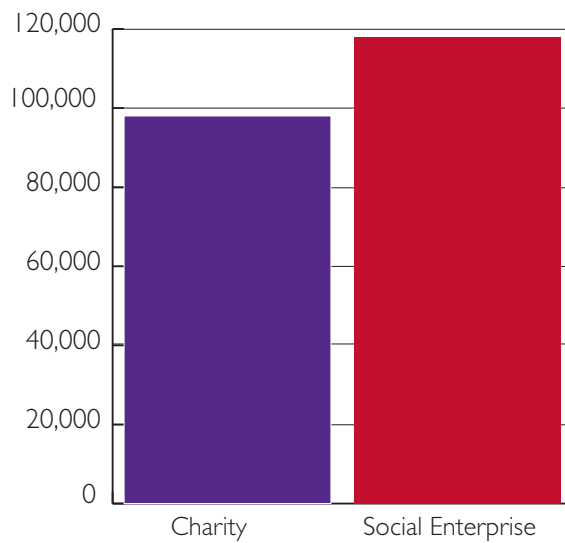
A clear message from the Transition Fund data is that charities applying lost less, both as a percentage of their income and in terms of average total income loss, than social enterprises (on average 42.72% or £303,851 as opposed to an average of 56.01% or £369,463). These differences are statistically significant at  $p < .05$  ( $t = -1.978$ ) and  $p < .001$  ( $t = -8.706$ ) levels, respectively. Charities also tended to request less from the Transition Fund (with an average request for £97,004 compared to £113,997).



*Average total income lost per organisation, by type (in £)*



*Average amount of funding requested from Transition Fund (in £), by type of organisation*

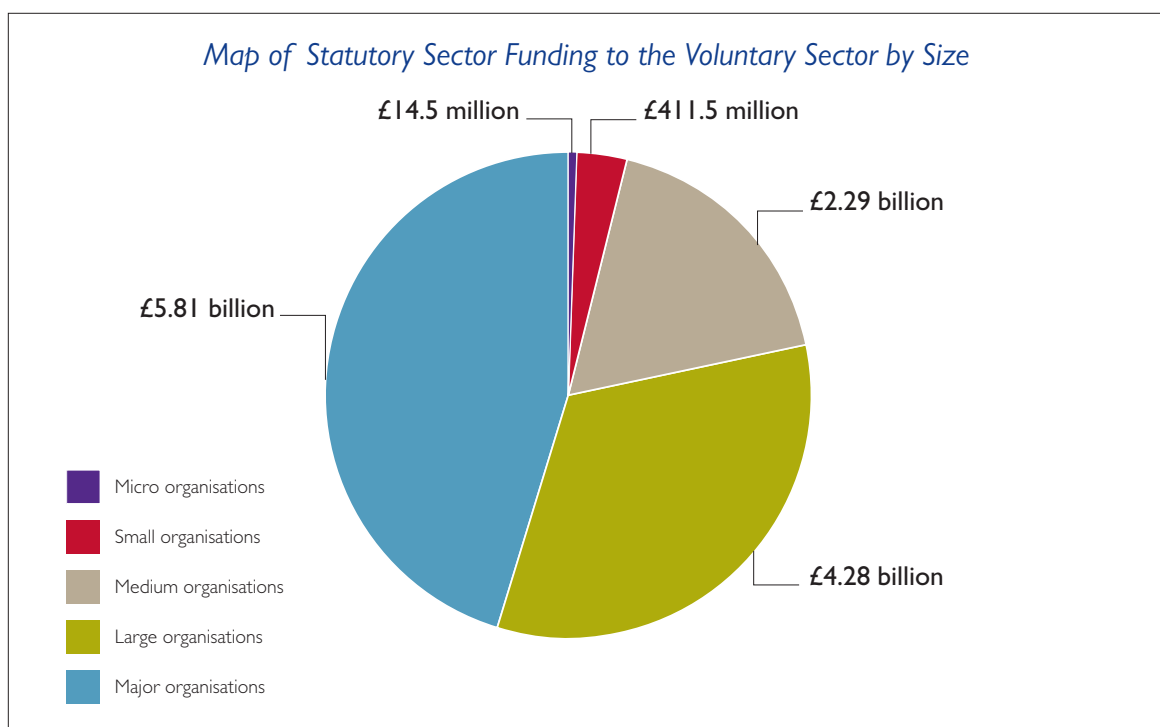


# Implications for civil society/ the third sector as a whole

In this section we attempt to use the dataset from Transition Fund applications to understand how public sector spending cuts might affect civil society (a.k.a. the third sector) as a whole.

The most reliable dataset for civil society as a whole in the UK is NCVO's 2010 Almanac, where figures are primarily for 'general charities' (based primarily on the Charity Commission register and therefore excluding many civil society organisations such as some social enterprises, housing associations, cooperatives, community interest companies). In order to enable comparison with this dataset, in this section we therefore take only those applicants to the Transition Fund registered as charities (81% of the total by number of applicants, and accounting for 78.57% of the cuts recorded in the dataset).

For the latest figures we have, of the 171,000 'general charities' in the UK, 38,000 receive a total of £12.8 billion p.a. statutory funding between them.<sup>10</sup> Below is a map of that funding. It shows that 7,285 micro organisations<sup>11</sup> receive £14.5 million in statutory funding; 16,191 small organisations receive £411.5 million; 11,809 medium organisations receive £2.29 billion; 2,807 large organisations receive £4.28 billion; and 319 major organisations receive £5.81 billion.

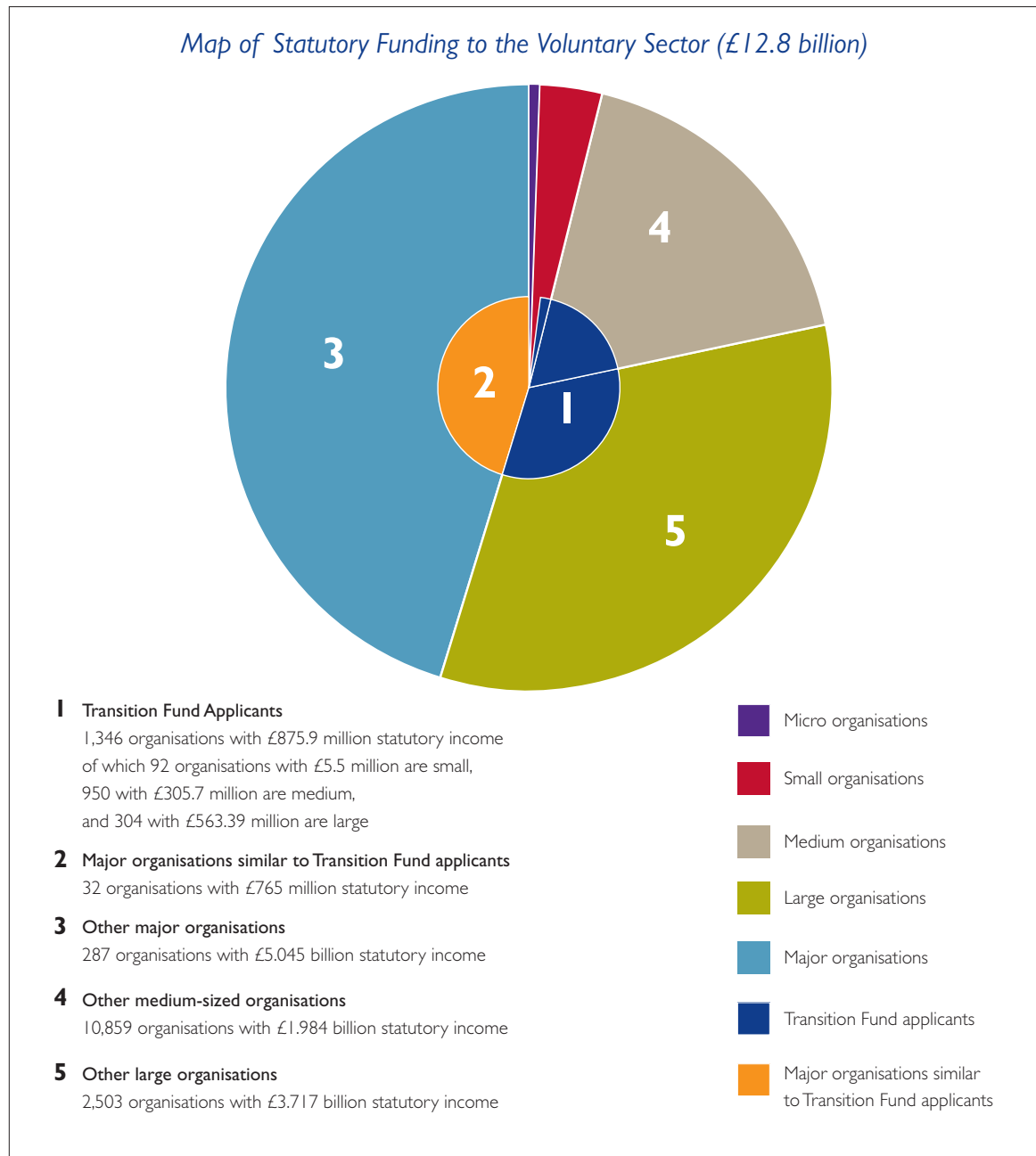


<sup>10</sup> All figures in this section are drawn from the Transition Fund applications or from the NCVO Almanac 2010, unless otherwise stated.

<sup>11</sup> By micro organisations we mean those with an annual turnover of less than £10,000; small organisations between £10,000 and £100,000; medium organisations between £100,000 and £1 million; large organisations between £1 million and £10 million; major organisations over £10 million.

Charity applicants to the Transition Fund form a relatively small subsection of these 38,000 UK charities in receipt of state funding. They are based in England, receive over 60% of their income from the state, are small, medium or large, and work in particular public service areas. They also needed to have strong evidence of 30% cuts to their statutory income by 21 January 2011, well before most local councils, for instance, (as the biggest statutory funders of voluntary organisations) had decided their budgets. Charity applicants to the Transition Fund (all small, medium or large organisations) received a total statutory income of £875.9 million, or 12% of the statutory funding received by small, medium and large UK charities and roughly 7% of statutory funding to all charities.

Below Transition Fund applicants (or more properly, the state funding they receive) are shown in navy blue on this 'map' of statutory funding to the voluntary sector:





These charity applicants to the Transition Fund face cuts worth a total of £412 million.

To estimate the cuts faced by the rest of the charity sector, we focus on 5 groups on the 'map' above:

- 1. Transition Fund applicants** (shown on the map in navy blue).
- 2. Major organisations similar to Transition Fund applicants.** This posited group consists of those major organisations who share all the characteristics of Transition Fund applicants but for the requirement to have an income under £10 million. This group would be based in England, delivering the priority public services associated with the Transition Fund, derive a similar proportion of their income from the state, and be hit as hard and as early by cuts as applicants to the Transition Fund. (These are shown on the map in orange.)
- 3. Other major organisations.** Those major organisations less reliant on state funding (i.e. receiving less than 60% of their income from the state), or working in non-priority public service areas, or based in Wales, Scotland or Northern Ireland, or hit less hard and less early by cuts than applicants to the Transition Fund. (These are shown on the map in blue.)
- 4. Other medium-sized organisations.** Medium-sized organisations in receipt of state funding but ineligible to apply to the Transition Fund (i.e. those receiving less than 60% of their income from the state, or working in non-priority public service areas, or based in Wales, Scotland or Northern Ireland, or hit less hard and less early by cuts than applicants to the Transition Fund.) (These are shown on the map in beige)
- 5. Other large organisations.** Large organisations in receipt of state funding but ineligible to apply to the Transition Fund (i.e. those receiving less than 60% of their income from the state, or working in non-priority public service areas, or based in Wales, Scotland or Northern Ireland, or hit less hard and less early by cuts than applicants to the Transition Fund.) (These are shown on the map in blue.)

Focusing on these groups means we will not capture the cuts to the 7,285 micro organisations and the 16,099 small organisations in receipt of state funding but ineligible to apply for the Transition Fund – and, clearly, cuts to such a rich network of charities is likely to have a significant social impact. But our analysis does cover 96.7% of state funding going to the charity sector:

**Group 1 – Transition Fund applicants.** Transition Fund applicants registered as charities are facing cuts worth a total of £412 million.

**Group 2 – Major organisations similar to Transition Fund applicants.** Major organisations share similar traits to large organisations in terms of doing business with the state. A similar proportion receive state funding (73% of major organisations compared to 68% of large organisations), it makes up a similar proportion of their combined income (37% of major organisations' income comes from the state, compared to 38% for large organisations), and it is spread across their ranks in a similar way (42.4% of major organisations receive more than half of their income from the state, compared to 40.0% of large organisations). Amongst applicants to the Transition Fund, 304 large organisations (10.83% of large organisations in the UK in receipt of statutory funding), with a combined statutory income of £563 million (representing 13.17% of total statutory income to large charities in the UK), had their statutory funding cut by 42.87%. Given the similarities outlined above, we estimate

that a similar proportion of major organisations will be facing similar cuts. The result would be a group of around 32 major organisations (10.83% of the total number) with a collective statutory income of £765 million (13.17% of the total statutory income to major charities) facing cuts of £328 million (a cut of 42.87% to their statutory income).

**Groups 3, 4 and 5 – other major, large and medium-sized organisations.** These groups will contain some charities in Scotland, Wales and Northern Ireland with similar characteristics, and hit similarly hard, to both Group 1 and Group 2. They will contain some charities working in public service areas not classed as ‘priority’ for the Transition Fund. But (partly with the aim of arriving at a conservative estimate) we can assume that these groups are characterised primarily by being less reliant on state funding than Transition Fund applicants (i.e. receiving less than 60% of their income from the state) and by being less hard hit by cuts. Given that the latter (the degree to which they have been hit by cuts) is unknowable, we will apply a number of possible scenarios to their collective statutory income.

### 1. Best case scenario

Under our most optimistic scenario, the Transition Fund applications represent the vast majority of disproportionate cuts, and elsewhere statutory agencies generally pass on cuts that are proportionate to the reductions they themselves are faced with. A small number of statutory agencies not covered by the Transition Fund applications still pass on disproportionate cuts, but these are balanced out by growth in voluntary sector funding in other areas.

The Spending Review reduced programme and administration budgets across Whitehall (including spending on the devolved administrations, the NHS and local government grants) by a cumulative 8.3% in real terms by 2014/15.<sup>15</sup> As a short-hand and to keep our estimates conservative, we will assume these reductions are spread evenly over the four years (even though in many cases, such as in local government, they are ‘front-loaded’ and will in fact be higher in 2011/12), and that total programme and administration spending across the public sector will reduce 2.14% in 2011/12.

Under this scenario charities in Groups 3, 4 and 5 face a reduction in their statutory income of 2.14% in 2011/12, meaning that:

- Group 3 would face cuts of £108.0 million
- Group 4 would face cuts of £42.5 million
- Group 5 would face cuts of £79.5 million

### 2. Worst case scenario

Under our most pessimistic scenario, the scale of the cuts seen in Transition Fund applications is broadly representative. The organisations applying to the Fund are unique in that they are particularly reliant on statutory funding (with 60% or more of their funding coming from Government), and because they knew about the cuts facing them by the deadline of 21 January 2011 (before most local council budgets for 2011 were set). But the proportion of their statutory funding that they face losing is typical of all voluntary organisations in receipt of state money.

Under this scenario charities in Groups 3 and 5 face a reduction in their statutory

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<sup>15</sup> Spending Review, Table 1, p.10 (2010)

income of 42.87% (the average cut for large Transition Fund applicants) and organisations in Group 4 face a reduction in their statutory income of 53.46% (the average cut for medium Transition Fund applicants) meaning that:

- Group 3 would face cuts of £2,162.8 million
- Group 4 would face cuts of £1,060.8 million
- Group 5 would face cuts of £1,593.3 million

### 3. Intermediate scenarios

Our intermediate scenarios lie between the worst and best cases. They assume that applications to the Transition Fund are evidence of the most disproportionate cuts rather than representative of cuts to the voluntary sector as a whole, but also assume that the most optimistic scenario (a low estimate of the scale of the cuts, and with cuts passed on proportionately) is unlikely to happen. We use two scenarios to try to understand what such intermediate cuts might look like, both based on local government funding cuts:

3(a) assumes that the cuts passed on to charities by statutory agencies are similar in scale to the reduction in spending power local government is facing. On average, this will be 4.4% in 2011/12. Under this scenario charities in Groups 3, 4 and 5 face a reduction in their statutory income of 4.4%, meaning that:

- Group 3 would face cuts of £222.0 million
- Group 4 would face cuts of £87.3 million
- Group 5 would face cuts of £163.5 million

3(b) assumes the cuts passed on to the charity sector by statutory agencies are similar in scale to the reduction in formula grant received from Whitehall by English local councils. The LGA says that once funding for the police is taken out of the equation, formula grant is being reduced by 12.1% in 2011/12. Under this scenario, charities in Groups 3, 4 and 5 face a reduction in their statutory income of 12.1%, meaning that:

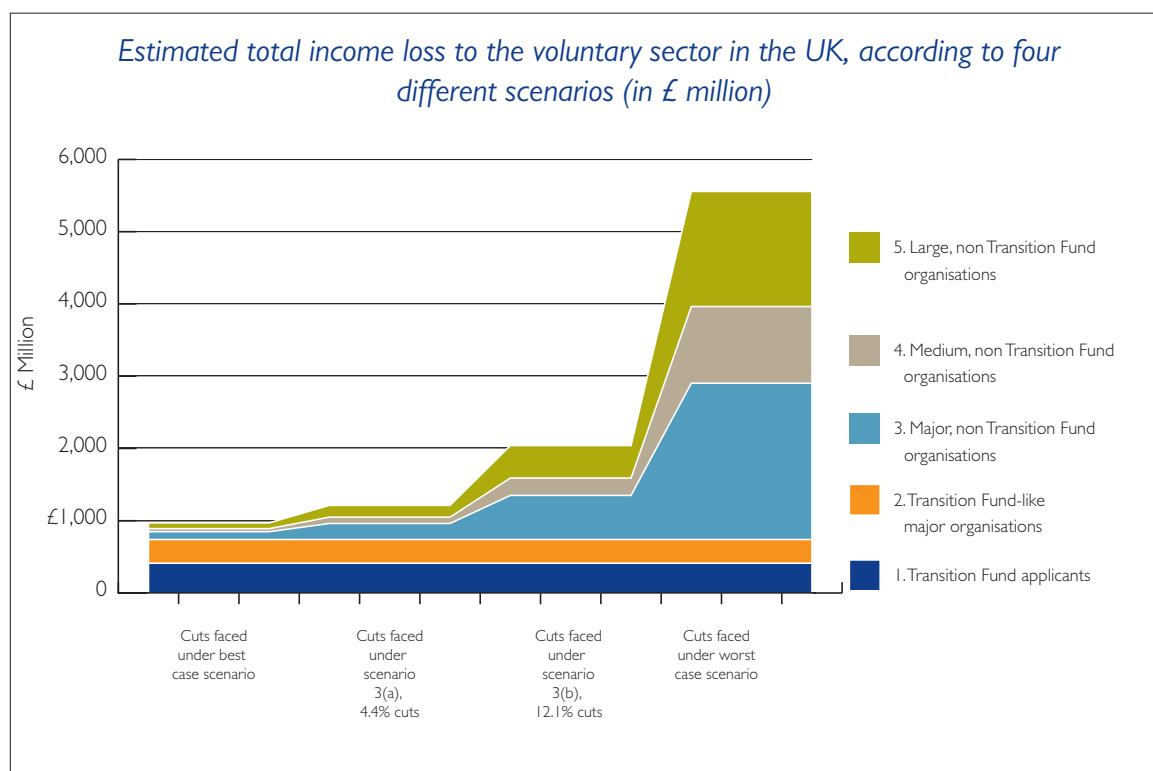
- Group 3 would face cuts of £610.4 million
- Group 4 would face cuts of £240.1 million
- Group 5 would face cuts of £449.7 million.

These intermediate scenarios are necessarily arbitrary, but not entirely so – local government is the single biggest source of statutory income for the charity sector, and so its financial position will have a significant impact on cuts to the charity sector. It may also be that councils pass on the reduction in Whitehall funding that they receive, as we assume in scenario 3(b), rather than the reduction in their total spending power.

These figures are brought together below:

Group	Collective statutory funding (£ million)	Cuts faced under best case scenario (£ million)	Cuts faced under worst case scenario (£ million)	Cuts faced under scenario 3(a), 4.4% cuts (£ million)	Cuts faced under scenario 3(b), 12.1% cuts (£ million)
1. Applicants to the Transition Fund	875.9	412.0	412.0	412.0	412.0
2. Transition Fund-like major organisations	765.0	328.0	328.0	328.0	328.0
3. Major, non-Transition Fund	5,045.0	108.0	2,162.8	222.0	610.4
4. Medium, non-Transition Fund	1,984.3	42.5	1,060.8	87.3	240.1
5. Large, Non-Transition Fund	3,716.6	79.5	1,593.3	163.5	449.7
All	12,386.8	970.0	5,556.9	1,212.8	2,040.3

Graphically, the overall level of cuts can be represented as shown below.



To summarise:

**What we know:** Applications to the Transition Fund show that charities applying to the Fund face losing £412.0 million in 2011/12. If voluntary organisations not registered as charities are included, this rises to £524.4 million.

**What we estimate for UK charities:** On that basis, we estimate charities in the UK face cuts next year of between just under £1 billion and just over £5.5 billion:

- under our best case scenario, we would expect charities in the UK to be facing just under £1 billion in cuts next year (£970.0 million);
- under our next best scenario, we would expect charities in the UK to be facing just over £1.2 billion in cuts next year (£1,212.8 million)
- under our next best scenario, we would expect charities in the UK to be facing just over £2 billion in cuts next year (£2,040.3 million)
- under our worst case scenario, we would expect charities in the UK to be facing just over £5.5 billion in cuts next year (£5,556.9 million)

**What we estimate for civil society/the third sector as a whole:** cuts reported in applications to the Transition Fund included around £112 million from non-charities (social enterprises not registered as charities, CICs etc.), or roughly 27% as much again as the total reported by charities. In the absence of a robust dataset for civil society organisations in the UK not registered as charities, we have not attempted to extrapolate to a figure for cuts to the sector as a whole. But the applications to the Transition Fund suggest that cuts to civil society/the third sector will be safely above the lowest estimates we have given above for cuts to charities in the UK.

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