Ulster Bank

Mergers & acquisitions on the cards for NI's 3rd sector?

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Every year, the numbers of chickens, cows, sheep and pigs in Northern Ireland are quantified and published. There is a quarterly index of how many houses are sold. We have data on every type of car purchased, the number of people visiting our shops, and even the value of furniture Northern Ireland is exporting to places like Slovakia.

Whilst an economist always wants more, I have to admit that there is a lot of information available to help us understand what is happening in Northern Ireland's private sector. And the same can be said for the public sector, with readily available data on capital expenditure, departmental spending, civil service headcount, and public servant salaries.

What we haven't had to date in Northern Ireland however is a regular or timely survey into what is going on in the third sector. This is despite the third sector – charities, social enterprises, community groups – employing something in the region of 30,000 people, not including volunteers. That's as many people as are employed in the Northern Ireland construction sector (which is, needless to say, well covered by industry surveys and official government statistics).

That's why we at Ulster Bank have teamed up with CO3 (Chief Executives 3rd Sector) to produce a new barometer of leaders in the sector. Produced quarterly, this will give us an indication of things like changes in headcount, changes in turnover, key concerns, sources of funding, and potential impacts of, for instance, the National Living Wage.

The gap that there has been in data on the third sector has meant that we have not been able to fully understand one of the significant stories of the Northern Ireland economy since the onset of the economic downturn around 2008. In that time, the third sector has been on the front line of government spending cuts, with those organisations dependent on government funding or delivering services on behalf of government, on the whole, being hit hard. Indeed, in many cases, third sector organisations have been experiencing cuts in the first instance; i.e. before government departments and bodies themselves. This has been transformative for parts of the sector.

The first Ulster Bank & CO3 3rd Sector Index helps us get beneath this story. It suggests that some 84 percent of third sector organisations in Northern Ireland have at least some dependence on government funding. It also tells us that almost one-third of these have seen a reduction in their government funding in the last quarter alone. Interestingly, 13 percent say they have secured an increase.

We see that one in four have been able to increase their employee numbers, whilst one in five organisations have reduced their headcount. Almost half of those surveyed expect their organisation's turnover to increase in the next 12 months, with less than one in five expecting turnover to fall.

It seems that, as with all sectors, the performance and experience of Northern Ireland's third sector is something of a mixed bag, with a cohort increasing their staff numbers and expecting to grow turnover, whilst others appear to be more acutely feeling the impact of government spending cuts.

A significant number are certainly reporting signs of stress. However, overall, the survey presents a picture of resilience in the face of considerable challenges. It suggests that the sector is dealing relatively well with the changes and necessary restructuring that it is experiencing.
This resilience and adaptability needs to be an ongoing theme. Public spending cuts are going to continue and represent a significant threat for the survey as a whole into the future.

Some organisations, based on the information from the survey, are currently perhaps better placed to deal with the new public spending environment and have been adapting better to it. This is the challenge for the sector as a whole.

2015 saw the highest level of mergers & acquisition (M&A) activity in Northern Ireland's private sector since 2007. Northern Ireland Executive departments are also merging in the public sector too. We could see a similar phenomenon in the third sector, with some organisations merging with or acquiring others to achieve critical mass or to reap economies of scale. Adapting to the 'new normal' could equally mean diversification of services. Or even 'exporting' services outside Northern Ireland, as some innovative third sector organisations are currently doing.

What is clear is that for many, the status quo is not an option. The next couple of years therefore promises to be an interesting, transformative period for the third sector, and we are glad at last to have means of taking the temperature. Watch this space.

Richard Ramsey
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