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Managing in the new normal

The latest instalment in the series of 'Managing in a Downturn' surveys

The seventh 'Managing in a Downturn' survey report, produced by PwC, Charity Finance Group and the Institute of Fundraising.

Final

Institute of Fundraising

CFG INSPIRING FINANCIAL LEADERSHIP

Launch

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Foreword

"PwC is once again delighted to have worked closely with CFG and Institute of Fundraising to prepare this seventh report in the 'Managing in a Downturn' series.

As the reports have come and gone over the last five years, we have sought to change some of the questions in the survey to reflect ongoing developments in the sector. Last year, this involved a series of questions in relation to social investment and loan finance, which have been repeated this time around. This year, the 'new' section includes some questions around the increased scrutiny in the sector and, most importantly, what responses have been made by charities and what further actions are planned.

We have, of course, also retained many of the 'core' questions throughout the series of questionnaires, which allow us to compare trends over time. This year, we have also prepared what we hope is a useful summary of the conclusions from the previous reports and sought to illustrate the underlying mood of the respondents as the years have progressed.

Based upon this very broad comparison, it is clear that there is a sense of improved optimism; however, real challenges remain, particularly for those charities that remain heavily reliant on public sector income. It is, however, pleasing to see continued evidence of charities improving their efforts to become more effective, either by more targeted fundraising or increased efforts to collaborate with others and/or being more strategic in their outlook.

We hope that you find this report an interesting read and we are grateful to every respondent who took the time to contribute to this survey".

Ian Oakley Smith
Head of Charities, PwC

"This last year has been a difficult one for the Charity sector. We have had a bumpy ride in the press with the Cup Trust and Chief Executive Pay among a number of issues that have kept us on our toes. And the pressure on public spending has continued to squeeze the sources of funding that many third sector bodies rely on.

But as the year ended, we found ourselves launching this survey against a backdrop of increased confidence about the economy, with the government revising its growth forecasts upwards and seeing other indicators like levels of employment pointing in the right direction. So, this survey gives us a first indication from the sector as to how these varied headlines are actually affecting confidence. Moreover, with a general election a little over a year away, the findings provide an insight into how charities are positioned strategically and what they see in store in the medium term.

The results show a clear sense of 'cautious optimism' within the sector as charities are beginning to feel more positive about what the future holds. Finance teams feel increasingly involved in the strategic management of their charities as they provide the vital support in searching for ways to create a sustainable recovery. But there is little doubt that times will remain tough for the sector as demand for their services continues to increase and the public spending cuts deepen.

We are delighted to be able to work in partnership with PwC and the Institute of Fundraising to produce this report, which provides an invaluable evidence base to inform our work throughout the year. We cannot do this without input from charities and I'd like to thank every respondent who took the time to participate".

Caron Bradshaw
Chief Executive Officer
Charity Finance Group

"I'm pleased to be able to again introduce this latest instalment of the Managing in a Downturn series. While there are undoubted challenges facing our sector, it is encouraging that the findings of this survey start to paint a more positive and optimistic picture for the year ahead. Over the past 12 months the sector has been subject to a significant increase in media scrutiny and public interest, and we wanted to use this survey to find out what impact this might have had on fundraisers and charities. The answer from the sector seems to be a renewed emphasis on openness and transparency, with half of respondents stating that they will be taking steps to increase their financial activity reporting/transparency over the next 12 months. We know that this is important – whilst the main priority for charities (and donors) is working to fulfil their mission, members of the public are interested in how charities spend their money and the hope is that with more organisations being even more open and communicating with their donors, public trust will rise. Recent NPC research has shown that the wheels may already be in motion, with a higher proportion of members of the public stating that their views towards charities have become more positive in the last three years.

I am always heartened by the positive attitude of fundraisers who have been achieving great things in difficult times. Recent NCVO findings show that in 2011-2012 over £6.9 billion was raised through donations from individuals and £1.97 billion from legacies – an increase of £100 million, and it is positive to see that the outlook from the sector seems to be improving. This year we are seeing an increase in investment for training fundraisers, with the numbers of those planning to train fundraisers in the coming 12 months almost double from last year. Investing in fundraisers to develop their skills is one of the most important aspects of long term growth, and we hope to see that this is a trend that continues. As the financial climate starts to move we are already seeing the goalposts shifting in fundraising; respondents reported that the challenges they face for the year ahead include meeting higher fundraising targets as opposed to less disposable donor income as reported in previous years. I hope that this positive outlook for fundraising materialises into increased donations and successful fundraising for all over the next 12 months."

Peter Lewis
Chief Executive Officer, Institute of Fundraising

Key findings

For the last five years, this series of reports has sought to shed light on the implications of the financial crisis on the charity sector. Year on year the findings demonstrate that the charity sector is both resilient and innovative in responding to changes in the economic and political environment.

Cautious optimism

This time round, as the sector looks towards a pre-election year, the findings again provide an insight into how charities are positioned strategically and what they see in store in the medium term. As the economy has recently begun to demonstrate what we hope are the first signs of recovery, our analysis reveals a cautious optimism within the sector. Some 70% of respondents were optimistic about the next 12 months, higher than before, while many charities continue to search for ways to make the most of a sustainable recovery.

Whilst the majority of respondents still report that fundraising was tougher this year and think it will get tougher next year, the numbers for both have dropped compared to previous years. Last year 93% believed the fundraising had got tougher, compared to 77% this year, and 68% think the next 12 months will be tougher for fundraisers down from last year's 89%. We hope this indicates that a significant minority of charities are now finding ways of increasing their income streams.

In addition, our regular 'anxiety index' appears to be alleviating, with responses suggesting that most income streams are now improving relative to the previous year. The notable exception to this continues to be income from public sector sources, which continues to drop.

The survey also confirms that charities continue to have reason to remain cautious, as over two-thirds of respondents report year on year increase in demands for their services and many report that they do not all feel well equipped to cope with this. Charities are taking other measures to adapt too: a significant proportion (44%) are continuing to draw on reserves and 31% have definite plans to utilise their reserves in the upcoming year.

Tackling reputational concerns

Charities reported a new raft of 'reputational' concerns. We asked about the impact of increased scrutiny on the sector with 90% of respondents feeling that charities had fallen under a negative spotlight this year. In addition, just over a fifth said that they felt this increased scrutiny had a negative impact on their fundraising.

Nearly half of charities (49%) said that over the last year they had taken steps to enhance levels of transparency and disclosure of financial information. This indicates that charities are being proactive in response to the current environment so as to enable them to cope with the challenges of future expectations and demands. When asked whether respondents were planning to enhance levels of transparency over the next 12 months, the two most popular areas they had plans to look at were 'costs of administration/governance' (45%), and 'cost of fundraising' (43%).

Working collaboratively

Charities continue to collaborate, with 77% having done so, ranging from programmes and operations, to back office services. We are also pleased to note that 90% of finance respondents reported that one positive impact from the challenging economic environment has been the increased engagement of the finance teams in the charity's strategic management.

Key considerations for a sustainable recovery

This year's report also includes a chapter on key considerations for a sustainable recovery with 'coffee table questions' for when you are meeting internally with key stakeholders and management.

Political and economic backdrop

Introduction to the political and economic backdrop

Last year our Managing in a Downturn survey sought to understand the implications of the cuts in public spending that are promised by 2014/2015 and how charities were adjusting to the 'new normal' of an economy characterised by sustained weak growth and consumer spending, inflation and uncertainty. This year's survey gives us a first glimpse of whether the much anticipated up-turn in the economy is being felt by charities and how it is affecting their medium-term plans.

In 2013 the economy finally began to show signs of real, if fragile, recovery. The new Governor of the Bank England Mark Carney introduced 'forward guidance', linking interest rates to unemployment, which provided some reassurance for the markets, particularly for those who continued to benefit from the record low interest rates, now entering their 5th year at 0.5%. Unemployment fell, the housing market boomed again particularly in London and by the beginning of 2014 inflation was below the Bank of England's 2% target for the first time in more than 4 years. 2013 ended with the Office for Budget Responsibility estimating that growth would be 2.4%, up from the 1.8% previously predicted, and that it would rise back above pre-recession levels for the first time in Q4 2014.

While the green shoots of growth were a welcome relief for many, the public finances remained challenging. Cuts to public sector funding continued in line with the 2010 Spending Review commitments but a further spending review was announced in mid 2013. The 2013 Spending Review divided up spending between departments for the 2015/16 financial year, aiming to make total savings of £11.5bn on 2014/15.

For charities, these economic trends seemed to justify some cautious optimism. The British public continues to dig deep and is one of the most generous in the world – all the more impressive in a year that has seen the sector subject to challenge and scrutiny on things like pay, overheads, ethical investment decisions, a regulator deemed 'not fit for purpose' by the Public Accounts Select Committee and legislation that could restrict campaigning in the form of the Lobbying Act.

This cautious optimism is reflected in this year's survey with approximately 70% of respondents expressing themselves optimistic about the next 12 months. But charities are facing increased demand for their services while resources remain under pressure.

Despite the evidence of the public's continued support, many charities still feel that the work of attracting new donors, reengaging with current donors and encouraging more of them to make regular donations remains challenging. According to the Charities Aid Foundation (CAF) report Why We Give, there is a continued need for better understanding of tax incentives which 'underlines an appetite for a yet greater level of communication between donor and cause, and more transparency in the way charities work'.

Looking to the future – Are the storm clouds clearing?

The outlook for the British economy in 2014 is more positive than it has been for some time. However, a sustained economic recovery remains far from certain. While signs of a return to growth remain good, inflation is likely to stay above target throughout the year, meaning real average earnings are expected to decline for the sixth year in a row. Together these factors have sparked debate as to whether there will be a potential interest rate rise on the cards in late 2014 or early 2015. For charities with £18bn in saving deposits an interest rate rise might bode well, while others would see an increase in the cost of borrowing.

With just over 12 months until the general election, indications are that charities may see progress on tax incentives, plans to build on the success of the lottery model for charity fundraising by relaxing present restrictions, further work on corporate donations and social investment, and more tailored funding for small charities in financial difficulty. However challenges will remain with significant changes to procurement rules on the cards.

Nonetheless, our overall assessment is that, having shown considerable resilience and innovation in recent years, there is a sense that while achieving targets will remain difficult, the sector may finally be beginning to see clearer skies on the horizon.

2014 is likely to provide an answer to the question of whether the current economic recovery is sustainable – in doing so it will also provide a clearer picture of what the future holds for the charity sector.

The current environment

Key findings

- Charities continue to believe that government policies have had an adverse impact on their operating environment. 45% reported that government policies have had a negative impact overall on their charity in the last 12 months and more specifically, 43% reported that policies had led to a detrimental impact on funding.
- Year-on-year increases in demand for charities' services continue; with 69% of respondents reporting an increase in demand in 2013 and 68% expecting that this demand is set to continue to rise for the year ahead.
- Among those charities expecting an increase in demand for their services in the coming year, 30% felt equipped to deal with the pressure, 27 % claimed they would deliver more with the same resource as last year and 16% foresaw a need to make cuts in other services to meet the additional demand.
- Charities felt increasingly under the spotlight in 2013 as 90% reported that the sector had become subject to more media interest and scrutiny.
- Public sector funding, trusts, lottery & foundations and trading continued to be reported as the most important income sources for charities.

The current environment

The environment for charities remained challenging in 2013. Added to the economic difficulties organisations had faced in recent years, were a new raft of 'reputational' concerns. The sector found itself increasingly in the public eye for the wrong reasons. First the Cup Trust scandal, then chief executive salaries, criticism from the Public Accounts Committee into the Charity Commission's regulation of the sector, and finally a high profile exposé on investment and ethical practices. Cumulatively, these events have caused many to ask whether charities are facing an identity crisis. Others have seen them as isolated incidents, but there is no doubt that they have made charities more aware of the need for transparency and good communication with stakeholders.

These events have combined to make fundraising more challenging. But they were not the only reasons why charities hit the headlines. Furore over the lobbying bill dominated charity related parliamentary activity in the latter half of the year. This, combined with proposals to crack down on the use of judicial review, and increasingly short consultation timeframes, caused the Independence Panel to raise concerns that the sector was 'undervalued and under threat'.

Nonetheless despite these challenges, it is reassuring that the Government appears to remains committed to supporting the sector through direct initiatives and tax incentives. The Gift Aid Small Donation Scheme formally commenced, Payroll Giving was put in the spotlight, the sector made the leap to Charities Online and there were promising conversations about the future of Gift Aid for digital donations. The National Audit Office's report into the administration of Gift Aid may now act as a driver for better data collection and targeting of Gift Aid measures in the future.

At a local level, the financial strain faced by many local authorities and Primary Care Trusts has affected their funding to their local voluntary sector. The shift to new commissioning practices and funding models, and the introduction of new procedures around procurement for small businesses have had an impact too. The changes are not just financial, the transformation of the local landscape with the introduction of Clinical Commissioning Groups, Local Economic Partnerships, Academies and Police Commissioners is radically changing local decision making structures meaning that charities are having to adapt to working with a new range of local stakeholders and agencies.

Government policy is also affecting demand for charity services – causing increased demand and changing the nature of it. While some are seeing the benefits of the strengthening economy and the significant increase in employment, others are feeling the effects of changes to welfare, universal credit and housing benefit. The emergence of food-banks across the country in response to new and growing need is evidence of just how many people still need the support of charities.

In recognition that the sector is struggling, the Cabinet Office recently proposed a new £40m fund to support charities in financial difficulty; an initiative that would be welcomed by many in the sector. Social investment continues to be mooted as a new source of funding for some charities with the social investment tax relief to be introduced in April 2014.

Taking the events of 2013 in the charity sector into account, we asked respondents in this year's survey to consider their experience of government policies and the media interest in charities; as well as providing a snapshot view on how demand for their services and the performance of various income streams had developed.

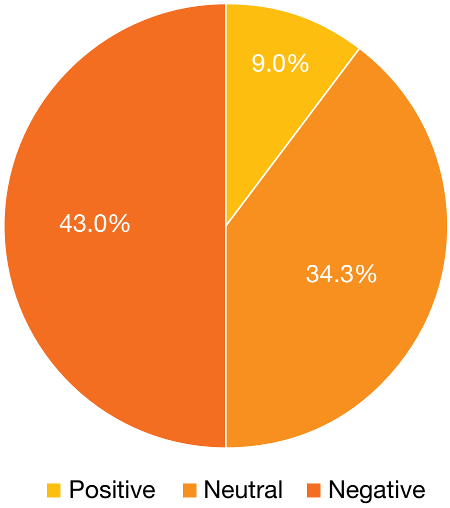
Assessment of government policies

We asked respondents how they would describe the collective impact of government policies on their individual charity. 45% of respondents described that government policies have had a negative impact on their charity, whilst only 6% reported a positive impact.

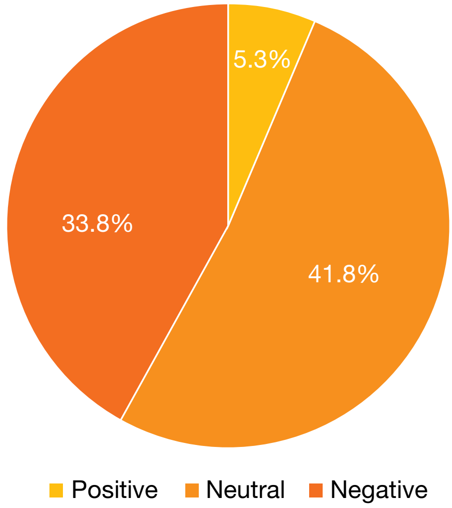
More specifically, 43% of respondents described that government polices had impacted negatively on their levels of funding, which is broadly down from last year. This could suggest a more mixed picture this year of Government support to charities. There are positive attempts to simply Gift Aid but at the same time, charities are finding short term government contracts to be challenging, with issues including cash flow problems, added risk and extra administration.

Perceived impact of government policies

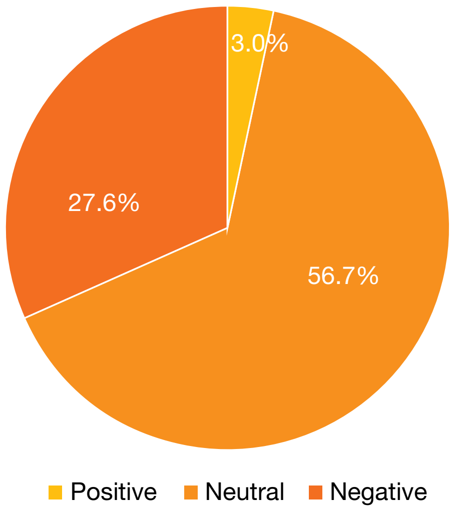
On levels of funding



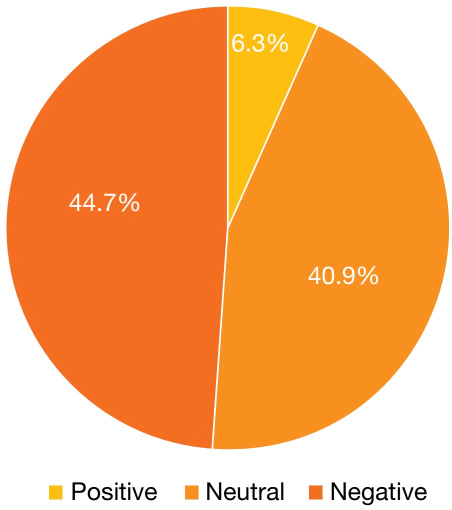
On terms of funding



On levels of monitoring/ administration



Overall impact on charity



Source: PwC (levels of funding = 345, terms of funding = 321, monitoring/admin = 345, overall impact = 362) note caution due to small base sizes

We asked respondents to offer explanations for their answers, included herein are some of the common themes.

Government funding

‘The shift from grants to contracts has meant that we are competing against businesses and whilst trying to figure out how to add in delivery risks into contractual terms. We have had to learn a whole new way of operating.’

‘The move to contracts has increased the burden on charities relating to the increased administration and cash flow.’

‘The increased use of payment by results contracts has added risk to the charity.’

‘We get the feeling that there is no understanding in government of our day to day realities in terms of finance or managing relationships when additional hurdles are put up mid application.’

Challenges with giving

‘We have seen that the austerity agenda overall has led to a reduction in voluntary donations.’

‘Whilst we don’t receive money from government we are now seeing increased fundraising competition from charities that were directly funded by government.’

‘Online Gift Aid submissions and the small donation scheme (GASDS) have been beneficial.’

Increase in demand for services

‘Our members are feeling the cuts in health and social services very extremely and are turning to us for support.’

‘Changes to the benefits system have resulted in more people – mainly older – coming to us for services.’

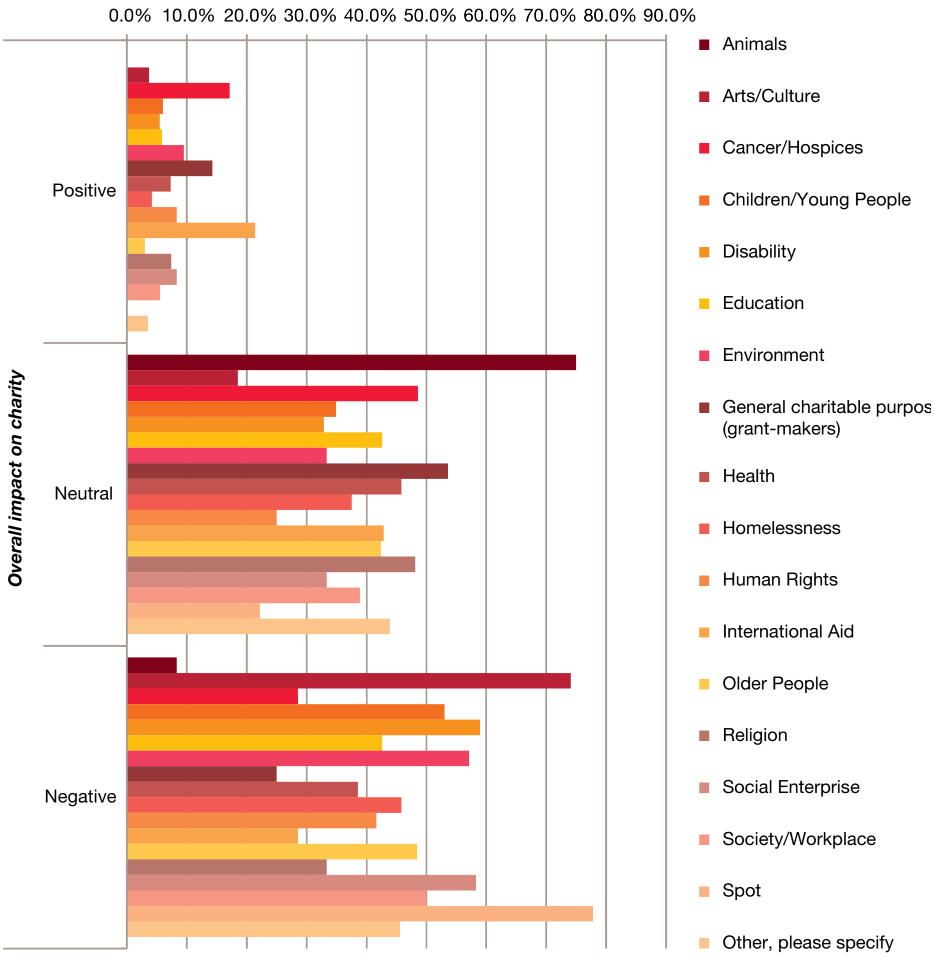
Thinking back over the downturn, how has your organisation changed?

Our organisation is still changing as we continually adapt to the evolving external environment and our strengthening performance (15% growth anticipated in 13/14). More broadly, the experience of the downturn, which was fundamentally negative, has provided learning and opened our minds to different ways of working and management approaches. We’ve also made some tough decisions. We got used to running things on reduced means however we also understand the need to reinvest as starving areas of resources will be counterproductive over time. In terms of mind set and culture – yes, we are in a better position now having gained that learning.

Graham Galvin
Director of Finance and Resources, Breast Cancer Care

Notably, those charities working in the fields of international aid, human rights and health were more positive about the impact of government policies on charities – not surprising given the greater level of stability with aid and health budgets. Those working in the arts and culture sector, social enterprise and disability arenas were less confident in the face of changes to social welfare support and cuts in grant funding to the arts sector. Additionally, smaller charities were more likely to feel that government policies would have a negative impact overall on their charities (52%) than medium (44%) or large charities (38%).

Perceived impact of government policies by charitable purpose



Source: PwC (n=min 9,max 88) note caution due to small base sizes

The normalised expectation for increases in demand for charities’ services

It is now universally acknowledged across the sector that since the beginning of the economic downturn in 2008, the demand for charities’ services have soared while the funding environment has become tougher. In last year’s survey 72% of respondents expected a surge in demand for their services in 2013. This proved quite accurate with 69% of respondents this year reported just such an increase.

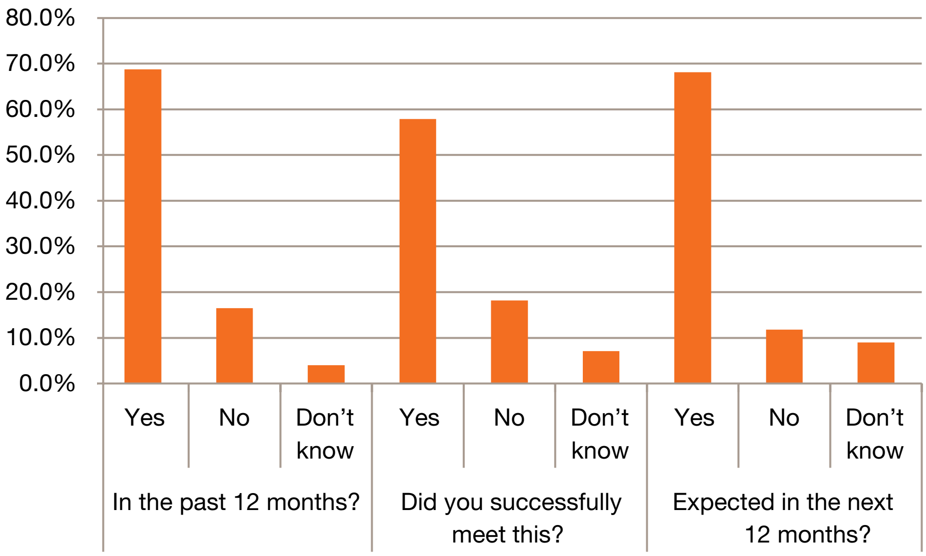
This trend has been observed year-on-year in this survey and highlights the pressure to meet the demand for services that charities are experiencing. This development looks set to continue as charities step in to fill gaps left as the public sector reduces in size and scope.

Answers to this question varied by charity type with society and workplace, homelessness and social enterprise charities reporting greater increases in demand for their services in the last year, reflecting the social challenges these types of organisation address during a recession.

A critical aspect of the increased demand for charities’ services is whether charities feel themselves sufficiently well-resourced to meet the demand. Charities are proving to be resilient as 31% believe that they now have sufficient resources in place to deliver new services. It should also be noted that 37% of respondents will have to cut services to meet demand in other areas.

Anecdotal feedback revealed that charities are coping with this increased demand in a variety of ways; from dipping into reserves, charging beneficiaries fees for their services or increasing fundraising efforts.

Past and future increases in demand for charities’ services



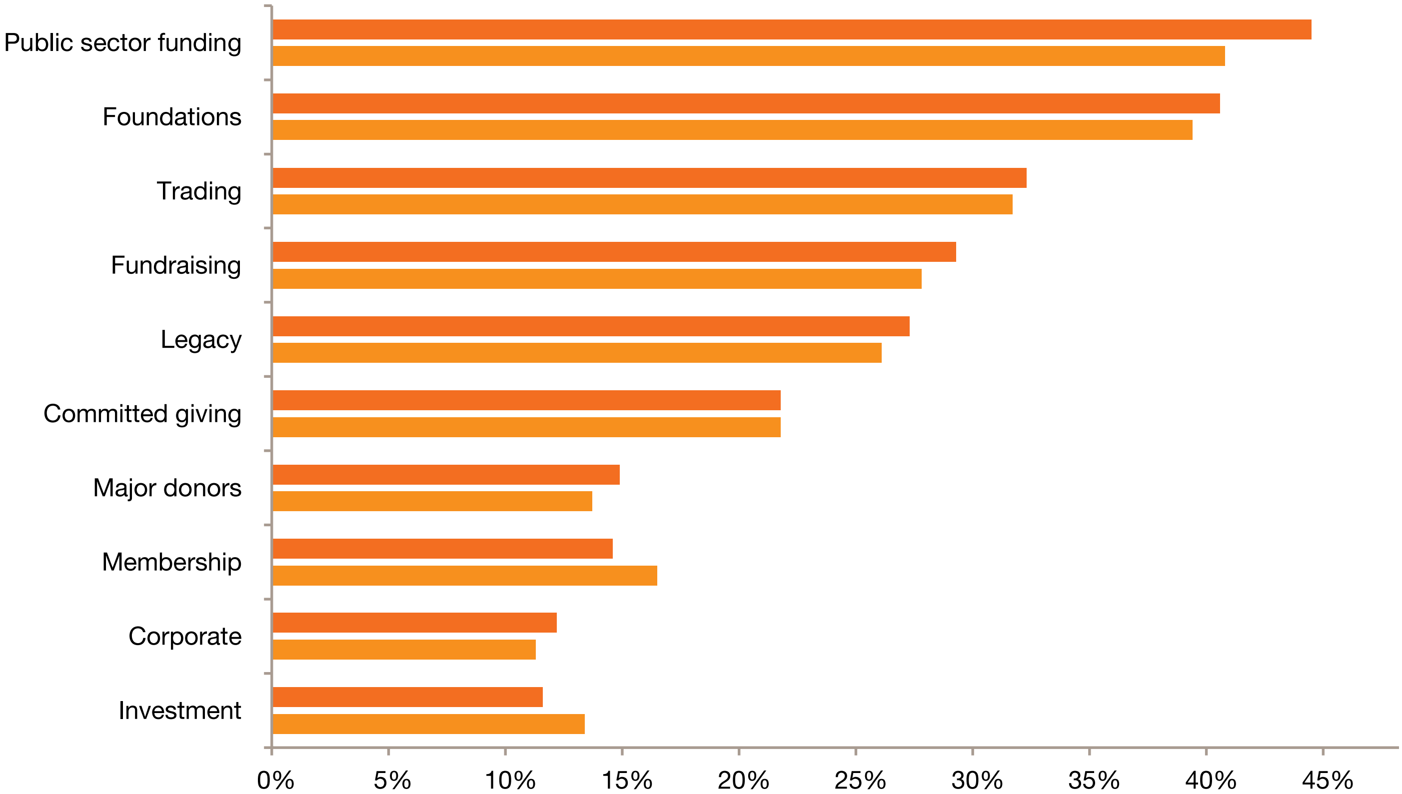
Source: PwC (n=past 12 months 357, successfully met this 316, next 12 months 346)

Income

Charities continue to see the same three categories – public sector funding, funding from trusts and foundations, and trading income – as their most important sources of income. That said, when asked whether they plan to diversify their income in the next 12 months more than half of respondents said that they do.

Survey respondent comments indicate that the trend to increase income from trading is set to continue, and that charities will also look to innovations such as social impact bonds and crowd-funding to diversify their income streams.

Importance of different income sources



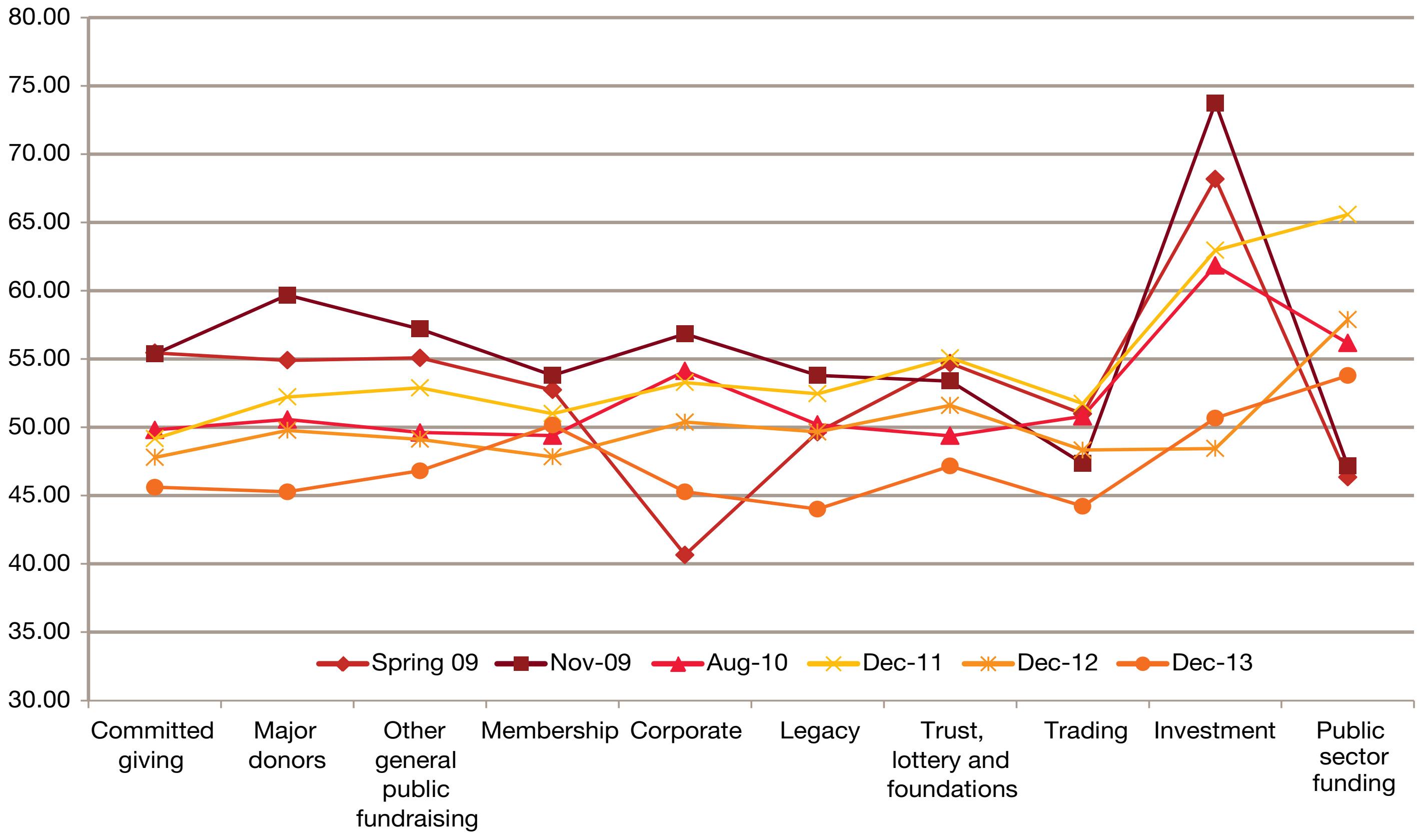
Source: PwC (n= 283, 2012, n= 364, 2013)

Anxiety index

As we have done for the last five years, we asked charities to state whether they had experienced reductions or increases in relevant income streams in the last 12 months. We also asked them to estimate the extent of reductions/increases, and to predict how those income sources would fare in the 12 months ahead. The findings from this year's survey, presented in the latest instalment of our 'Anxiety Index' , seem to reiterate the notion of cautious optimism.

In order to present the findings we have applied an 'anxiety index' to the answers, which is a weighted average of responses designed to allow for clearer comparison over time and between income categories. It should be noted that an index of in excess of 50 indicates that charities on balance are experiencing a net reduction in income.

2009-2013 actual income anxiety (higher score = greater anxiety)



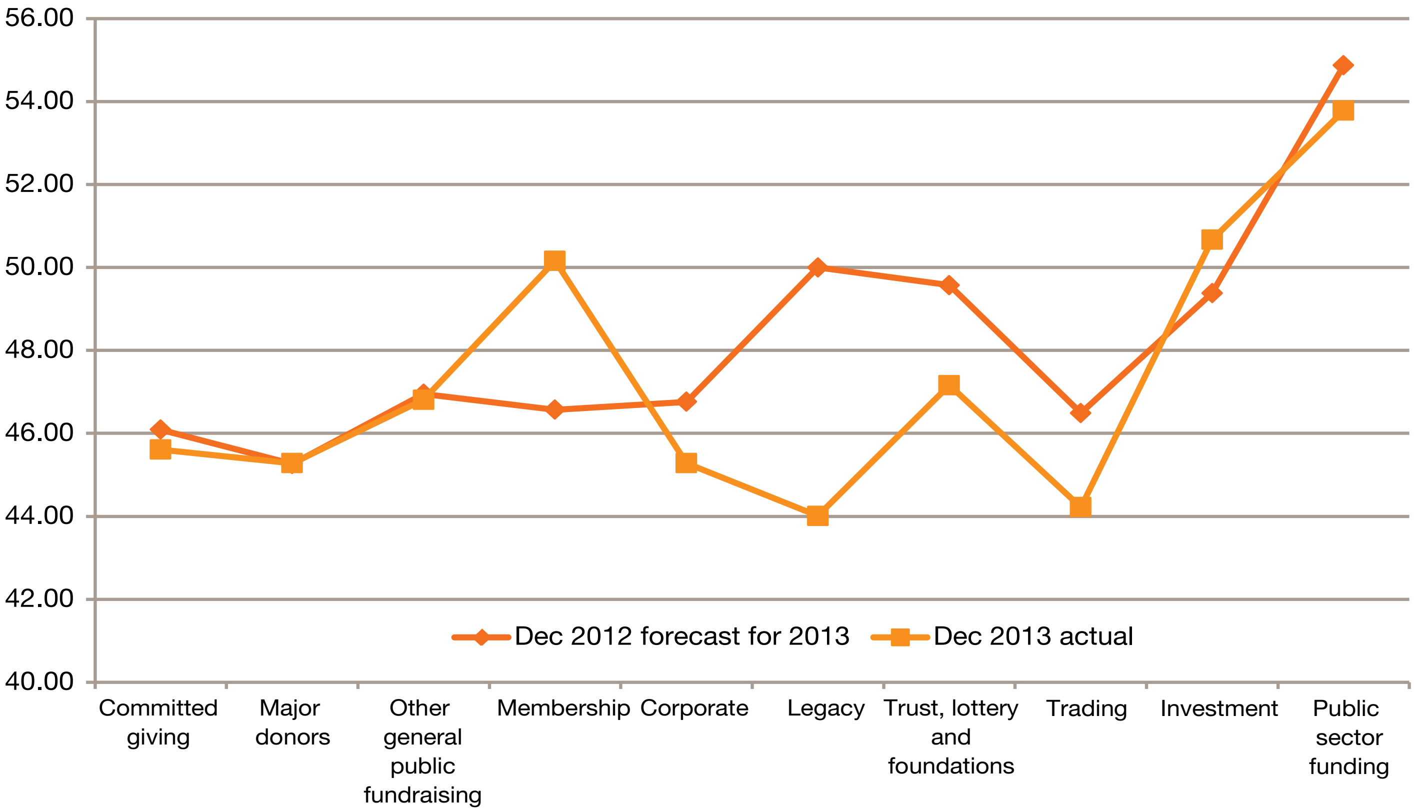
Source: PwC (n=350, 2013)

Anxiety Index scores are currently lower than in any previous year across six of the ten income categories – committed giving, major donors, other general public fundraising, legacy, foundations and trading. This represents a step change in comparison to the last four years. Anxiety Index scores are also below 50 (suggesting net increases in income) in seven of the ten income categories with just membership, investment and public sector funding returning scores above 50 (suggesting net reductions in income for the past 12 months). While the current score regarding public sector funding – consistently identified as the most important source of income – is still higher than it was in 2009, it is lower than scores in 2010, 2011 and 2012.

'Getting to grips'

This year's index also presents a marked change in the extent to which charities have attuned to the economic context and operating environment. Over the last four years our surveys have consistently shown charities' predictions about the future to have been overly optimistic, with forecast levels of anxiety consistently below the reality 12 months on. A comparison of forecast vs actual levels of anxiety in December 2013 suggests that charities now have a better handle on likely future income across six of the ten income categories.

December 2013 forecast versus actual income anxiety



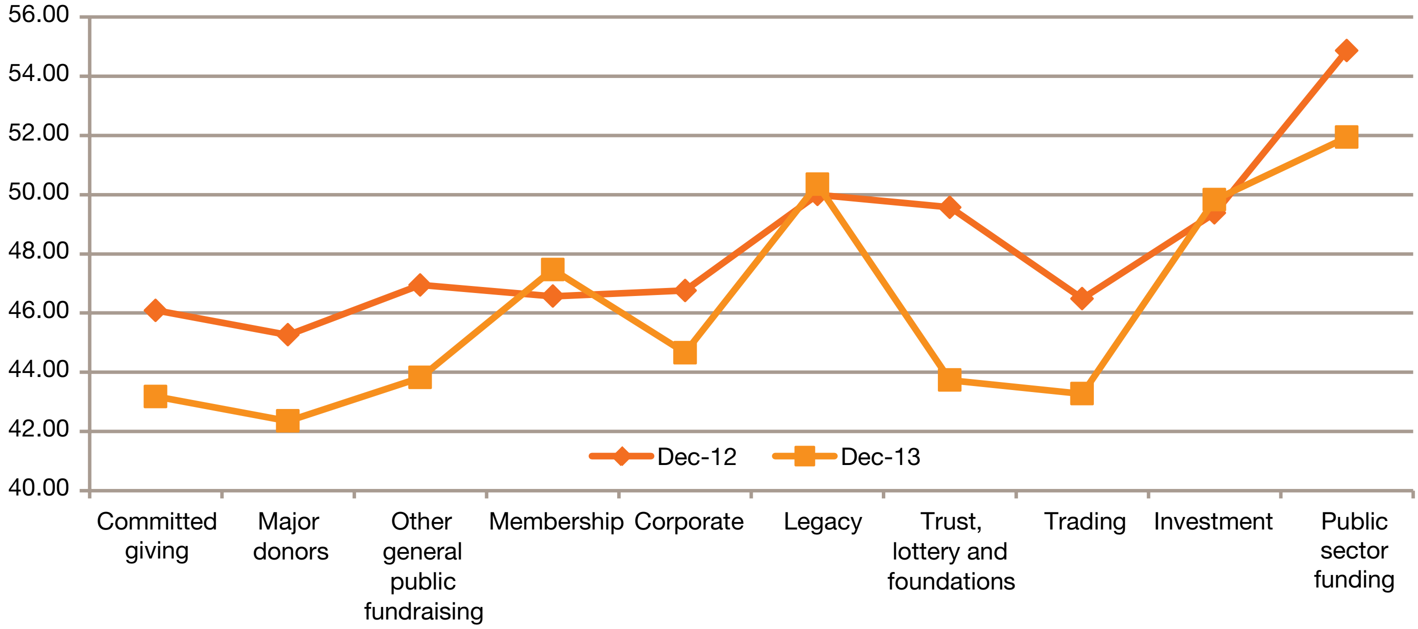
Source: PwC (n=350, 2013)

Income from committed giving, major donors, corporate fundraising, investment and public sector funding all show less than a 2 point difference between the levels forecast for December 2013, and actual levels. Larger variances exist between forecast and actual income from both foundations and trading, suggesting scope for a more in-depth understanding of the future potential of these income streams. The area of income that sees the greatest variance between forecast and actual levels is legacy fundraising. While obviously difficult to predict, this year's index suggests that income from legacy fundraising significantly exceeded forecasts.

Unshakeable optimism

A comparison of forecasts for December 2013 and December 2014 (forecasted in December 2012 and December 2013 respectively) suggests that the sector's 'glass half full' outlook is unshakeable, with respondents to our survey again predicting more positive net income positions over the next 12 months.

Forecast comparison – forecasts for December 2013 and December 2014



Source: PwC (n=350, 2013)

Responding to the current environment

Managing a charity in the best possible way is never a straightforward task. The need to balance ensuring sustainability for the organisation whilst most effectively delivering services and achieving maximum impact for the cause requires each organisation to carefully consider what the right course of action is for them to take. These decisions of course never happen in a vacuum; they are taken in the context of the funding and fundraising environment as well as the wider economy.

As we have seen above, although charities are expecting to see continued increases in the demand for their services, they seem to be less anxious about their income sources for the year ahead compared to previous years. For senior managers, CEOs, and trustees who manage charities, signs of an easing economic outlook presents some interesting questions: if people are feeling less worried about their financial position, is now the time to be more confident about fundraising? Can organisations who have had to impose pay freezes in previous years now think about offering a pay rise to staff? Is there more of an appetite for social investment?

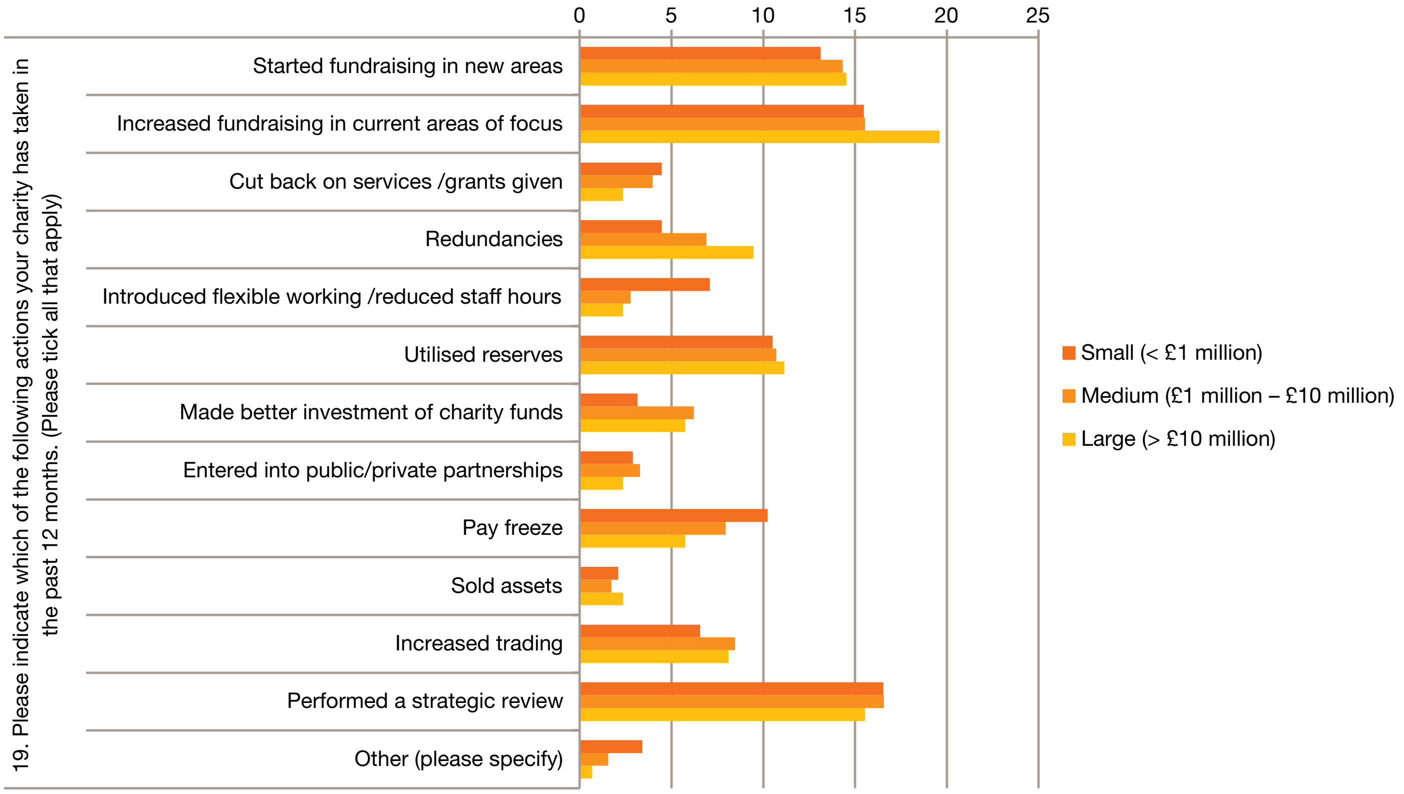
Charities will be considering these questions along with many others as they seek to navigate the year ahead and make the right decisions for their organisations. As an indication of how charities are feeling about their future work and the way that the sector is planning to respond to the current environment we asked respondents to provide their views on expected changes to their income, fundraising activity, and financial plans; as well as gathering information on what organisations think about public scrutiny of charities and the morale of their workforce.

Income and activity

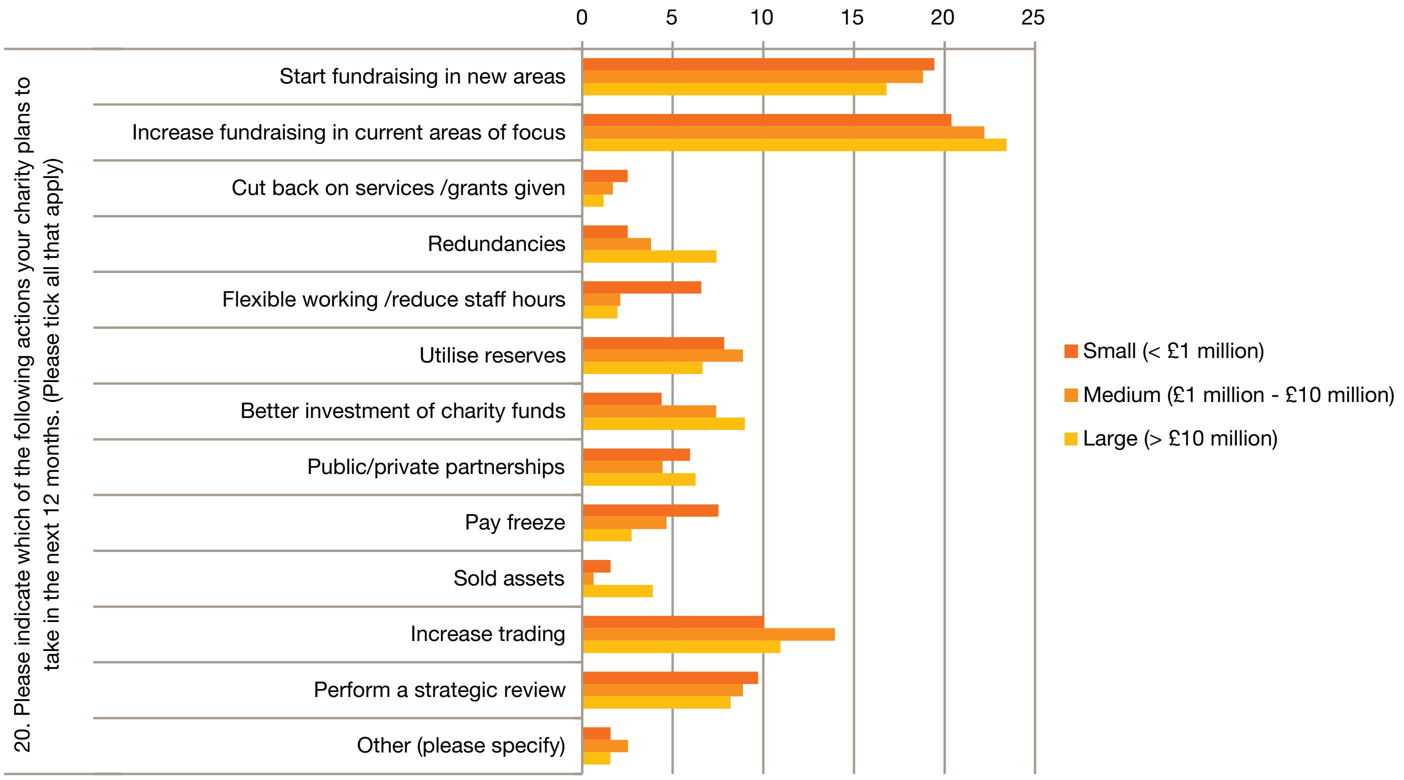
More than half of respondents reported that they are planning to diversify their income in the next 12 months, indicating that although the signs of a more positive environment are apparent, there is still a way to go before this is reflected in income. 68% of respondents reported they had performed some sort of strategic review and almost 40% have had to use their reserves in the past 12 months.

Looking ahead, there was an overall 7% increase in respondents reporting plans to start fundraising in new areas as well as in current areas of focus compared to previous years. Similarly, a decrease can be noted in protective or reactive actions taken, such as cutting back on grants given and redundancies, providing a sunnier perspective for 2014. It appears that while organisations are still planning on developing their income streams and diversifying to ensure sustainability, the responses indicate that organisations are better placed to achieve success and are more optimistic about tackling the year ahead.

Actions taken by charities in the past 12 months



Actions to be taken in the next 12 months



Source: PwC ('small' n=382,320; 'medium' n=579,473; 'large' n=296,320) – note multiple response

Fundraising

In last year's survey, respondents hinted that they were feeling slightly more optimistic about their fundraising for 2013 than they had felt in the previous year. For this survey we wanted to look at whether this optimism would materialise in increased income, and whether a more positive outlook is a trend that looks set to continue. By looking at the fundraising activity of charities we get an interesting lens through which to see how the sector is responding to the current environment. Plans for fundraising represent more than just how organisations are engaging the public: they also reflect the morale of the sector, and the confidence of charities in the wider economy and the ability of the public to give.

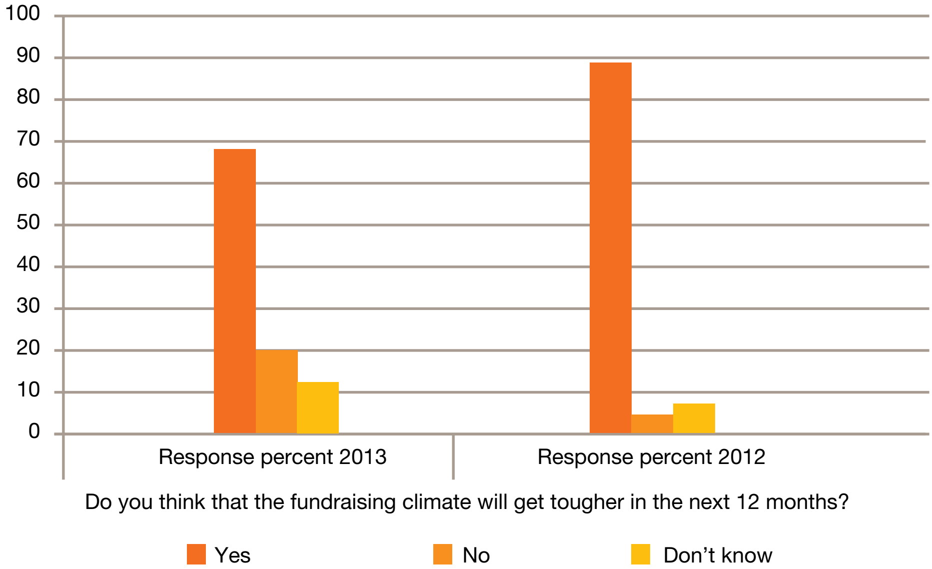
Key findings

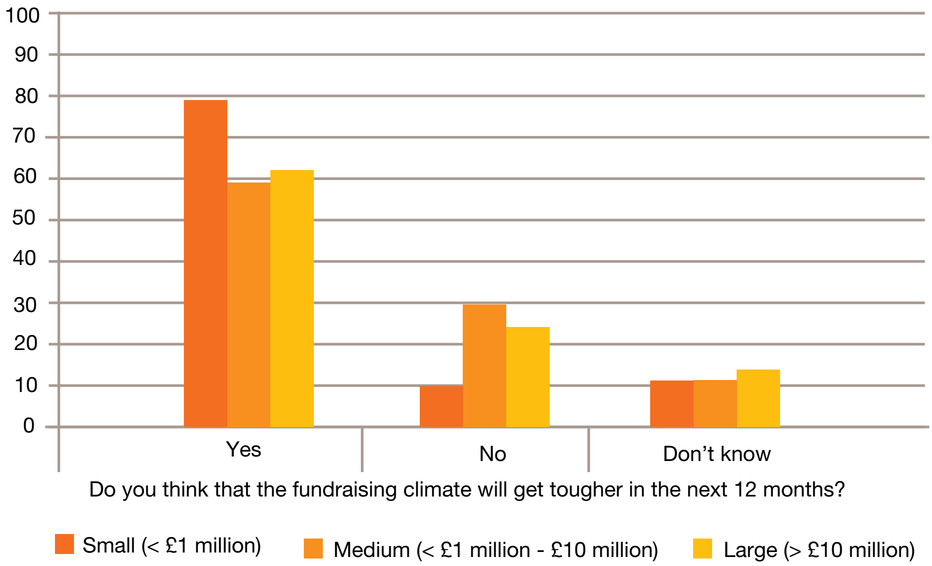
- Respondents think that the fundraising climate is a little less tough than last year, and there has been a drop in those who think it will get tougher in the next 12 months.
- 38% of respondents plan to increase training for fundraisers – almost double the proportion from the previous year
- Competition from other organisations remains the biggest fundraising challenge
- 55% of respondents plan to diversify their income in the next 12 months

Mood and anticipation of the fundraising climate

Charities continually plan and adapt so that they can best respond to their current environment and grow their fundraised income. This year there are clear signs that charities are feeling that they will be doing so in an easing, although still challenging, economic environment. There has been a drop in respondents reporting a tougher fundraising climate over the past 12 months – last year 93% believed the fundraising had got tougher, compared to 77% this year. This more positive mood is marked when respondents were asked to look forward to next year with a drop to 68% who think that the next 12 months will be tougher for fundraisers, from last year's 89%.

Future fundraising environment



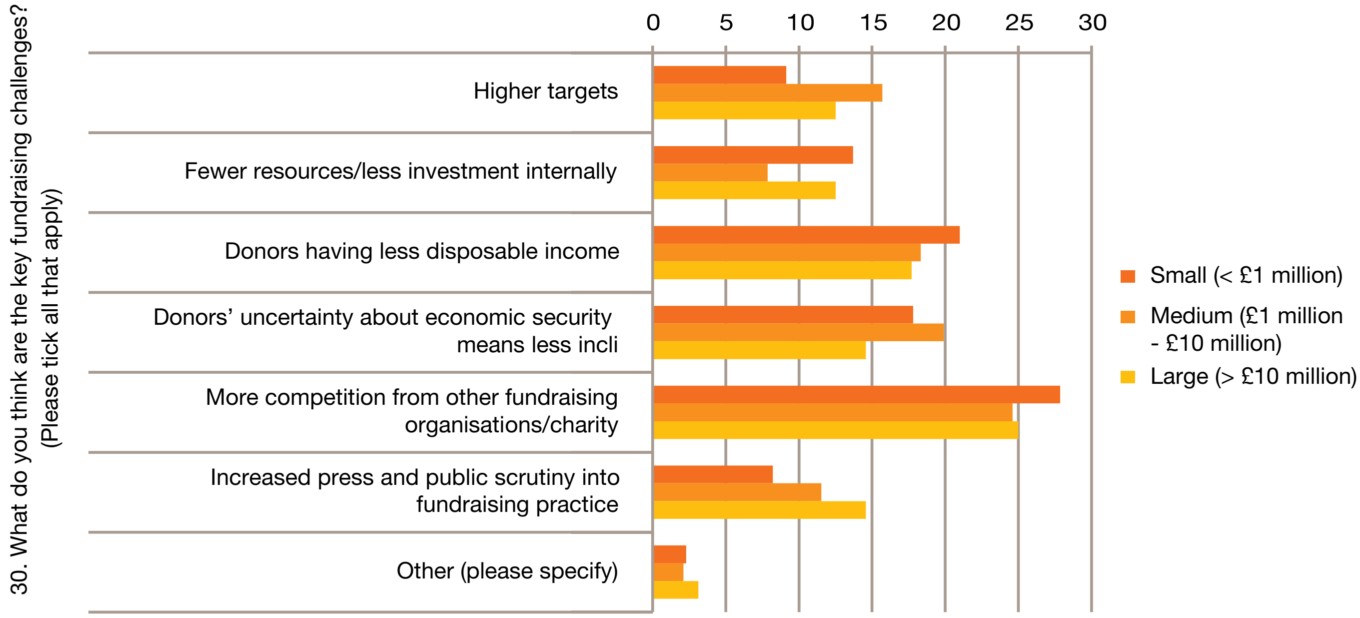


Source: PwC (overall response n=2012:114, 2013:162, by size n = small:71, medium:61, large:29)

Ongoing challenges in fundraising

Competition from other organisations remains the most reported fundraising challenge, but it seems that in some areas the challenges facing charities are easing. There has been a drop in the number of charities who think that there are challenges arising from the financial concerns of members of the public; the fundraising challenge of 'Donors having less disposable income', and 'Donors' uncertainty about economic security' have dropped almost 9% and 12% respectively.

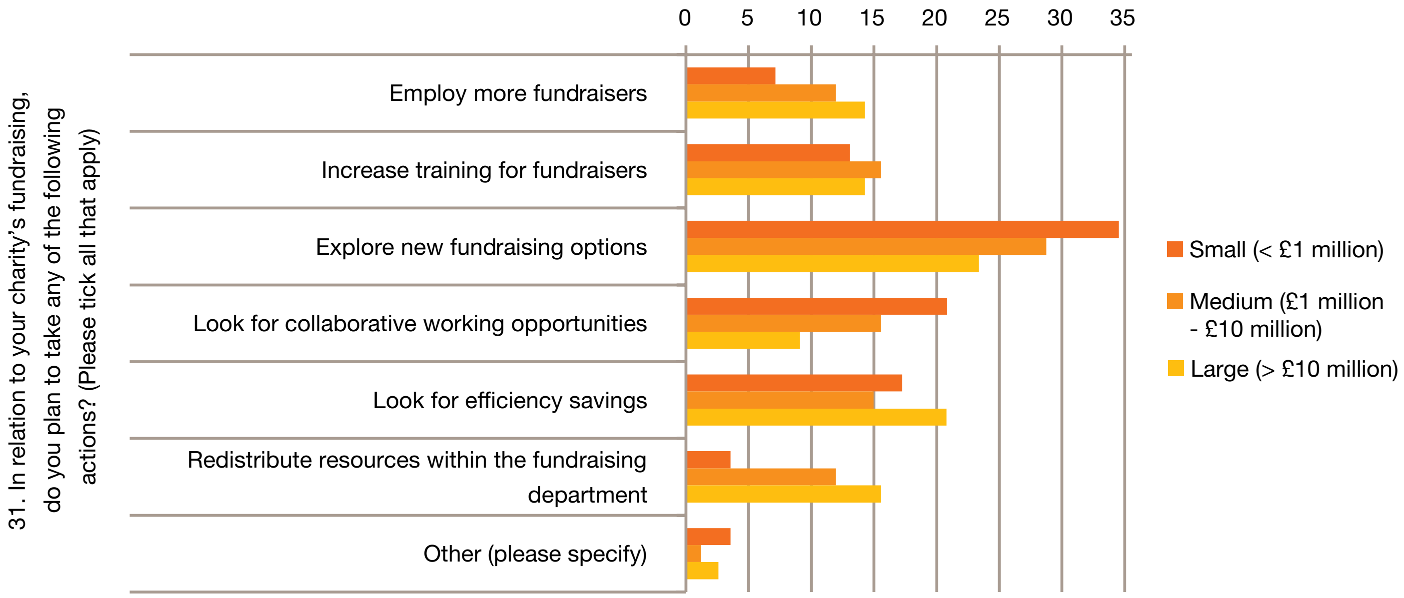
Key fundraising challenges



Source PwC (by size n = small:219, medium:191, large:96)

In response to those challenges that remain, 80% of charities plan to explore new fundraising options in the next 12 months, and the proportion of charities who plan to increase training for their fundraisers has almost doubled compared to last year. This marks a particularly positive change demonstrating that organisations are planning for growth and investing in their staff team to deliver this.

Response to key fundraising challenges



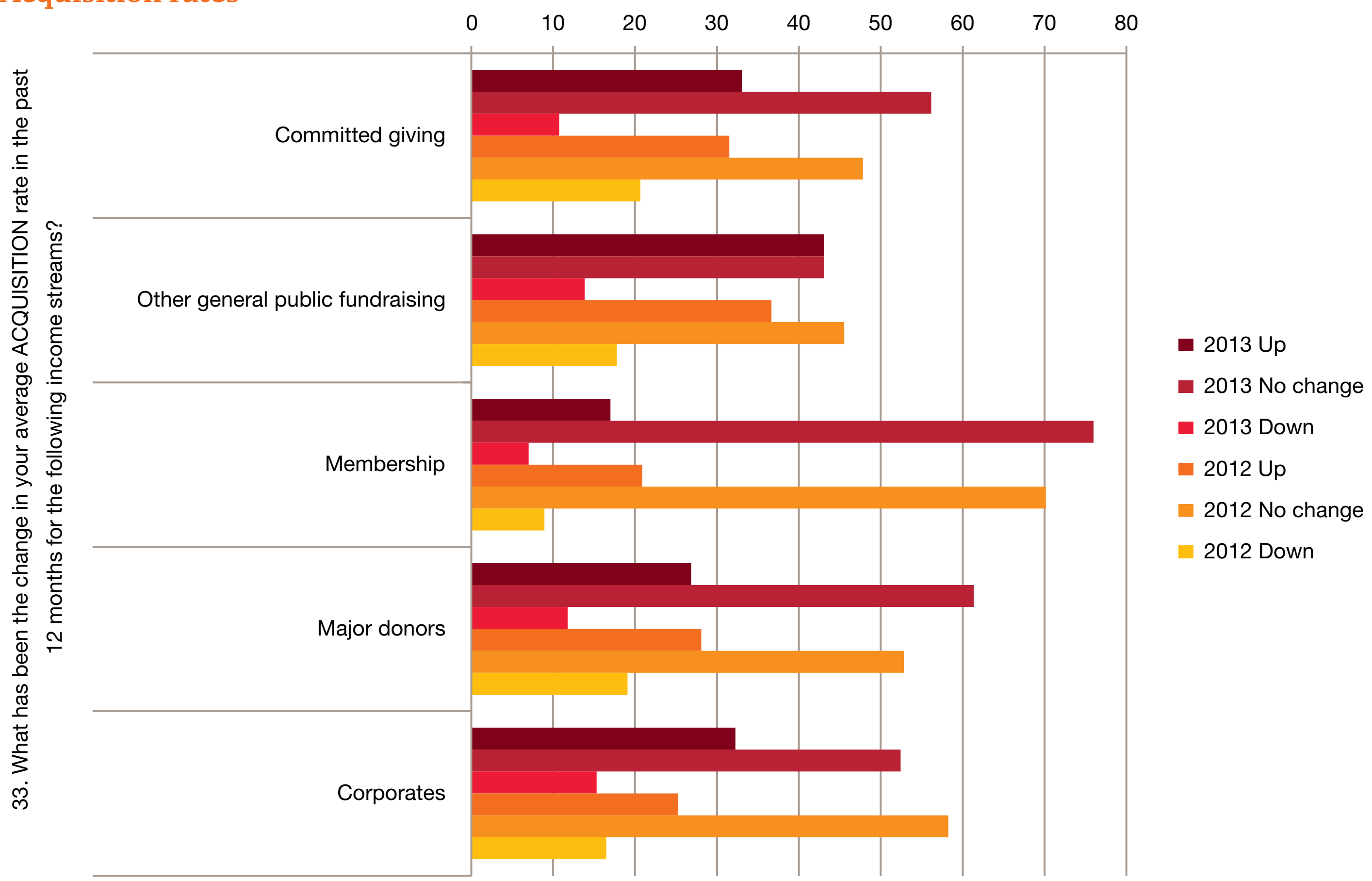
Source: PwC (n= by size n = small:168, medium:168, large:78)

Attrition and acquisition

The numbers of donors that charities keep each year (attrition) and the number of new donors that support them (acquisition) are perhaps the key indicator of the health of a fundraising organisation. This year respondents are reporting that acquisition rates from 2013 were generally increasing indicating a more positive outlook across the sector. Corporate giving showed the biggest increase in comparison to 2012 figures. Whilst companies were the first to feel the impact of recession, as the wider economy recovers and starts to grow, it seems that they are also among the first to either start or increase their charitable giving.

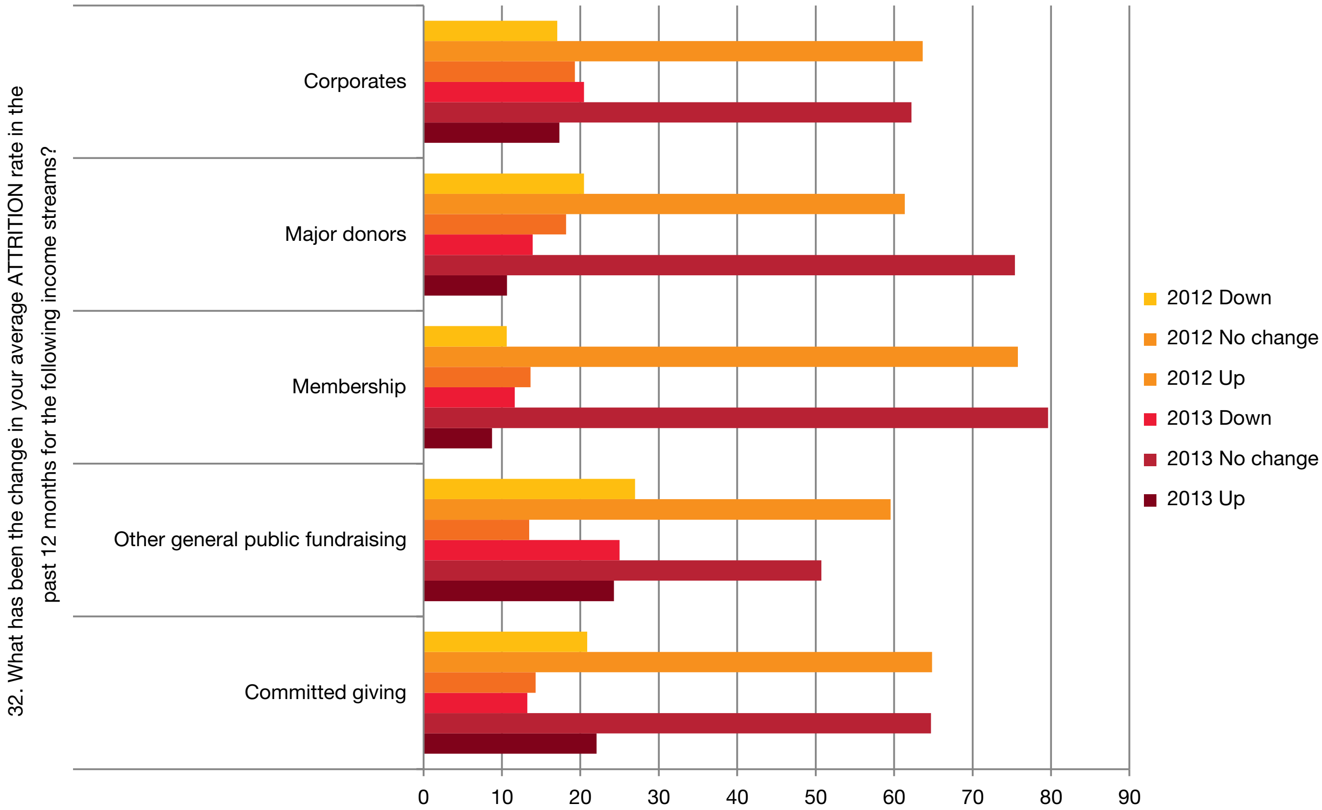
Results for donor attrition rates, however, paint a less rosy picture. Attrition rates are reported as being up for committed giving, public fundraising, with more charities reporting a loss of donors in these groups, although there was more positive news regarding the loyalty of major donors.

Acquisition rates



Source: PwC (2013 n =min 100, max 137; 2012 n= min 67, max 92)

Acquisition rates



Source: PwC (2013 n =min 103, max 136; 2012 n= min 66, max 91)

In the wider context, other sector research has shown that giving levels seem to have held fast over recent years, and according to the latest data have in fact increased. NCVO's Civil Society Almanac 2014 show that income from individuals for the year 2011/12 – the most recent year that figures are available – was up 3.1% from the previous year (which includes earned income as well as donations). It shows £6.9 billion was raised through donations from individuals, £1.97 billion of it from legacies – an increase of over £100 million compared to figures for 2010/11.

UK Giving statistics for 2012/13 also show the proportion of people donating to charitable causes on a monthly basis had increased slightly from the previous year. Although there are no huge headlines in this area, the encouraging signs of more people giving regularly to charity looks set to continue, with our respondents reporting an increase in acquisition over the last 12 months.

'We're focusing much more on telling compelling stories about the people who benefit from our work, as this should produce the best fundraising results over time'.

'We are spending more on fundraising giving better ROI – like legacy fundraising, major donors and trusts and direct mail (appeals and making our newsletter much more fundraising-focused).'

'We have continued to invest in more sustainable income streams, namely direct debits and long-term corporate partnerships – we have significantly increased our investment in these areas during the recession'.

Collaboration

Having strategic discussions about how similar organisations within the sector are operating and whether there are opportunities to collaborate and innovate together is often helpful. This can reduce overheads and also make it easier to apply for funds jointly than in competition. Although it is not always suitable for all organisations, effective collaboration or merger can deliver cost benefits, improve the quality of services and help charities reach a more diverse range of beneficiaries.

Key findings

- 4% of respondents had merged during 2013 and 15% were exploring the possibility of merging in 2014.
- Working collaboratively remains a popular activity with 77% of respondents claiming that they had partnered with others or were considering doing so.
- Again, joint programmes of service operations continue to be the most common form of collaboration, accounting for 66% of joint activity. Sharing staff or back-office services remain least popular, indicating perhaps that barriers remain to cost-sharing.
- Merger remains a relevant consideration for some charities, with 15% of charities now considering a merger. The proportion of charities that have merged in the last year has stayed stable from last year at 4%.

Of those that had merged recently:

'It was a very clean transition – the other charity was a smaller operation but the whole merger was transacted within four months and is now fully integrated.'

'Our merger involved a huge amount of intense work in the 12 months running up to it. It went well and it was definitely time well spent and the right thing to do.'

'We merged last year. Due diligence is a complex and important area which although time consuming was relatively straightforward. The integration of two service providers and the change in culture was more of a challenge! It always takes longer than you think. Back office savings will make us more efficient.'

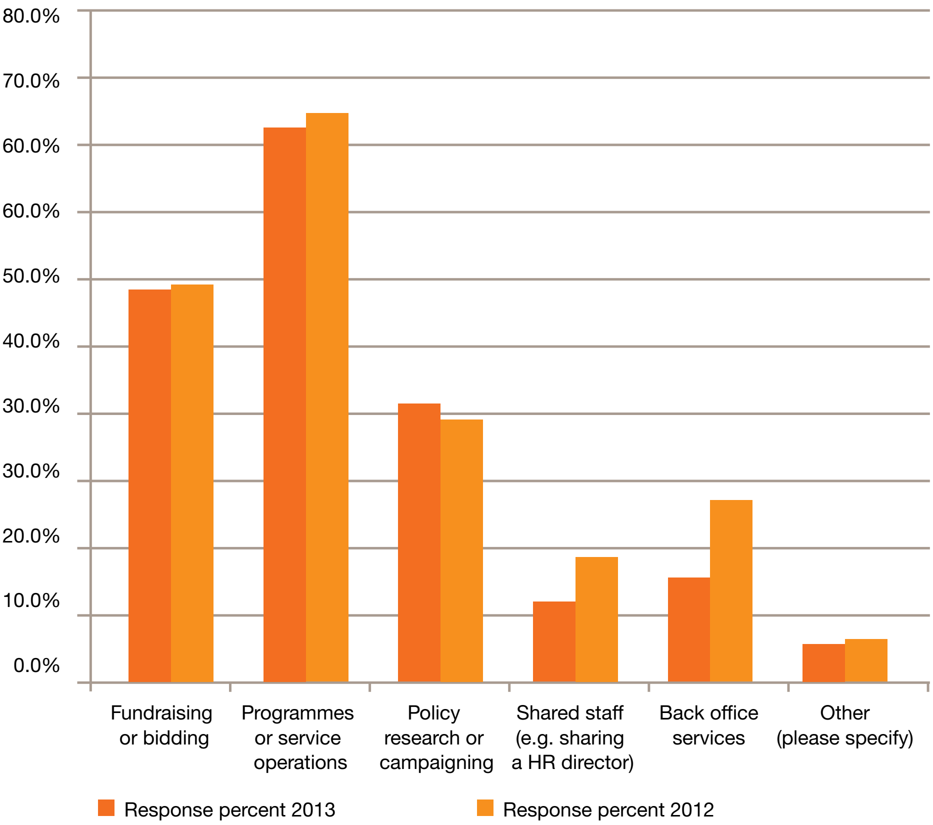
'Merger in our experience was a difficult process that needs commitment from both the staff and the board. Financial gains are longer term and initial increases in costs and work activities draw heavily on resources.'

How are charities collaborating?

When it comes to working with others, a more straightforward and appealing option is often collaboration – which over three quarters of charities (77%) said they had either done or were considering. There is a wide range of activities that charities have worked together on, ranging from programmes and services operations, to back-office services. As with last year’s findings, joining up on programmes or service operations were the most common areas of collaboration, accounting for 66% of reported collaborative activity. Collaborative fundraising and bidding was another popular way for charities to work together, with 43% of respondents reporting that they undertaken this.

Sharing staff and back-office services were the least common (with 10% and 13% of respondents respectively). The tax implications are often cited as a barrier to this type of working and there are some views in the sector that the long-awaited VAT cost sharing exemption continues not to deliver all that it had hoped.

Areas of collaboration



Source: PwC (2013 n=240, 2012 n = 175)

The evidence shows that collaboration, more than mergers, remains an important method for charities to fund and deliver their work. This will remain the case over the next few years. Smart collaboration creates better results for beneficiaries especially when charities recognise that they can create a stronger offer for service users by pooling together the specialisms of complimentary but different organisations.

In the delivery of public services, though, collaboration is not just smart but an essential way to finance an organisation’s work. Take for example the current multi-million pound commissioning of the MoJ’s Transformation Rehabilitation Services. Charities wishing to become service providers need to work in supply chains which require partnership working both with other charities and private sector firms. The same picture is being replicated across the public sector in areas such as welfare to work, health and social care to name a few.

Partnerships will therefore remain significant and we should expect the number of cross-sector arrangements with the private sector to increase. While not for the faint-hearted these types of arrangements will offer both business opportunities but also challenges for charities to consider around deal structure, cultural values, risk-sharing and cash flow financing.

The number of organisations exploring mergers are inevitably fewer albeit they are still significant. Greater synergies and growth potential can be realised through a full merger. Charities can limit the challenges and risks involved by adopting a well-considered project plan which involves dialogue with a range of potential target organisations. In this way merger becomes not a binary outcome – we either merger or we don’t – but rather a series of ongoing strategic discussions with like-minded organisations. Approaching merger discussions in this way means that charities will invariably form valuable business relationships through the process, even if a full merger turns out not to make sense.

Richard Litchfield
Chief Executive,
Eastside Primetimers
www.ep-uk.org

People and strategic review

One of the most frequent efficiency savings charities make in times of austerity is through it's people or staff, and this has been reflected in our findings over the past five years.

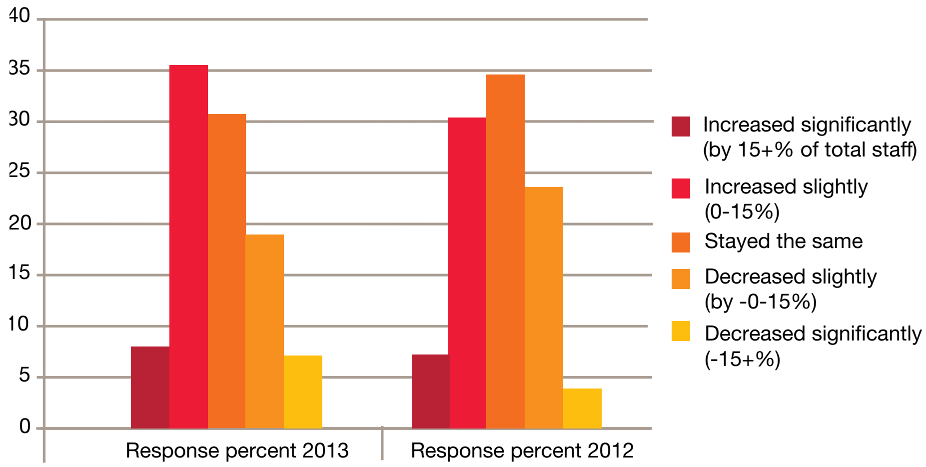
Since the beginning of this series of surveys, we have seen a consistent theme of a decrease in staff through redundancies and a shift in working patterns which has been continued this year. However, as with last year, charities now report that they are planning to increase staffing levels. This coupled with an increase in staff optimism, displays some tangible evidence that the climate is indeed improving for charities.

Key findings

- 44% of charities reported an increase in staff in the last 12 months, indicating steady growth
- 26% of charities have reported a decrease in staff, matching almost exactly last year's findings
- Just over half (55%) of charities found the mood and morale of staff to be energised and optimistic

Although not a dramatic change from last year's survey, there has been an overall increase in the number of staff employed. Similarly, the number of charities reporting a decrease in staff numbers has stayed roughly the same, indicating a positive rate of maintenance and growth.

Staffing increases



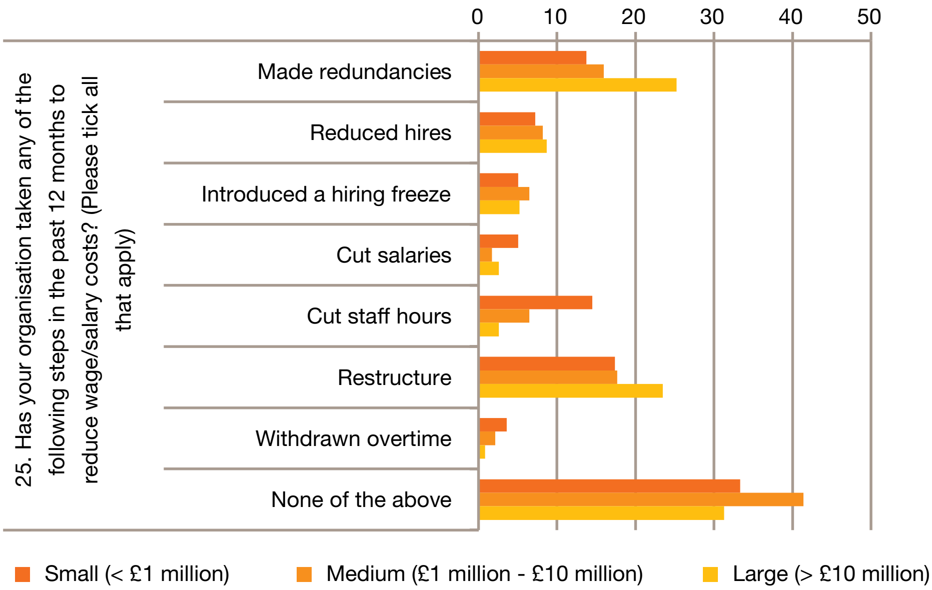
In the past 12 months, how has the number of staff employed by your organisation changes? (Please give your best estimate if you don't know exactly)

Source: PwC (2013 n= 349, 2012 n = 280)

There has been a shift in organisations taking action to reduce staff costs. In 2012, over 50% of organisations reported taking some sort of action to reduce staff costs compared to 2013 where less than 50% reported doing this, signposting an encouraging shift in employment rates.

Various steps to reduce staff overheads have all seen a decrease, with the minimal exceptions of cutting staff hours and withdrawal of overtime, reiterating steady growth.

Lower levels of staffing cuts

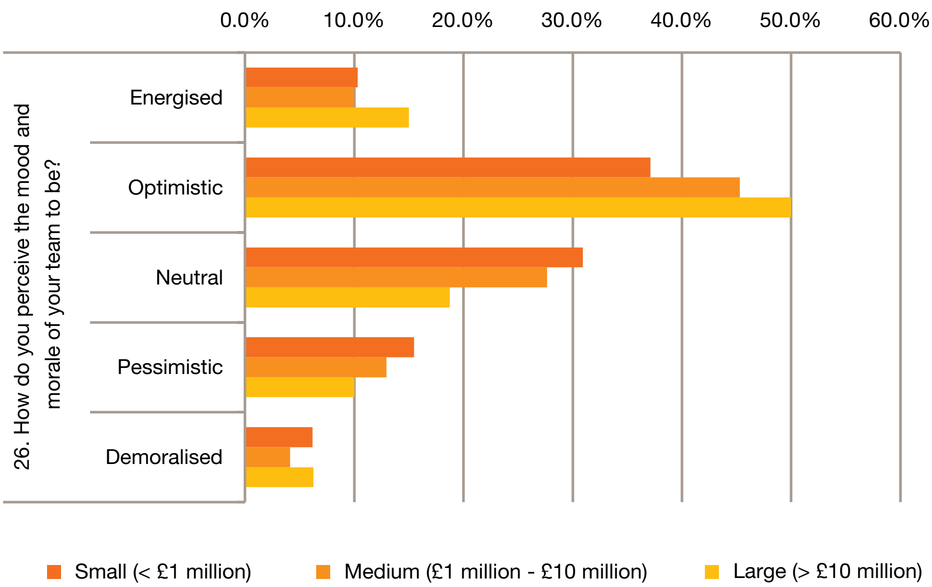


Source: PwC (small n = 138, medium n = 232, large n = 115)

Following a large amount of open ended responses from the 2011 survey on confidence and morale of staff, we added a question to reflect the overall mood of the organisation. Last year, 46% of respondents reported an energised and optimistic mood, and this year this has risen to 55%, an encouraging general lift in confidence. There is however an increase this year in respondents that felt demoralised, showing there is still negative morale as a result of the current environment. It will be interesting to note any rise or fall in the next few years.

We have therefore seen an overall rise in staff levels and a similar decrease in actions taken to reduce current staff, indicating the resilience and strength of the sector following a tough few years of staff cuts, mirrored by an increase in mood and morale. We hope to see this continue to grow as the economy's fortunes shows signs of improvement.

Sector morale



Source: PwC (small n = 97, medium n = 170, large n = 80)

Ian Dury thought 1979 offered reasons to be cheerful. 2013 has overall been a good year for charities and 2014 promises to be even better. The report supports three reasons to be cheerful and some more pragmatic 'buts':

1: Charities have started to get serious about impact: Impact has become the buzz-word in the sector – from impact investing to impact reporting. What were we doing before impact was invented? It's good that we are becoming serious about tracking how we measure and share success. It should make us and our supporters feel good. But do we link impact and growth in staff or resources – what's our Return on Impact?

2: The economy is improving: there are things we can't control but which make a big difference to our ability to deliver our mission. One of these is the economy. If the economy is doing well, in general, fewer people are in trouble. And donors are more able and willing to help. Some charities are gearing up to take advantage of this growth – especially major donor growth. But are we prepared for the searing cuts in public service still to come – 25% in local government spend?

3: People remain incredibly generous: when the DEC Philippines appeal was launched in the same week as Children in Need everyone thought one or the other would suffer. So when they both exceeded expectation there was a collective sigh of relief. The fact that donors can consistently surprise us by being generous is wonderful.

Bernard Ross & David Segal
The Management Centre

Reserves

Key findings

- Drawing on reserves continues to be a choice made by a significant proportion (44%) of charities; 31% have definite plans to utilise their reserves in the coming year and a further 23% were considering it as an option.
- Consistent with last year's findings, the majority were planning to use their reserves to maintain services (48%) or to cover operating costs (41%).
- The level of reserves held by charities has not changed over the last two years. Most frequently charities had reserves equivalent to 3-6 months' operating costs.
- Of those charities who were not using their reserves, 55% said that this was because they had no need. 20% of charities did not have sufficient reserves to use. Reasons for not drawing on reserves were given as 'a reluctance from trustees' (23%) and 'management' (16%).

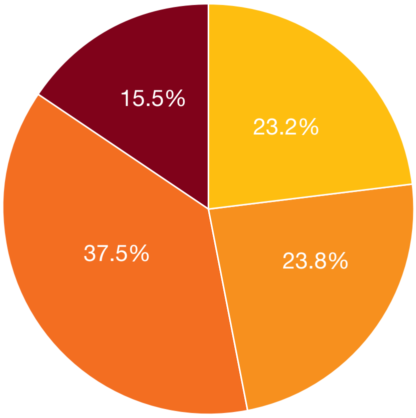
We asked charities to approximate their levels of reserves based on how many months they believed the funds would enable them to support their charity's operating costs. This is a relatively crude measure and does not necessarily reflect the way that charities calculate their reserves strategy. As the table indicates, the level of reserves held by survey respondents has only changed marginally over the past two years. This could be indicative of the fact that over half (56%) of charities say they have not used their reserves in the last 12 months, or when they have, they are taking steps to ensure that their reserves are being topped up from other income sources.

Looking to the future, just under half (47%) of charities are either planning (23%) or considering (24%) to draw down their reserves in the next 12 months – a notable decline from last year's findings where 63% indicated this (39% 'yes' and 24% 'considering').

It appears that charities are only planning to use their reserves to ensure that the core functions of their charity are maintained; serving their beneficiaries and operating costs. The majority (55%) of respondents would use their reserves to maintain services and 42% would use them to pay for the operating cost of the charity. Anecdotally, other uses of reserves were to fund the charity's investments in order to increase capital or to fund investment in fundraising.

Among those not planning to draw on their reserves (38%), the main reasons given were that they did not feel they needed to (58%) or a sense that there was reluctance to do so on the part of senior personnel in their organisation, either trustees or management (42%).

Use of reserves



Source: PwC (n=168)

Over the years, this survey has shown one positive impact from the challenging economic times – namely that the finance teams in charities have become more engaged in strategic management of functions across the charity. We asked respondents whether they perceived the finance team's engagement with the rest of the organisation to have changed as a result of the downturn. Two thirds (66%) of charities reported that the finance teams felt more engaged with the rest of their organisation.

While the reasons for spending or saving reserves is not always clear, the key findings reiterate the complexities of decision making regarding reserves, an area which was discussed in a paper by the Coalition for Efficiency: The Trustee's Dilemma: To Spend or to Save. As a trustee for the Coalition for Efficiency, I will take this opportunity to highlight some of the key points raised in this discussion paper:

- While there is now greater transparency regarding the level of reserves and why they are held as a result of the requirements of the Charities SORP 2005, the decision making process for developing a reserves policy and using reserves is a matter for each individual charity.
- There is no-one size fits all approach to the efficient and effective management of charity reserves. Charities carry out different activities, operate within different timeframes, work for causes for which it is harder more easier to fundraise and have access to a greater or lesser diversity of funding streams.
- The design of the reserves policy needs to take into account the financial health of the charity, looking at the stability, predictability and diversity of its funding sources; its potential to generate new funding; its ability to manage cashflow and continuity; the scale and growth of tis charitable activities and, essentially a realistic assessment of potential risk in its affairs.

So, in a nutshell, a charity's reserves policy should be an integral part of an overall planning, financial and risk management process to support the charity's overall mission, strategy and goal. Senior management and trustees need to develop processes and procedures to ensure that their charity is using reserves effectively and efficiently to support their beneficiaries.

Anne Davis
Not for Profit consultant and charity trustee

Transparency

Charities operate in the public sphere. As organisations set up to benefit the public, the work of charities will always be subject to media interest and scrutiny; the public are interested to know how the money they give makes a difference to the causes they support.

Key findings

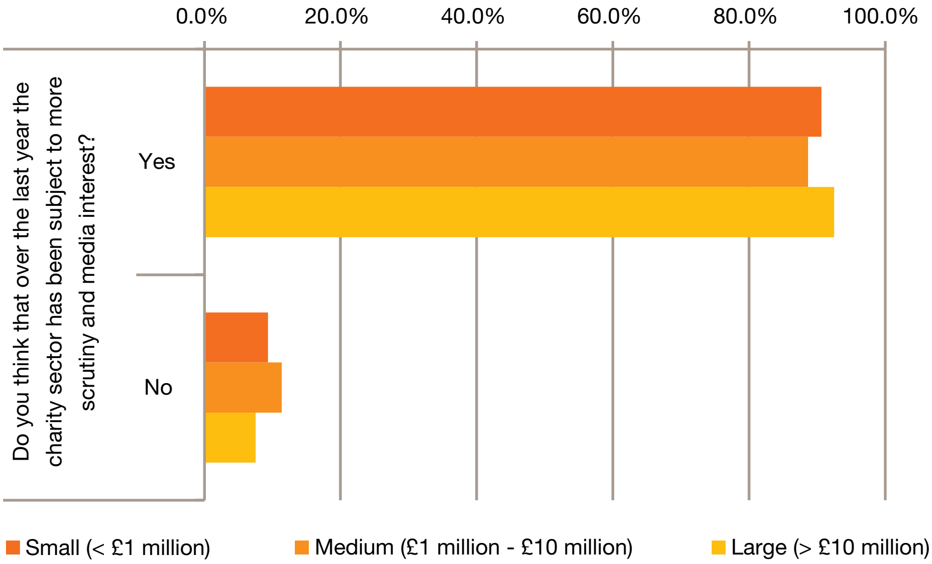
- 90% of respondents said that over the last year the charity sector has been subject to more scrutiny and media interest.
- Respondents think that this trend is set to continue with 87% thinking that in the next 12 months there will be more scrutiny and media interest.
- Half of charities have taken steps to enhance levels of transparency and disclosure of financial information in the last 12 months.

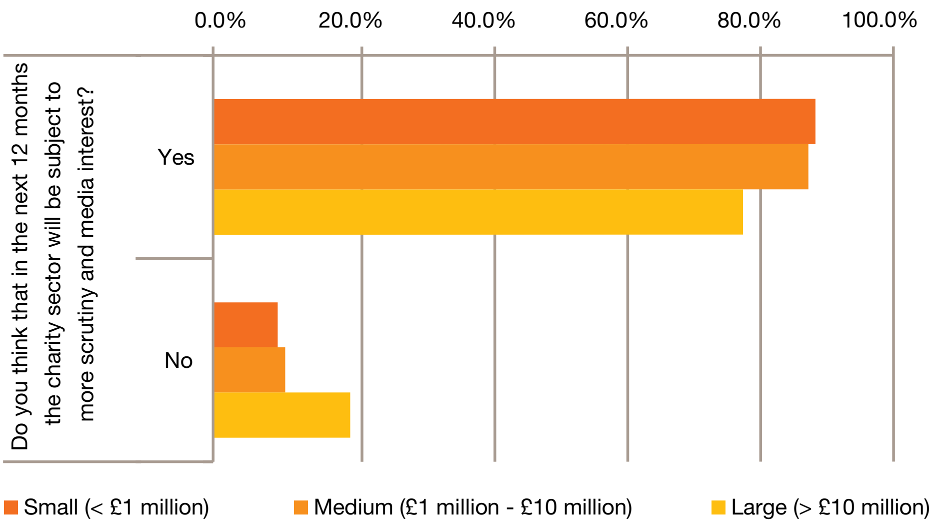
Trust, accountability, and transparency are the watchwords for all organisations and institutions that work in the public space (think MPs, schools, NHS) and charities are no different. Over the last year there have been prominent stories in the media about the role of the charity sector and its practices, including the campaigning/lobbying role of charities, chief executive salaries, and investment practices.

In a new area for this survey series, we asked respondents for their thoughts on scrutiny and media interest, as well as what impact it was having on charities and how they work.

Overwhelmingly, 90% of respondents thought that the charity sector has been subject to more scrutiny and media interest over the last year, and 87% think that next year this level of interest will continue. This is unsurprising given that more information is both available and expected across all sectors – the move to open data was anticipated to make 'armchair auditors' of all of us – while Twitter gives any member of the public a channel to contact and openly question any organisation. The more pressing question seems to be not whether charities are part of this increased public interest, but which particular areas are of interest, what will the impact of increased scrutiny be, and what charities are doing about it.

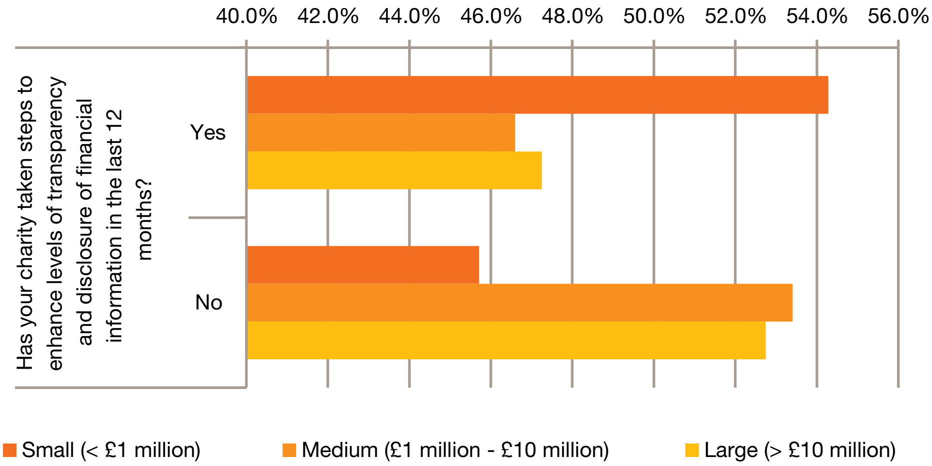
Perspectives on past and future levels of scrutiny and media interest





Source: PwC ('past year' small n = 107, medium n = 194, large n = 93; 'next year' small n = 105, medium n = 188, large n = 93)

Steps taken to enhance transparency



Source: PwC (n= small n = 105, medium n = 191, large n = 91)

'Transparency and disclosure of financial information performs relatively high from an audit perspective but we still need to do better at motivating/inspiring individuals in terms of how their money is spent'.

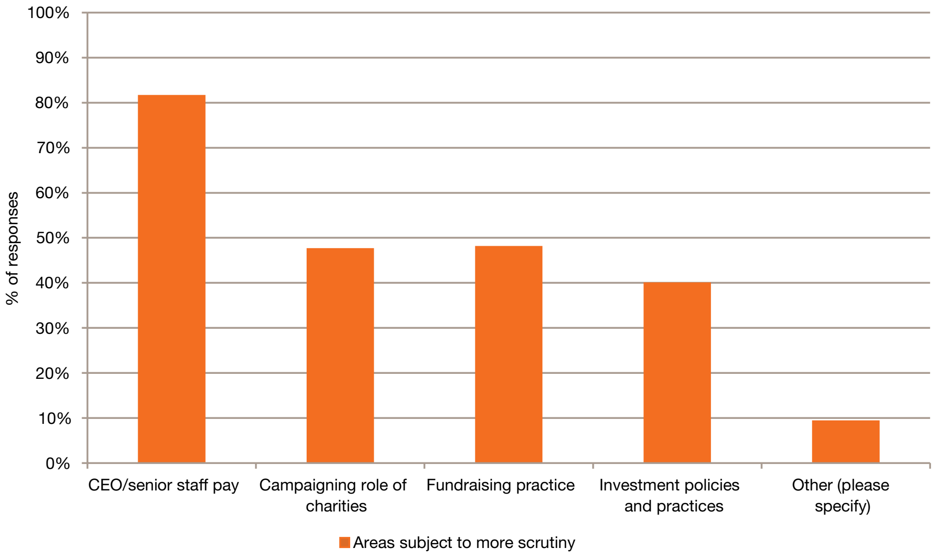
'We seek to enhance the transparency of both our objectives and the success which we have in meeting these in our Trustees Report and Accounts year on year'.

'We have always been and will continue to be completely honest and transparent with our financial information'.

'We have given more information about expenditure and investment in our annual report. We are focusing heavily on developing and communicating performance against outcomes'.

Perhaps not surprisingly, given the amount of media coverage, the issue of 'CEO/senior pay' came out on top when respondents were asked which specific areas have been subject to more scrutiny over the past year (81%), with 'fundraising practice' (48%) and 'campaigning role of charities' (48%) being the next highest areas.

Areas subject to more scrutiny

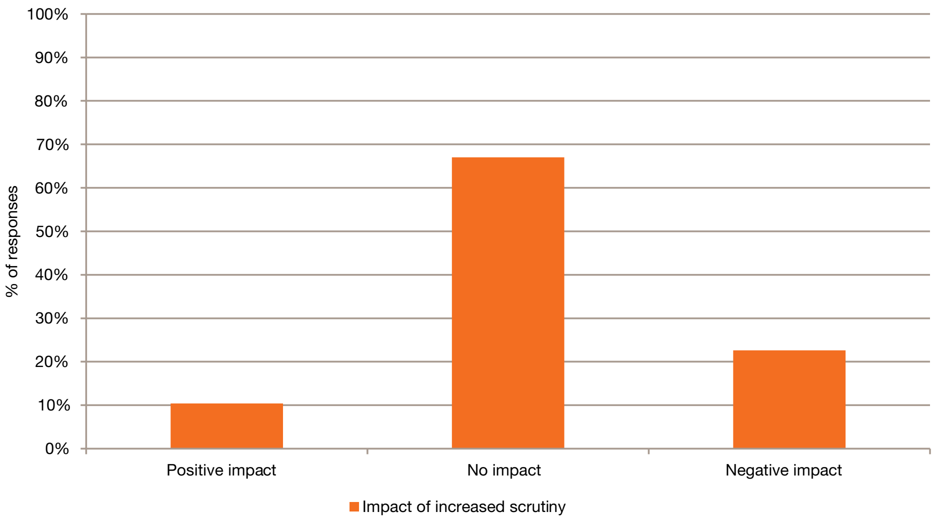


Source: PwC (n=367)

What has the impact been of the increased scrutiny on the charity sector?

22% percent of respondents said that increased scrutiny had a negative impact on their charity's fundraising. This does not necessarily mean a drop in the amount that people gave them over the year, but it could also mean more complex questions from donors and a challenge to persuade a more sceptical public. In response to this, half of charities (49%) said that over the last year they had taken steps to enhance levels of transparency and disclosure of financial information. This indicates that charities are being proactive in response to the current environment to enable them to cope with the challenges of future expectations and demands in this area. Whilst the other half of respondents said that their charity had not taken steps to enhance levels of transparency, the vast majority of accompanying comments indicated that the reason they had not done more was because they felt that they were already working to a high standard in this area, rather than being inactive.

Impact of increased scrutiny



Source: PwC (n=385)

'We have always applied a high level of transparency and disclosure in our financial information'.

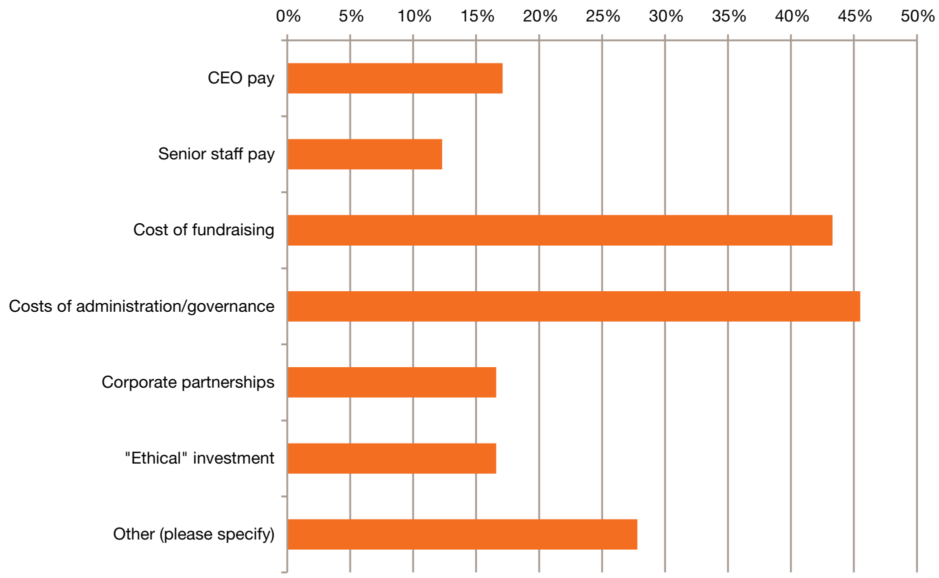
'I believe that we have already tried to be transparent in our financial statements'.

'It is our current practice to be highly transparent and open with the disclosure of our financial information'.

'We feel our levels of transparency and disclosure are sufficient, given the source and application of our funds'.

When asked whether respondents were planning to enhance levels of transparency over the next 12 months the two most popular areas they had plans to look at were 'Costs of administration/governance' (45%), and 'Cost of fundraising' (43%). These are areas of expenditure which donors often say that they think are important and it is hoped that by organisations doing more in this area that existing and potential donors are reassured and have a greater awareness of how charities are working.

Areas of future transparency



Source: PwC (n=187)

"Charities are under increasing levels of scrutiny (though still not much compared to banks, supermarkets or energy companies). These results show that charities are going to need to go up a gear in terms of transparency. Just saying the information is available, buried deep on a website, is no longer enough. Charities are going to need to explain what they do and why they do it much better, and in many cases before they are even asked! We call it 'honesty beyond necessity' and without it people assume the worst, whether is evidence or not. If we are going to change public attitudes and understanding we need more collaboration, more co-operation and more transparency."

Joe Saxton
Driver of Ideas, nfpSynergy

Social finance

Innovative and exciting opportunities continue to emerge in social investment and social finance, however the evidence from our survey suggests that take up remains slow. With the creation of Big Society Capital in 2012 to support organisations' investments and the recent announcement of the 30% social investment tax relief at the Budget, we were keen to understand what lies behind charities seemingly low appetite for these new forms of finance.

Key findings

- Appetite and interest for repayable finance or social investment products remains low as 83% reported that there had been no change in their charities' interest in them. 79% last year reported that they had not even considered it.
- 72% felt that they had not used loans or social investment products simply because they did not need them.
- 14% of respondents cited management and trustee discomfort with taking out loans as the reason for not considering any social investment product. There remains an institutional discomfort within charities and their governance structures for repayable finance.

Last year's finding reported on charities low take-up of social investment products as only 8% charities who took part in the survey reported having used them. Significantly, 79% of charities last year indicted that they had not even considered using the social investment products. This year's findings do not observe any significant change with this attitude as 83% of respondents claimed their appetite for repayable finance through loans or social investment products had not changed over the past year. As the market remains in its infancy and there are limited available examples of success in this area, it is perhaps unsurprising that charities have not changed their risk-averse attitudes.

In our survey, we probed charities as to why they had not used loans or social investment products and in line with last year's findings, the majority (72%) said they had no need for them. Other reasons cited were discomfort at a senior level among trustees and management (13% and 14% respectively) to take out a loan. The figures and comments left in the survey could be indicative of a continuing risk-averse nature of charities when assessing new financial products. In many charities there is an institutional bias against taking out loans, and there has been limited explanation to charities of how these products might work.

Should the funding environment remain tough for charities, they may be forced to look again at social finance as a possible income stream.

The comments provided in the 'other' category provide some illumination as to the underlying drivers for lack of take up of these loan products:

Lack of knowledge around the products

'Social investment is seen as uncertain and costly funding in comparison to a bank facility.'

Organisation objects to borrowing

'Our charity has a no debt policy.'

Not on radar

'This is not a priority product for us.'

'Social investment is not a priority product.'

Actively considering it but haven't decided yet

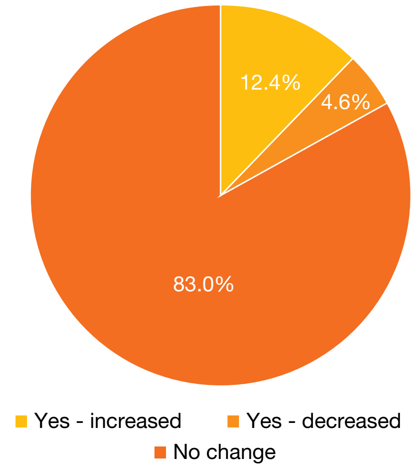
'Still working on the idea, it takes a long time to set up.'

'We are considering it – but are not there yet.'

The views of the charities surveyed have not changed since last year despite continued efforts to promote the benefits and potential of social investment. However this is perhaps predictable considering the clear need for further education and continued innovation by all parties in order for social finance to be better embraced.

As the economic and political context continues to evolve for charities, particularly with the shift to payments by results in government contracts, they may look to diversify ways in which they source upfront capital for running costs.

Perspectives on alternative forms of repayable finance



Source: PwC (n=323)

"The key findings of this report are in line with our experience of managing the Social Sector Funds at Bridges. Many charities have a strong donor base or benefit from large contracts and do not need to draw on social investment. However we are now seeing increased interest in social investment from those looking to expand their activities and grow their impact, particularly younger social sector organisations. Many do not benefit from a long-term legacy and are not able to draw on an established donor base or access mainstream, asset-secured bank financing.

We are also finding that for those charities delivering public sector contracts, working capital requirements are becoming more challenging and harder to finance from banks. Social investment can bring both funding and hands on support to help social sector organisations take on larger contracts. Social investment can also support the growing number of results based contracts being commissioned. For example, our Social Impact Bond fund has now supported six Social Impact Bonds which have provided the capital required for social sector organisations to win contracts and deliver what in many cases are innovative interventions that otherwise would not be scaled".

Anthony Ross
Partner – Head of Social Sector Funds, Bridges Ventures

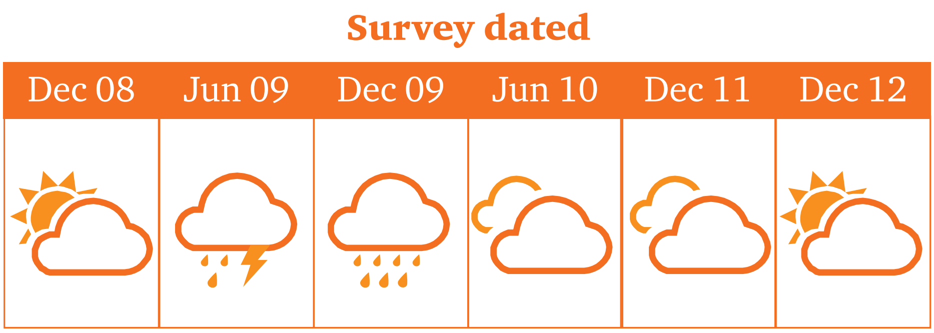
Five years of MIAD

A lot has happened since we issued our first 'Charities Managing in a Downturn' report, back in December 2008, over five years ago. Between now and then, we have issued five further reports and this current one represents our seventh in the series.

Back in December 2008, we were still reeling from the impact of the 'credit crunch', the failure of Lehman Brothers and concerns over a global financial crisis. Our first survey captured the mood of the moment and over 500 people turned out for our launch event, many looking for some guidance in what was a very uncertain period.

In order to provide some historic context for this report, we thought it would be helpful to revisit the conclusions to each of our previous six reports, set out below, as they represent an interesting historic barometer as to how we were all feeling at the time of each report. We have tried to illustrate the overall level of sentiment implicit within our conclusions, which can be summarised in the following simple chart:

The changing forecast



Source: PwC

As the chart seeks to illustrate, in December 2008, despite the uncertainty, the survey revealed a cautious optimism that charities had not yet been impacted. After that, the next two surveys, in June and December 2009 indicated a general pessimism as the impact of the downturn started to be felt. The surveys in June 2010 and December 2011 reflected an adjustment to a 'New Normal' and an increased 'digging in' and resilience in the face of very tough conditions. Finally, the survey in December 2012 started to show some modest signs of optimism, which appear to have continued into this present survey in January 2014.

Whilst it is, of course, too early for us to say that we have turned a corner in the five years since our first survey, there are some grounds for optimism.

Previous conclusions

Our first report: December 2008

This survey has provided us with a wide range of responses and comments. However, the following key points have been made clear:

- There is broad agreement that income will not increase and will probably decrease in the next 12 months, whilst costs will increase.
- The impact of the downturn is only starting to be felt by a minority of charities, but the majority of charities are already taking action in advance of the anticipated net reduction in available cash.
- Whilst there are obvious anxieties resulting from the above, a significant number of charities see opportunities arising.
- The message from the last recession is that there is a significant lead time from recession to the full impact on consumer spending and again until spending returns to pre-recession levels, and there are factors at play today which might suggest that the lead time might be shorter, whilst the impact will be no less prolonged.
- All experience says that recessions can be viewed as similar to 'pit stops' in a grand prix, with those organisations using the time to reassess their position emerging stronger and those that don't at risk of falling behind.

Our second report: July 2009 'An update of expectations 6 months on'

This second survey has once again given us a temperature check of the expectations of both Finance and Fundraising Directors as regards their expectations of changes in income and costs over the next 12 months. Whilst, again, there have been a range of responses, the following conclusions can be drawn:

- There is broad agreement that the experience of the 6 months since December 2008 was worse than expected.
- The impact of the recession is now being felt by a greater proportion of charities.
- Charities' expectations of the impact of the recession in the next 12 months are worse than in December 2008 by at least 50%.
- Many charities continue to see opportunities arising from the recession.
- Charities have not made significant improvements to the manner in which they manage their financial affairs and this is an area of concern.

In overall terms, there remains a need for strong and strategic management to ensure that the expected reduction in income over the next 12 months, and possibly beyond, is mitigated as much as possible, and that charities are in a position to make the most of the opportunities which will arise.

Our third report: January 2010 'Are charities feeling more optimistic?

Charities remain concerned as to their ability to generate income, but this concern appears to be abating. There is concern that pressure on income will remain in the medium term and charities should have a clear vision of how they might adapt to reduced levels of income, whether and how they are going to invest in future fundraising, and how they plan to ensure that more of their income gets directed to their beneficiaries.

The three surveys have asked detailed questions of the sector and will provide a historic record of experience and expectation within the sector for future analysis. In the short term, they also provide charities with a benchmark of expectation against which to compare their own.

The November 2008 survey concluded that only a minority of charities had started to see an impact of the recession, however there was broad agreement that income would decrease in the following six months. Charities were taking action to try to address issues arising from the reduction in income, however we stressed that there would be a significant amount of lead time from the recession to the full impact on consumer spending. The May 2009 survey indicated that the experience overall from November 2008 to May 2009 was worse than expected in the area of income which led to the recession being felt by a larger proportion of charities. The expectations which charities had for the period after Spring 2009 were much more pessimistic than the previous survey, indicating that charities saw the impact of the recession continuing. Charities did see opportunities arising out of this, however. There were also some improvements noted from the previous survey in the area of financial management, although many charities still reported a lack of planning.

The latest report reinforces the above conclusions and shows overall that while charities remain pessimistic, they are less so. The next year will be a challenging time for charities with many of the impacts of the recession still to be felt, as we do not expect the charity sector, by and large, to be fully impacted by the downturn until 2011.

Many charities may still therefore face challenges in the months to come, although for those charities which are robust and well managed, there will of course be significant opportunities arising, at least in part, from the financial challenges faced by others.

As ever, our message is that there remains a need for strong and strategic management to ensure that the expected reduction in income in some areas over the next 12 months, is mitigated as much as possible, and that charities are in a position to make the most of the opportunities that may arise. This report emphasises that strong management may be needed in, for example, salary control, and strategic management will be important in the area of reserves management and fundraising investment.

Our fourth report: August 2010 'Responding to life after the comprehensive spending review'

The Charity sector is expected to feel the further impact of the economic downturn and the Comprehensive Spending Review in the coming 12 to 24 months. There remains a need for trustees and management to maintain open dialogue regarding the future of the charity and acting in the best interest of beneficiaries. Key in these discussions is acting upon quality management information to support strategic decisions.

As we have reiterated throughout the report, insight is key to the operation of any organisation, particularly charities. Insight should support all decisions that are taken by an organisation and in the current economic climate this is more important than ever. At a minimum, insight should support reactive measures; ensuring these are the right course of action to take. All decisions should be supported by financial insight with the benefits and costs considered. Striving for better practice in financial planning and management enables charities to plan and best position themselves for the future ahead.

Our previous reports have suggested that there will be winners and losers coming out of this economic climate. We are already seeing that some charities are becoming weaker and others are thriving. We believe that the impact of the Comprehensive Spending Review will continue to be felt way in to 2011, and potentially increase this polarisation. We have previously tried to highlight some of the behaviours which can help to separate the winners from the losers and have outlined a number of them again in this report. There are significant opportunities for strong charities, but to make the most of them will require discipline, imagination and stamina, amongst many other attributes. We again hope that our series of reports will provide some guidance.

Our fifth report: March 2012 'A perfect storm?

In overall terms, this fifth survey highlights what we all suspected: that charities are continuing to experience downward pressure on all income streams and the fundraising environment remains very challenging. While there are no real surprises, there is plenty of encouragement that more charities are recognising the medium term nature of these pressures and are reporting tangible responses.

In particular, one in five charities are now saying that they are actively considering a merger. This is up significantly from last time's survey and, whilst opinions vary as to the need to consolidate, most commentators would see it as positive that more charities are at least opening their minds to such a possibility.

Furthermore, a significant majority of charities (80%) report that they have undertaken a strategic review in the last 12 months. Again, this indicates that most charities are actively considering their position in the sector and the extent to which they need to respond strategically. Given the scale of the challenges, this must again be a welcome development.

The overwhelming feeling, however, when reading the responses to the questions posed, particularly the narrative responses, is that the sector is in the middle of a major re-shaping and that this is really testing the morale, ambition, energy and competence of trustees and senior managers. Those who thrive in these circumstances will undoubtedly emerge stronger for the experience, but we should not underestimate the scale of the commitment that will be needed to do so.

Our sixth report: March 2013 'Adapting to uncertainty

This sixth survey has provided some interesting and sometimes unexpected responses. In particular, we have been encouraged by the willingness and ability of charities and their employees to remain flexible, resilient and – most importantly – optimistic, despite the obvious changes, both to the environment in which they operate and in many cases to the charities in which they work.

It is clear, but unsurprising, that charities are still experiencing significant pressure on most income streams and the fundraising environment remains as challenging as it did 12 months' ago. Whilst the 'anxiety index' appears to have alleviated, it is clear, from the responses to our question about the biggest challenges facing respondents, that ongoing pressure on income remains the single biggest concern. However, building on the responses from last year, many charities continue to take account of the medium term nature of these pressures and are reporting tangible responses, such as increased fundraising, more use of trading and enterprise, as well as collaboration and, in 20% of cases, either considering or actively pursuing a merger.

All of this in consistent with what we are seeing day to day and, whilst the statistics will, we hope, be helpful, many of those conclusions may come as no surprise. What is perhaps more surprising – and certainly more encouraging – is the reported optimism within the sector. Last year, we reported that the overwhelming feeling was that the changes taking place were really testing the morale, ambition, energy and competence of Trustees and Senior Managers. However, this year staff morale was cited much less as a major challenge and the responses to the questions, particularly around both staff morale and respondents' optimism for the future, suggest that there is a real spirit emerging as we all become accustomed to the 'new normal', which should stand us in good stead for what lies ahead.

Looking ahead/Top tips – for a sustained 'recovery'

In our conversations with clients and members and in our analysis of the results from this years' Managing in the New Normal survey, we have observed a confidence and positivity as the broader recovery continues. It would be fair to describe this confidence and positivity as being reserved, and it is important to acknowledge the big challenges that many charities and other social purpose organisations are still trying to get to grips with. At the same time, though, we have seen optimism as organisations try to achieve a sustainable recovery.

We have outlined the following key considerations for a sustainable recovery. Next to each of the key considerations, we have also suggested some 'coffee table questions' for when you are meeting internally with key stakeholders and management.

Category	*Key considerations*	*Coffee table questions…*
Scenarios	A robust scenario planning exercise can help management and trustees with business strategy. The experience of asking difficult questions, of 'thinking the unthinkable' can help an organisation to prepare and position itself as best as possible, for positive and negative changes in external circumstances.	• In the last five years, what was the least expected thing that happened to our organisation? Could we have anticipated that this would happen? • What kind of external events could have a (positive or negative) impact on our organisation, and what can we do now to ensure (1) that we get early notification and (2) that we can respond accordingly?
Options	Charities have considered a broad range of options in the last three years, including things like mergers, collaboration, relocation etc. Whilst the urgency to investigate every available 'option for survival' may have fallen away, we would recommend that the same list of options is kept in the table; that 'options for survival' and 'options for growth' are often very similar.	• Do any of the options that we considered at our last few AGM's still sound interesting? • What were the reasons for having dismissed a particular option or set of options and have the circumstances changed since?
People	Growth opportunities for an organisation mean growth opportunities for its people. It can be important to consult and incorporate your people into the growth planning process so that personal, professional and strategic objectives are aligned and self-sustaining.	• How has performance and talent management contributed to our success during the downturn? • How can we build on this achievement as part of our sustainable recovery? What would our people want more or less of as we continue to grow, and as new opportunities are presented?
Information	We have talked previously about Reliable and Robust information. To achieve sustainable recovery, it is crucial that information is available in 'Realtime' as well. If infrastructure needs to be improved in order to deliver the 'three R's' above, then now might be the right time to make that investment.	• Do we strike the right balance between providing accurate information and providing information quickly? • If money was no object, what type of infrastructural investment would we want to make in order to improve our information platform?

Category	*Key considerations*	*Coffee table questions…*
Reserves	Reserves can mean different things for different charities, with some seeing funds available for a rainy day and others as funds for investment and growth. At this pivotal time in the market, it may be appropriate to review your charity's reserves policy so that it can support the sustainable recovery in the sector.	• When did we define our reserves policy and is that policy still appropriate for the type of organisation that we are today? • If we need to invest in our organisation to facilitate growth, how should we weigh up the potential value of that expenditure against the likely returns if we simply invest the cash as part of our reserves balance?
Cash	Working capital management is crucial and as the recovery continues, different pressures will be placed on cash flow from different sources. Charities should complete a detailed forecast of cash flow and then monitor this against actual performance.	• Are the organisations' working capital policies fit for purpose? • How much pressure can our cash flow undertake without affecting normal service delivery? • Are there any 'cash flow quick wins' to be found (for example, by moving the BACS payment dates)?
Strategy and fundraising	Do you outline how much funds will be raised and then set your strategy based on this? Or do you set allow the strategy to dictate what the fundraising target is? In reality this is an iterative, circular and ongoing process, but fundraising teams can add real value by participating as part of the organisations strategic process.	• Do we include fundraising as an agenda item when we set our strategy? • If fundraising increased or decreased materially from our budget, would our strategy need to fundamentally change? How much increase or decrease could be absorbed without needing to then change strategic direction?
Saying 'no'	Despite the ongoing recovery, demand for charitable services and social support is greater than ever. In this context, knowing how, when and why to say 'no' to potential new projects can be difficult. Before the recovery is secured, and real growth kicks in, it will be helpful to outline the criteria against which new opportunities can be assessed.	• How often do we say 'no' to new opportunities and what are the reasons for doing so? • Could we easily say what our decision making criteria is? • If we have to say 'no' to people, how can we make sure that we refer that person onto another potential provider – so that our 'no' becomes a 'yes but' instead…
Governance	In a strong governance system robust processes play a key role, but those processes should also be agile and flexible so that they can respond to new opportunities. As a charity continues to achieve a sustainable recovery, it can be important to incorporate things like leadership, people, culture, market analysis and communications into the ongoing governance framework.	• When did we last undertake a governance review and what were our conclusions? • How 'agile' is our organisational decision making? Can we respond quickly to new opportunities and events?

Conclusions

This seventh survey has given us some interesting food for thought. In the main, the responses suggest a softening in the overall financial environment, perhaps reflecting the fact that many charities have now found ways of coping and becoming more sustainable. Optimism is higher than before and there is a general sense from the anecdotal responses that the challenges ahead reflect as much of a desire to grow, as they do a need to find coping strategies simply to stay afloat.

This is of course good news; however, it is evident that many challenges still remain. Responses in the last few surveys have suggested that more charities have been improving their financial rigour, clarifying their strategies and generally improving the information available to them in order to give themselves the best chance of survival. In our view, it is crucial that there is no let-up in these disciplines as charities look forward to what we all hope will be a more positive future.

Back in December 2008, at the time of our first survey, we appended to that report a 'Top 10 Tips' for Managing in a Downturn. In the light of the responses to this survey, we have summarised what we call 'Key considerations for a sustainable recovery', which we hope picks up many of the anecdotal observations from the survey responses, together with the authors' own experiences.

We remain optimistic that the increased overall optimism, reflected in the survey results, will be tempered with a realism borne out of the challenges overcome in recent years and a desire to protect, sustain and grow that which has been hard fought to maintain in that period. For those charities that are able to remain robust and well managed, substantial opportunities remain to meet the increasing demands placed upon them.

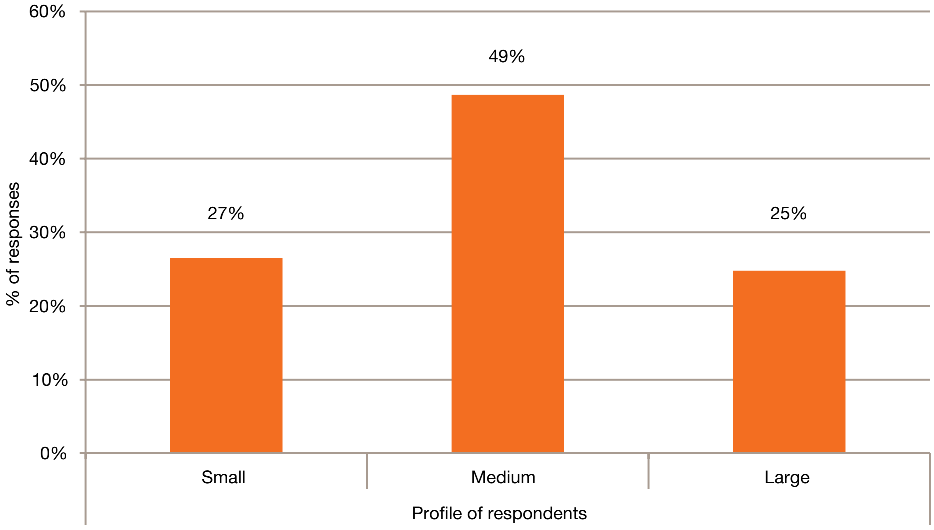
Appendix 1: Background and approach

The Managing in a Downturn series has surveyed senior fundraising and finance professionals in the charity sector periodically since 2008 to chart the impact of the recession and the resulting economic downturn on UK charities. Each year an on-line survey of IoF and CFG members forms the basis of findings. This year the survey was administered between January and February 2014 and returned a total of 467 responses. To provide further insight in some cases responses have been cross-tabulated according to charity size as follows:

- Small (total income of less than £1m);
- Medium (total income of between £1m-£10m); and
- Large (total income of more than £10m).

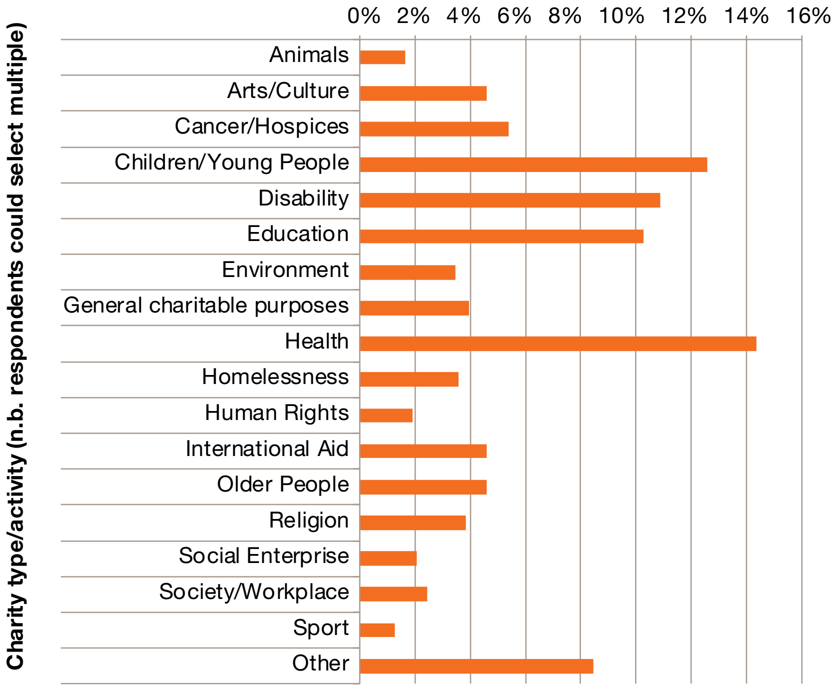
Findings are based on the combined analyses of CFG, IoF and PwC, covering both finance and fundraising professionals’ perspectives.

Size of respondent organisations



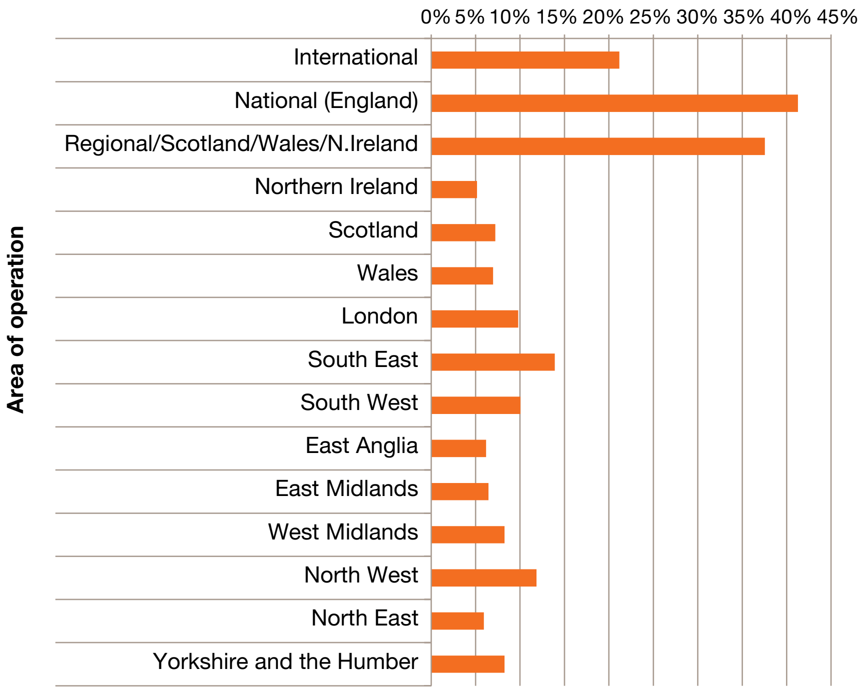
Source: PwC (n=‘small’, 122, ‘medium’, 224, ‘large’, 114)

Charity type or activity



Source: PwC (n=min, 10, max, 112) – note caution due to small base sizes

Area of operation



Source: PwC (n=min, 20, max, 189) – note caution due to small base sizes

About the authors

PwC

We deliver exceptional value to our clients with integrity and confidence. We have the charity understanding, experience and expertise ready and available to support you in these challenging times, ensuring your charity is in the best possible position for the upturn and can deal with change – we're committed to the sector and to our clients for the long term. We understand the issues facing the sector and have solutions to help you.

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Or contact:
Ian Oakley Smith
020 7212 6023
ian.oakley-smith@uk.pwc.com

Charity Finance Group

Charity Finance Group's (CFG) vision is to inspire the development of a financially confident, dynamic and trustworthy charity sector. CFG works with finance managers to enable them to give the essential leadership on finance strategy and management that their charities need; promoting best practice in charity finance, driving up standards, campaigning for a better operating environment and ensuring every pound given to charity works harder. CFG has more than 2,200 members, and collectively our members are responsible for the management of over £19bn in charitable funds.

For more information, please see

www.cfg.org.uk

Or contact:
Anna Bloch
Policy and Public Affairs Officer
policy@cfg.org.uk

Institute of Fundraising

The Institute of Fundraising's mission is to support fundraisers, through leadership, representation, standards setting and education, to deliver excellent fundraising. Members are supported through training, networking, the dissemination of best practice and representation on issues that affect the fundraising environment. The Institute of Fundraising is the largest individual representative body in the voluntary sector with 5200 Individual members and 340 Organisational members.

For more information please visit

www.institute-of-fundraising.org.uk

Or contact:
0845 402 4771
policy@institute-of-fundraising.org.uk

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