Managing in the 'new normal' – adapting to uncertainty

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

Views of charity finance professionals and fundraisers.

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

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Foreword

"In our last report in April 2012, we introduced the concept of managing in the 'new normal' and, nearly 12 months on, the characteristics of this 'new normal' remain relevant and are likely to continue for some time."

We are pleased once again to have collaborated with the Charity Finance Group and the Institute of Fundraising to produce our sixth survey report. These reports have charted the progress of the charity sector from the immediate aftermath of the global economic crisis in December 2008.

For the first few years, the title of the reports was 'Managing in a Downturn', reflecting the fact that the charity sector was experiencing continued pressure on income, even after the recession had concluded. In our last report in April 2012, we introduced the concept of managing in the 'new normal' and, nearly 12 months on, the characteristics of this 'new normal' remain relevant and are likely to continue for some time. In this context, there are perhaps now some pleasing signs that charities are adjusting to this environment and importantly that morale within the sector may be improving as people become more used to operating within it.

We hope that this latest survey report will continue to provide assistance and support to charities looking to find sustainable solutions in what remains a challenging economic and legislative context.

Ian Oakley Smith
Director
PwC

Each time I write the managing… introductions I'm prompted to reflect on the events of the previous year, and each time it astounds me to think of what the sector has faced.

In March 2012, as the last report was going to press, CFG and a number of other sector bodies were challenging the Government's 'charity tax'. Since then we've also seen a package of new austerity measures, Gift Aid developments and the introduction of pensions auto-enrolment. Throw the UK's AAA credit rating downgrade and the double (plus the threat of a triple) dip recession into the mix and the turbulence experienced by the sector and those it supports looks set to continue.

Yet, encouragingly, each time I review the findings I'm impressed by the resilience and dedication demonstrated by charities during challenging times. Some are making radical adjustments to their funding or structure, others are knuckling down to focus on maintaining high-quality core services, but in spite of this the one constant is the remarkable commitment to supporting beneficiaries.

We are delighted to be able to team up with PwC and the Institute of Fundraising to produce this report, which provides valuable evidence to support 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 share their thoughts.

Caron Bradshaw
Chief Executive
Charity Finance Group

Now into its sixth year, the results of the Managing in a Downturn surveys continue to provide valuable insights into how charities are responding and adapting to the economic reality.

The results of this year's survey indicate that charities and fundraisers continue to face difficulties: the fundraising environment remains tough and many expect it to get even tougher in the coming twelve months; the squeeze of falling statutory funding and increased demand for services that we highlighted from last year's report, look set to hold.

However, within this challenging environment I am pleased to see the continued signs that our sector has the resilience and determination to succeed and is continuing to invest in both existing and new forms of fundraising, by far the most common strategy for charities to weather the economic storm.

There are also indications that donors are adapting to the environment, with fewer ceasing to donate to their favourite charities compared to a year ago. Fundraisers are reporting that the financial worries of donors are less of a concern than previously, and with generally healthy levels of staff morale also reported, charities can rightfully feel more optimistic about the year ahead.

As ever, it is important that the Government does everything it can to support the work of charities and fundraisers. We know that those charities that have invested in fundraising over the long term are riding the economic downturn most successfully.

The IoF's 350 charity members brought in over £6 billion last year in voluntary income towards charitable causes (2012 Fundraising Index). They know that investment in fundraising works. At the same time many small charities struggle to make that investment. That is why it is so important to maintain Government support and investment in fundraising training for these small charities, so that they can continue to provide and develop services for vulnerable communities.

Peter Lewis
Chief Executive
Institute of Fundraising

Key findings

As tough economic conditions become the 'new normal', this latest survey instalment shows evidence of continued stresses on charities – more are taking bold steps which to many would have seemed unthinkable in better times.

However, this year there are encouraging signs of improvement. Some income sources have seen an uplift and generally charities are optimistic for the future of their charities. For us, this begs the question: Is the worst over or are charities simply adjusting to this 'new normal' and becoming acclimatised and accustomed to economic uncertainty?

What has the 'new normal' meant for charities during 2012?

Year-on-year **increases in demand for services have continued**, with ***67%*** of respondents reporting an increase during 2012 and ***72%*** expecting a higher demand for services in 2013.

Of those facing increased demand, only a quarter were sufficiently resourced to step up and provide additional services. ***63%*** **were having to cut back in other areas or stretch existing resources further**. Charities reported unavoidable changes to their services as a result of being so stretched.

Despite the obvious challenges, **respondents were more upbeat about the performance of income streams** – all fared slightly better than expected during 2012, and this is expected again in 2013. However there were reported falls in corporate, trust and public sector funding – the latter having the largest drop.

Charities cited public sector funding, trusts, Lottery and foundations, and trading as their **most important income sources**. However public sector funding saw a ***7%*** drop since last year in those naming it as a major income source.

Government policies have not provided the support needed: ***58%*** of charities reported Government measures had a negative impact on levels of funding and ***52%*** reported a negative level, overall. Only ***7%*** reporting an impact said that it was positive.

Fundraising remains challenging: ***93%*** of fundraisers say the fundraising climate got tougher during 2012 and ***89%*** expect their jobs to get harder in 2013. While donor attrition improved slightly, securing new donors was much harder, with a decline in major donors in particular.

As ever, charities have taken bold steps to adjust and ensure they can continue to operate effectively.

This survey showed that…

85%

were exploring new fundraising options

63%

are considering or planning to draw on reserves

69%

had undertaken collaborative activity with others, most commonly in the form of joint programmes or service operations

50%

had taken steps to reduce wages and salary costs. Of these nearly one in three had a restructure and a quarter had made redundancies

55%

had increased trading or social enterprise activity since the start of the downturn.

21%

had merged or were considering merging with another charity

However – despite the fanfare around it, there was low appetite for social investment products – **79%** of charities said they had not even considered it. While not surprising given the market's infancy, we were more surprised to see that there was even less enthusiasm for more mainstream forms of finance, such as loans.

So what does 2013 hold in store?

Many are planning bold steps – **39%** plan to increase trading, **64%** are expanding fundraising activity and **23%** to make redundancies.

And positively, mood and morale is good – **46%** reported an energised or optimistic team and, despite ongoing challenges, **61%** of respondents were optimistic for the future of their charities – a substantial increase from last year's survey.

Introduction:
The developing political and economic context

What is the 'new normal'?

In last year's report we shifted focus away from managing in a 'downturn' and alluded to the economic conditions being the 'new normal', an environment characterised by sustained weak growth and consumer spending, volatile inflation and uncertainty. For charities, this translated into a 'perfect storm' of squeezed income, rising costs and increasing demand for services, which has now become a familiar mantra when discussing the state of the sector.

Our assessment of last year's results was that the charity sector was in the middle of a major reshaping, adapting to this new normal and the uncertainty it brings. The stark financial and fundraising challenges being experienced by charities had meant more were considering merger, utilising reserves and making redundancies – all bold steps which to many would have seemed unthinkable in better times.

2012 – the political and economic backdrop

The uncertainty that has plagued the economy since the financial crisis showed no sign of abating in 2012. As the Eurozone remained in a protracted state of crisis and the US teetered nervously on the verge of their 'fiscal cliff' for most of 2012, the UK entered into a double-dip recession, emerging only in the third quarter, in part due to the boost from the Olympics. The tepid recovery was topped off by a 0.3% contraction in the economy at the end – opening up the possibility that the UK could experience a triple-dip recession if negative growth continues into the start of 2013, and prompting a downgrade of the UK's AAA credit rating.

Policy-wise, the UK stuck to its course of austerity, with further departmental and welfare cuts announced in the Chancellor's autumn statement – the latter expected to amount to £3.7bn by 2015-2016. And politically, the Government's Big Society agenda – previously one of its flagship policy programmes – declined significantly in prominence, despite a number of initiatives designed to support the sector including the introduction of ATM giving and improvements to the administration of Gift Aid.

Within the charity world, research has painted a mixed picture of 2012: In a survey[1] of the public's giving behaviour respondents reported a 20% real terms drop in donations between 2010-11 and 2011-12, while other research has suggested that giving remains constant. The profile of volunteering was raised significantly during the year, thanks to the Olympics' 70,000-strong army of Games Makers. While it has been reported that more people have been inspired to give their time as a result (the Cabinet Office's Community Life Survey reported that the number of people volunteering was up), it's too early to tell whether the Olympics has left an enduring legacy strong enough to sustain a long-term increase.

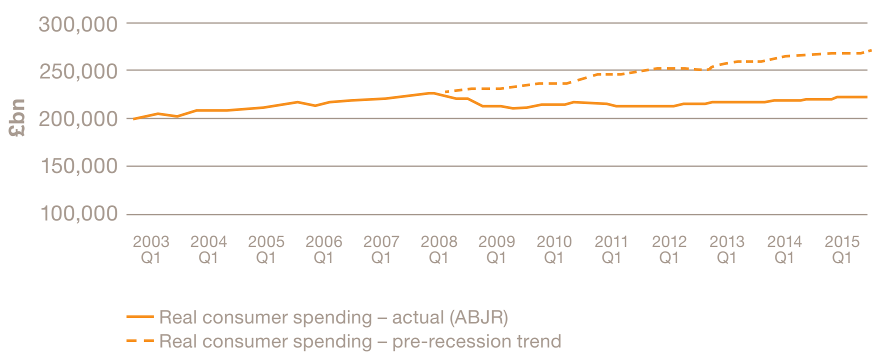
[1]CAF and NCVO, 'UK Giving: An overview of charitable giving in the UK, 2011/12'.

Consumer spending during the recession

In our first Managing in a Downturn report in December 2008, we provided a short commentary on the economic context. We looked at consumer spending as a very broad proxy for charitable giving and suggested that the experience of the previous major recession in the early 1990s was that consumer spending had taken over three years to return to pre-recession levels. As a result, we cautioned that there would be a significant lag between an economic recovery in terms of GDP and a recovery in consumer spending, and therefore, charitable giving.

With the benefit of hindsight, we can now look at consumer spending since the start of 2008. The chart below suggests that consumer spending in real terms remains well below pre-recession levels and is not forecast to return to such levels until 2015, suggesting that the equivalent period for recovery in consumer spending will be at least seven years in total since the recession. While public donations are only a part of overall charitable income, this analysis supports the 'new normal' of sluggish growth and fairly static available disposable income.

Real consumer spending



So what has this 'new normal' meant for charities?

Unsurprisingly, this latest survey instalment shows evidence of continued stresses on charities – the fundraising climate is tough, demand is up and merger remains on the cards for a fifth of organisations.

However, encouragingly there are signs of improvement – some income sources have seen an uplift and generally people are optimistic for the future of their charities. While positive, we'd be reluctant to say the tide is changing and declare that things are on the up. Without wanting to sound too pessimistic, it does leave us wondering: to what extent are the clouds shifting and to what extent are charities simply adjusting to this 'new normal'?

Is anxiety softening because those that have hit crisis have addressed it and are now just accepting poorer conditions as the norm?

Of course, it's also worth remembering that survey responses have come from those charities that have so far weathered the storm or have started up during the downturn. This survey won't capture the charities that previously reported difficult times and who are no longer around today.

The debate over the state of the sector won't be ending anytime soon, so to avoid going over now-familiar ground we have honed in on a few other key areas where the charity sector seems to be progressing and evolving rapidly to gain additional insight. These are impact measurement, social investment and trading. Fascinatingly, 55% of respondents have increased trading activity since the start of the downturn. However, while charities are tentatively exploring social investment options, it appears that some deep-seated issues with repayable finance will have to be addressed before the market can flourish.

As ever, we have been impressed by the motivation and dedication we've seen from charities. The survey results show just how committed people are to making things work for their charity and beneficiaries – by exploring new types of fundraising, cutting costs, undertaking collaborative working and proactively seeking out solutions that work for them.

Part 1: The current environment

The year 2012 was rocky for the relationship between the Government and the charity sector. With the Big Society brand's declining prominence, the Government further unsettled charities by announcing plans to limit tax reliefs for donors on charitable donations in Budget 2012. After a period of vigorous campaigning by the sector the Government backtracked.

Key findings

- Respondents were underwhelmed with Government policies. **58% reported that moves by Government had resulted in a negative impact on levels of funding** during 2012, and **53% reported a negative impact overall**.
- Despite introducing a package of measures to support the sector and encourage giving, **only 7% of those who reported an impact from Government measures said it was positive**.
- The year-on-year **increases in demand have continued**, with 67% reporting an increase in demand during 2012 and 72% expecting an increase during 2013 – broadly the same proportion as last year.
- Of those facing an increase, while a quarter were resourced to meet the additional demand, **63% were cutting back services to meet demand in other areas or having to stretch existing resources further**.
- **Public sector funding, trusts, Lottery and foundations, and trading continued to be reported as the most important income sources**, although **public sector funding saw a slight decline (-7%)**.
- Promisingly, our anxiety index suggests that there has been some **alleviation in all income streams**.
- Most **income sources appear to be showing some signs of recovery** and even income from the public sector is declining at a lower rate.

Government commitment and support to the sector has continued: ATM giving has been enabled in around 12,000 cash machines, new tax incentives (in the form of a lower rate of inheritance tax for high-net-worth individuals, and when leaving pre-eminent items to the nation) have been introduced and a number of Gift Aid measures are in the pipeline, such as the Gift Aid Small Donations scheme, online filing and improvements to the administration of Gift Aid in charity shops.

Perhaps more notable are the policy developments related to commissioning of public services. Government departments and local commissioners are paying closer attention to service outcomes including increased use of ‘payment by results’, and there is a growing shift in focus from remedial to preventative interventions in tackling social challenges.

Arguably, charities that have been tackling these issues for many years are well-placed to respond to new contract opportunities at a local and national scale. The open public services agenda aims to create a level playing field for charities and other ‘non-traditional’ providers, and it is hoped the new Social Value Act will better allow those organisations to differentiate themselves from private sector competitors.

Other measures aimed at addressing market failures relate to access to finance for charities. For example, the creation of Big Society Capital, increasing the supply of social investment capital in the UK, and in moves to support greater use of Social Impact Bonds.

Charities, however, are still reporting problems as a result of Government policies outside of these areas.
Many charities are finding themselves stretched as beneficiaries are affected by changes to welfare, in particular with the move to Universal Credit, as well as experiencing the brunt of cuts and other problems with delivering public services themselves.

Pensions’ legislation too, remains in urgent need of reform as thousands of charities are financially damaged by the restrictive rules associated with multi-employer schemes.

We asked respondents to assess their experiences of Government policies, as well as providing a snapshot view on how demand and the performance of various income streams had changed.

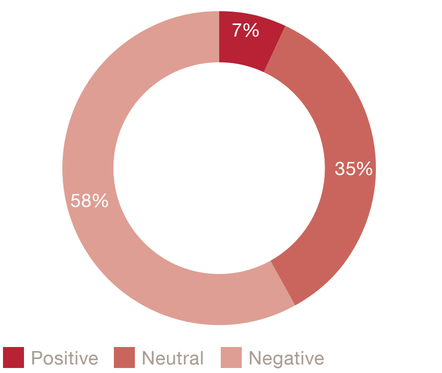
Assessment of Government policies

Taking everything into account, 53% of respondents who reported being affected by Government policies said that overall, they have had a negative impact on their charity in the past 12 months. 40% said the effect was neutral, but perhaps most significantly, only 7% reported a positive impact.

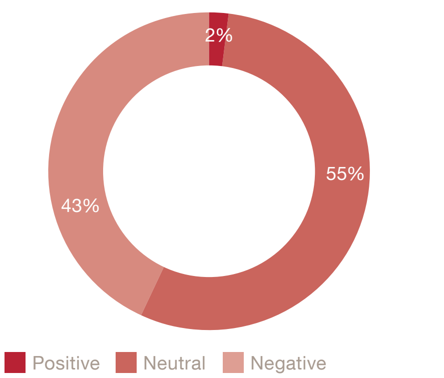
58% reported that Government policies had a negative impact on levels of funding.

How would you describe the impact Government policies have had on your charity in the past 12 months?

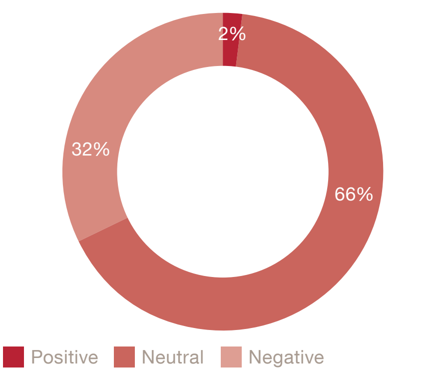
On levels of funding



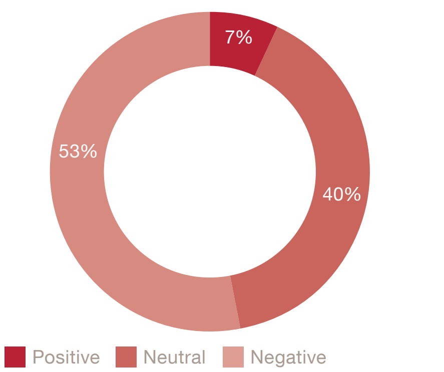
On terms of funding



On levels of monitoring/administration



Overall impact on charity



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So what was good and what was bad? We asked respondents to provide the reasons for their answers – below are some of the common themes.

Changes to Gift Aid

"Gift Aid rules [are] becoming more complex and time consuming to adhere to."

"Major positive = new Gift Aid regime in retail."

Changes to welfare

"Impact has been on policy relating to benefits and therefore this has meant more people asking for help."

"The introduction of ESA has had a big impact on our clients who have learning disabilities as we have had to give extra support to them to complete forms etc."

Changes to Government funding

"More short term funding with short application deadlines and detailed monitoring requirements."

"We've been fortunate to secure similar levels and terms of funding, but the main impact is on increased levels of admin & monitoring which has had an impact in some offices."

"As soon as the current Government came in, they closed lots of quangos. Some were actually very worthy and provided us with vital funding. We're struggling now and have had to cut staff."

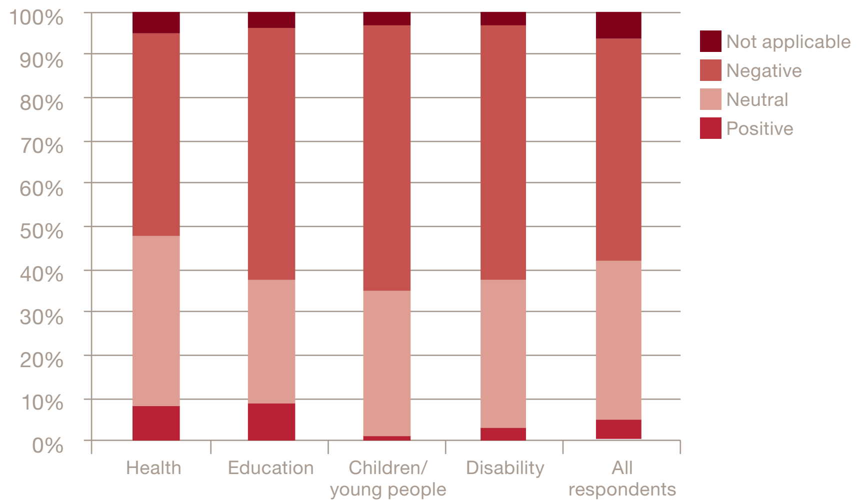
Other

"Changes for VAT on building projects has had negative impact on future plans."

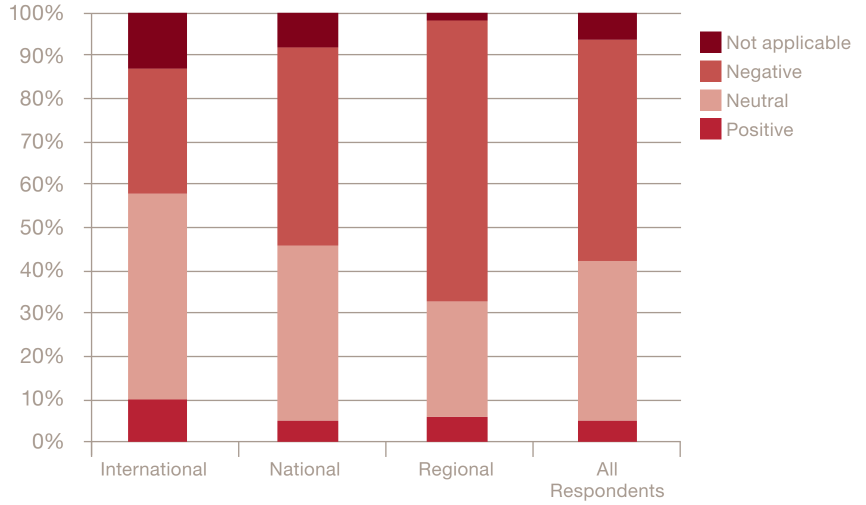
"Government rhetoric on involving third sector not matched by actions (Work Programme)."

Interestingly, those respondents in the health and education sectors were somewhat more positive than those working for children and people with disabilities. In addition, international charities were more positive than those operating nationally, which were in turn more positive that those operating regionally.

Proportion of responses by sector



Proportion of responses by geography



Squeezed in the middle: The continued increases in demand

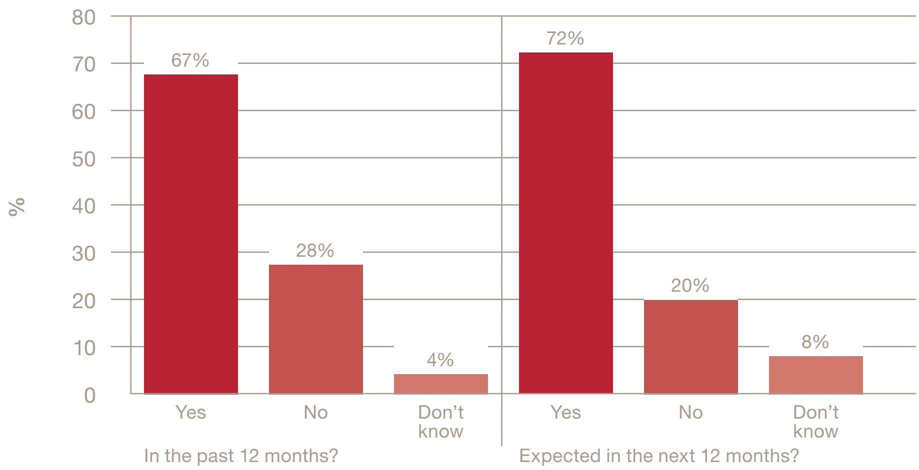
Perhaps one of the most telling findings about the state of the sector is the year-on-year increases in demand. This year, 67% experienced an increase in demand for their services in the previous 12 months and 72% expect an increase during 2013. Interestingly, expectations in the previous survey almost perfectly matched up to the reported reality this year – in 2011-12, 70% expected an increase and 67% reported an increase a year later.

Responses to this question varied slightly by charity type, with education charities experiencing less of an increase. Also, regional charities were seeing a higher demand than national charities, with international charities seeing an even lower increase in demand.

For some charities the increase in demand isn't necessarily a bad thing. It's taken as evidence that their work is valued and viewed as an inevitable effect of becoming increasingly well-known, rather than a reflection of increasing societal needs. However, for many charities this isn't the case and to have so many experiencing an increase will clearly stretch resources. Many respondents alluded to the cuts to welfare (more of which were announced in the 2012 autumn statement), suggesting this rise in demand will continue on an upwards trajectory.

Has there been an increase in demand for your charity's services?

2012-2013



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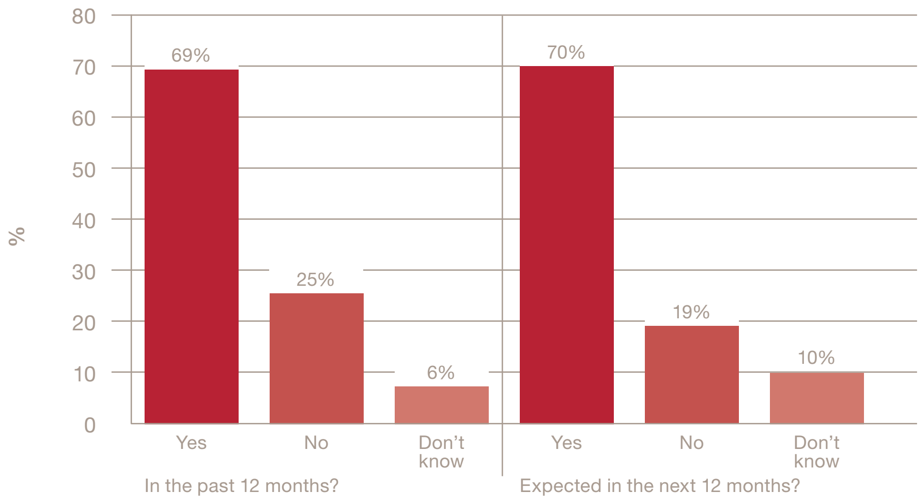
2011-2012



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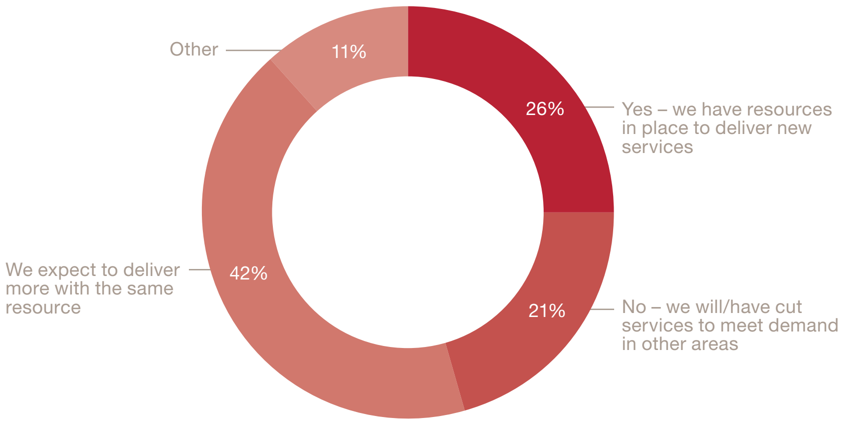
> *"We are already working at capacity but cannot turn people away. We are having to look at new ways of working [which is] not a totally negative thing."*

A critical aspect of the increase in demand is, therefore, whether charities actually have the capacity to manage the additional need for their services. Approximately a quarter had the necessary resources in place to manage this increase, but most (63%) were either cutting back services to meet demand in other areas or simply expecting to stretch existing resources further.

Treating the symptoms rather than the cause?

The responses from charities indicated that the increases in demand are resulting in real changes to the services they deliver. One charity said "we will help more people in crisis but we will not be able to work with them to sustain outcomes", and another reported that cuts to benefits and local advice provision "is giving us a more complex case load to manage, which is having an impact on our service delivery and successful outcomes."

If YES, are you sufficiently resourced to meet this demand?



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Responses from those who answered 'other' included: *"We will try to secure more resource to meet demand although in a shrinking pool of overall resource we know we are robbing Paul to pay Peter" and "We have had to dig into our reserves for the past 4 years and will do so again in the next 12 months."*

CASE STUDY:
LEAP – turning the challenge of increased demand on its head

LEAP's aim is to help improve the social and economic well-being of individuals from disadvantaged backgrounds, by helping them to access employment and education opportunities.

Like many charities in their area, LEAP has suffered from the changes in the way employment outcomes are commissioned, with the closing of the London Development Agency, and the challenges that many charities face operating as subcontractors under the Work Programme. In this context, the economic environment has meant that they have never seen more demand for their support in the North London area.

LEAP has turned this demand challenge on its head in the development of a new proposition for corporate clients. 'Social Recruitment' is a new service they are offering to large London-based private sector firms looking to access new and diverse pools of talent, many of whom also want to support socially disadvantaged groups. While in the early stages, the future looks promising that this new revenue stream will enable them to continue to meet the growing demand for their services, at a time when public sector funding remains uncertain.

"Changes to benefits have meant more people asking for help. This is positive and negative – it's what we are here to do, and we can show need more clearly. However, it's bad that more people need us."

Income

The changes to charity income streams and charities' anxiety over each of these have been a reliable barometer for the various pressures affecting society.

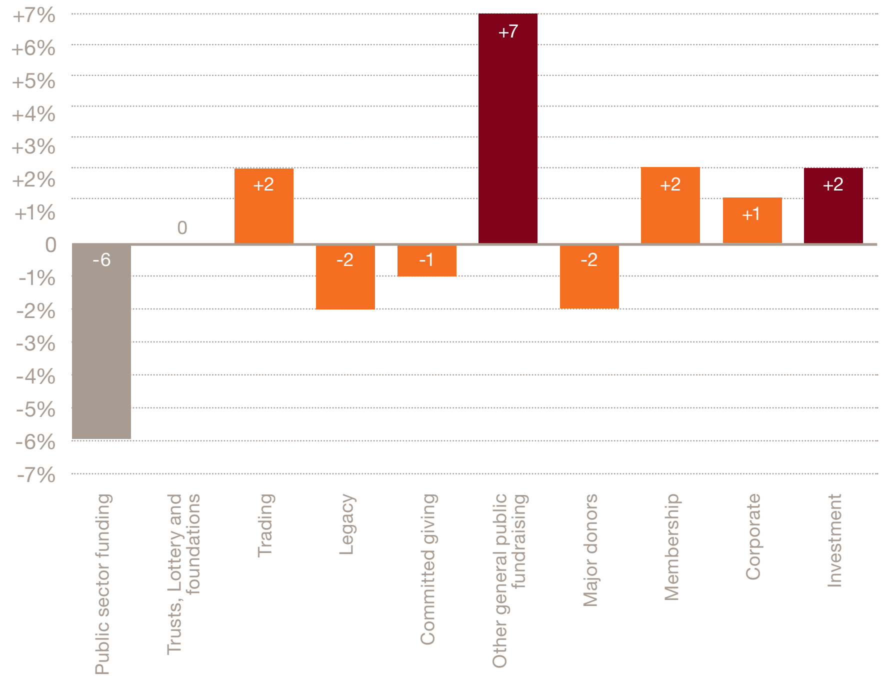
In the aftermath of the peak of the financial crisis corporate funding saw a sharp decrease, and similarly, public sector income did the same following the October 2010 Comprehensive Spending Review.

We have asked charities to indicate which three sources of income they consider to be most important. This has changed very little since last year; however, as we expected, public sector funding saw a 6% decline in the number of respondents citing it as one of their most important income sources, and other general public fundraising saw a 7% increase. This indicates that charities are shifting their focus in the face of falling public sector funding, and diversifying their fundraising activities.

Which are your most important sources of income?
(N.B. respondents could select up to 3 options)

Income source	2011-12	2012-13	% change
Public sector funding	48%	42%	-6%
Trusts, Lottery and foundations	37%	37%	0
Trading	29%	31%	+2%
Legacy	23%	25%	-2%
Committed giving	22%	21%	-1%
Other general public fundraising	20%	27%	+7%
Major donors	16%	14%	-2%
Membership	13%	15%	+2%
Corporate	12%	13%	+1%
Investment	11%	13%	+2%

Most important sources of income: change since last year



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Actual vs experienced income: The 'anxiety index'

In each of our previous reports, we have tried to compare the experiences and expectations of respondents regarding their income. We have asked each respondent to state whether their income (in each of the major income streams) has increased or decreased in bands of 0-15%, 15-30% and >30%, or whether it has stayed the same. From these answers, we have prepared a weighted average, which we have called our 'anxiety index', to aid comparison. A score of greater than 50 indicates that income has decreased on average.

The first chart below compares the actual experience of respondents in this survey, actual experience in the previous survey and respondents' forecast in the previous survey.

The high position of the yellow (2011 actual) line indicates that the results for this survey are better than both the actual experience in the previous survey and that forecast by respondents in all income streams. However, it should be noted that a fall in income continues to be reported in corporate; trust, Lottery and foundations and public sector funding. The latter, unsurprisingly, remains having the highest reported fall in income.

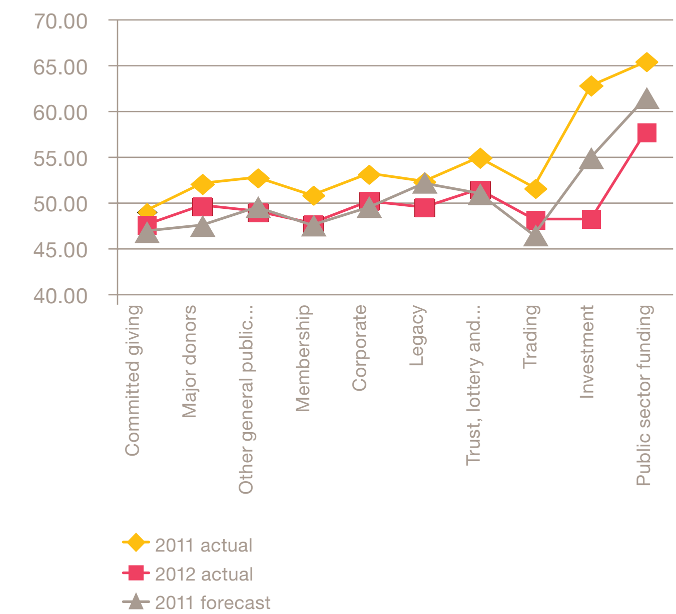
When we look at the differences by type and size of organisation, the only signficant variation is in public sector funding. Here it is noticeable that charities in the health sector and those operating internationally have fared better than others, while those in education have seen higher reductions in income.

Furthermore, small charities have experienced significantly higher reductions in income than large or medium-sized charities.

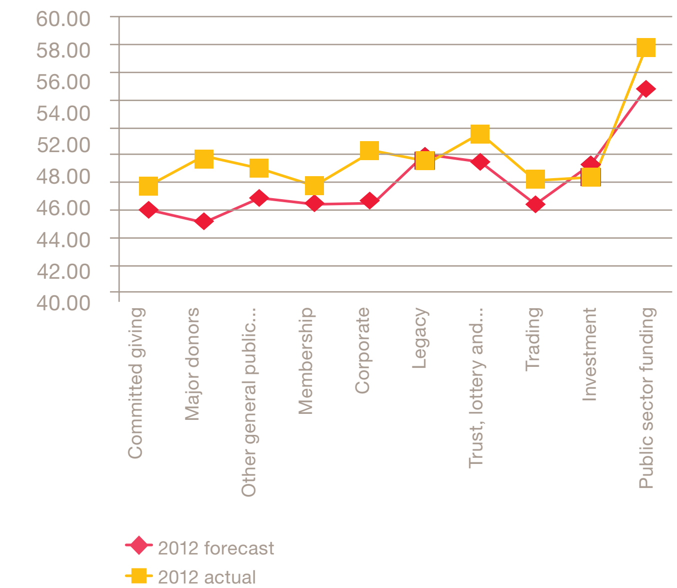
It is also of interest that income from trusts, Lottery and foundations has reduced for smaller charities, relative to others, perhaps indicating a move to a more cautious approach from those funders.

In addition, respondents are now forecasting a continued alleviation in all income streams, with all income streams other than legacy and public sector funding predicted to increase on average in the coming 12 months. The forecast changes to income streams in the next 12 months follow a similar pattern to the actual experience, with broadly similar expectations for public sector income and trusts, Lottery and foundations as described above.

Anxiety index: experience and prediction 2012 vs 2011 (higher score = greater anxiety)



Anxiety index: 2012 actual vs forecast



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Part 2: Response to the current environment

This section will explore different actions and strategies charities have taken in the past year and since the start of the economic downturn. While the economic conditions will have affected charities to varying degrees and in different ways, it is fair to say that very few will have been able to operate business as usual and in exactly the way they did before the economic downturn.

As well as assessing the areas charities have traditionally explored to adapt to external pressures, such as fundraising and reviewing reserve levels, this year we have also sought to understand approaches to more 'innovative' or new forms of activity, such as use of social investment products and trading and social enterprise.

As the results in this section show, some charities have adapted rapidly, seizing these new opportunities, while others have taken a more conservative approach, focusing on continuing to provide their services at a consistent, high level of quality. As one charity said, "emphasis has been placed on 'innovating' – why not on maintaining existing tried and tested, quality services? New does not always mean better."

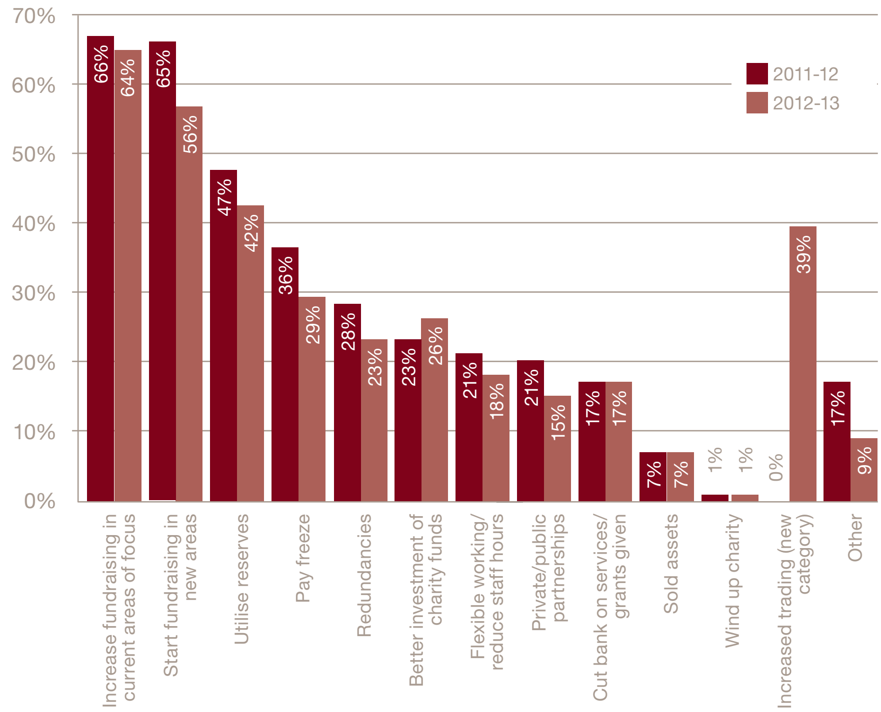
Key findings

- Respondents continue to favour fundraising over other strategies when times are tough. **64% of respondents planned to increase fundraising in current areas** during 2013, and **56% were going to explore new fundraising options**.
- However, large numbers of charities were also considering other bold steps: **42% planned to use reserves, 29% to implement a pay freeze and almost a quarter (23%) indicated redundancies were on the cards. And 21% of charities were considering or had merged** in 2012.

What steps do charities plan to take?

To obtain a snapshot of the type of actions charities plan to focus on, we asked respondents which steps they planned to take during 2013. Strategies planned were broadly the same as last year, with increasing and expanding fundraising remaining the most popular courses of action, although as a whole, fewer charities were taking any of the steps outlined in the table. This year we introduced 'increase trading' as a new category, which almost 40% respondents indicated they were planning to do.

Please indicate which of the following actions your charity plans to take in the next 12 months (Please tick all that apply)



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Other – included:
'Increase fees to non-LA/PCT funded residents', 'Increase institutional applications for project funding', 'Increase ratio of delivery staff to overheads', 'More use of volunteers. Possible amalgamation of services.' 'Use the premises for alternative activities, like conferences, art shows'

Taking stock

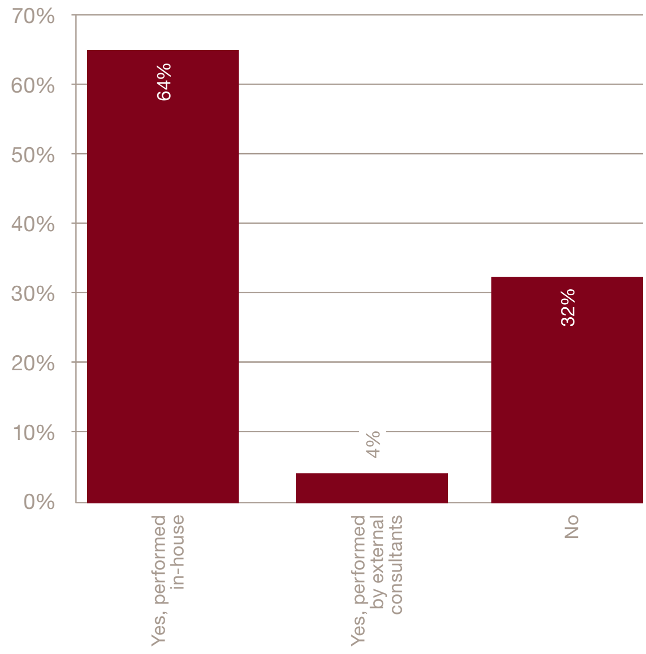
Before proceeding with any actions – or choosing not to take any actions – charities will need to assess their needs, future income prospects and any associated risks to understand how to best respond to pressures.

We asked respondents whether they had performed a formal, strategic review in the past 12 months to better understand how to respond to the economic climate. The majority of respondents – 68% said that they had, with most choosing to perform the review in-house rather than using external consultants.

Promisingly, all but 11 of those who had performed a review had been able to implement some or all of the review's findings (and of those, 6 were due to the review still being a work in progress), showing that doing so is a worthwhile and valuable exercise.

It is rare that investing time and/or money into a strategic review would not be worth it, even when things are going well – the future success of an organisation may depend upon the level of understanding and awareness it has now.

In the past 12 months, has your charity performed a formal, strategic review to understand how best it responds to the difficult economic environment?



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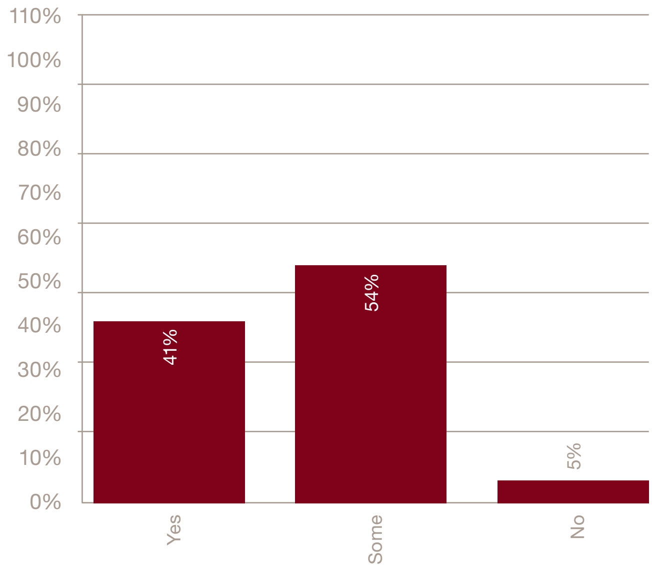
Have you been able to implement or act on the review's recommendations/findings?



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Fundraising

With the economy stagnating, Government funding cuts deepening, and the demand for charities' services increasing, the success of fundraisers has never been so important. With responsibility for securing vital charity income, fundraisers have been at the forefront of how their charities have reacted to the economic environment.

This year there have been various pieces of research into levels of giving, charity income and donor demographics. While each report paints a slightly different picture of the state of giving in the UK, it's undisputed that with the economic outlook still uncertain and disposable income down, fundraisers have their work cut out to make a compelling case and help the public recognise why giving to their cause is so important.

So has the fundraising environment got tougher in the past year? The overwhelming answer from fundraisers is yes – fundraising continues to be a challenge. 93% reported that fundraising got tougher in 2012, identical to last year's results.

This comes as no surprise considering the state of the broader economy, which is bound to have an effect on the fundraising environment. Interestingly, expectations from last year matched up to reality: Last year 94% of respondents expected the environment to get tougher during 2012, and this year almost the same number of respondents reported that it had done so in the past 12 months.

Key findings

- Fundraising continues to be challenging, with **93% of fundraisers reporting that the climate has got tougher over the last 12 months**, and 89% predicting the coming year will be even tougher.
- **Investing in fundraising remains the predominant strategy being used by charities to weather the downturn**. 85% of charities plan to invest in new fundraising methods, 64% plan to increase fundraising in their current areas of focus and 24% of respondents indicated that they will employ more fundraisers over the next 12 months.
- Donor attrition has improved since last year. **14% fewer charities reported an increase in attrition**, which indicates that donors are adjusting to the new economic realities and feel more able to continue to support their favourite charities.

Has the funding environment got tougher/do you expect it to get tougher?

Question	2011-12	2012-13	% change
Has the funding environment got tougher in the last 12 months?	93%	93%	-
Do you expect the funding environment to get tougher in the next 12 months?	94%	89%	-5%

What do you think are the key fundraising challenges?

Challenge	2011-12	2012-13	% change
More competition from other fundraising organisations/charities	80%	81%	+1%
Donors' uncertainty about economic security means less inclination to donate	79%	69%	-10%
Donors having less disposable income	71%	66%	-5%
Higher targets	36%	28%	-8%
Fewer resources/less investment internally	33%	37%	+4%
Other	10%	10%	-

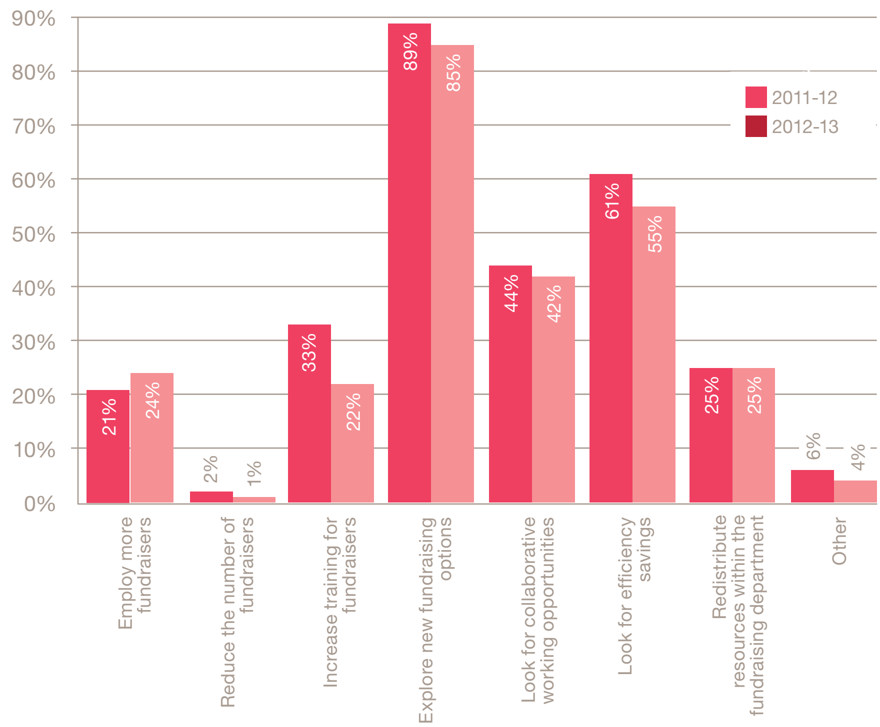
Base: 135

We asked respondents what the key fundraising challenges were, and fundraisers reported similar concerns to last year. Competition from other charities remains one of the biggest challenges, as charities vie for limited pots of funding and donor money. Interestingly, this year donor uncertainty and donors having less disposable income were less of a concern. This could be because, on the part of both fundraisers and the public, apprehension and uncertainty about the economic climate has alleviated as people become acclimatised to conditions which, while bleak, are at least stable.

Other challenges include struggling to boost fundraising activity "we have insufficient own funds to invest in fundraising", "as a small charity being able to successfully raise our profile with less resources" and donor and funder pressures – "so many funders want 'innovation' but our current strategy is 'consolidation'."

It is clear that charities overwhelmingly favour a focus on fundraising over other strategies when income is stretched – as the graph on page 17 also supports. In the coming year 85% of charities plan to invest in new fundraising methods, 24% indicate that they will employ more fundraisers and 64% of charities plan to increase fundraising in their current areas of focus. This year there was a slight drop in the number of charities that plan to invest in increasing training for fundraisers. However, it is important to note that this is only a drop in those increasing training rather than a decline in training overall. This suggests that training for fundraisers is at least staying stable if not actively increasing.

In relation to your charity's fundraising, do you plan to take any of the following actions?



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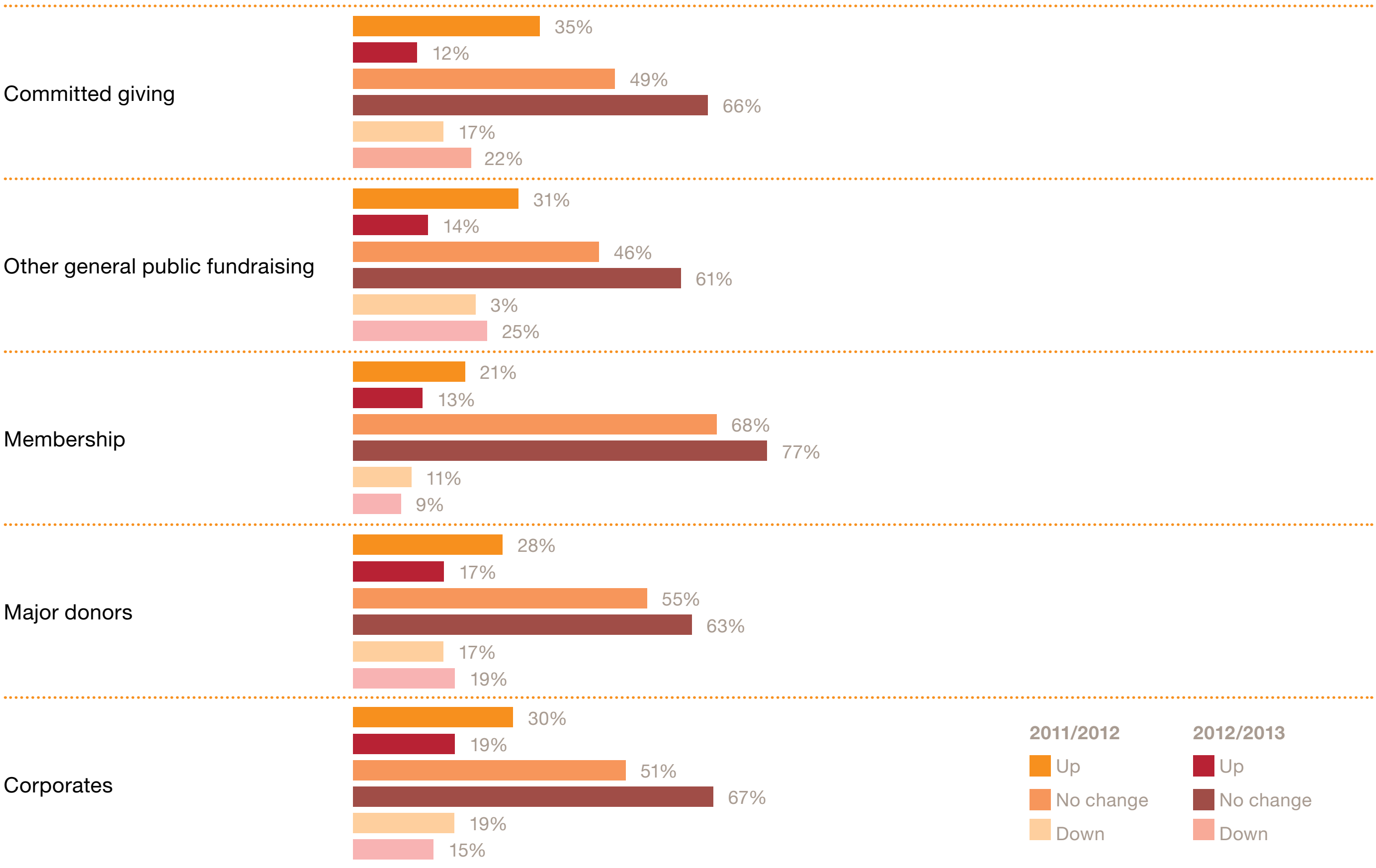
Expert view:
Giving trends in 2012

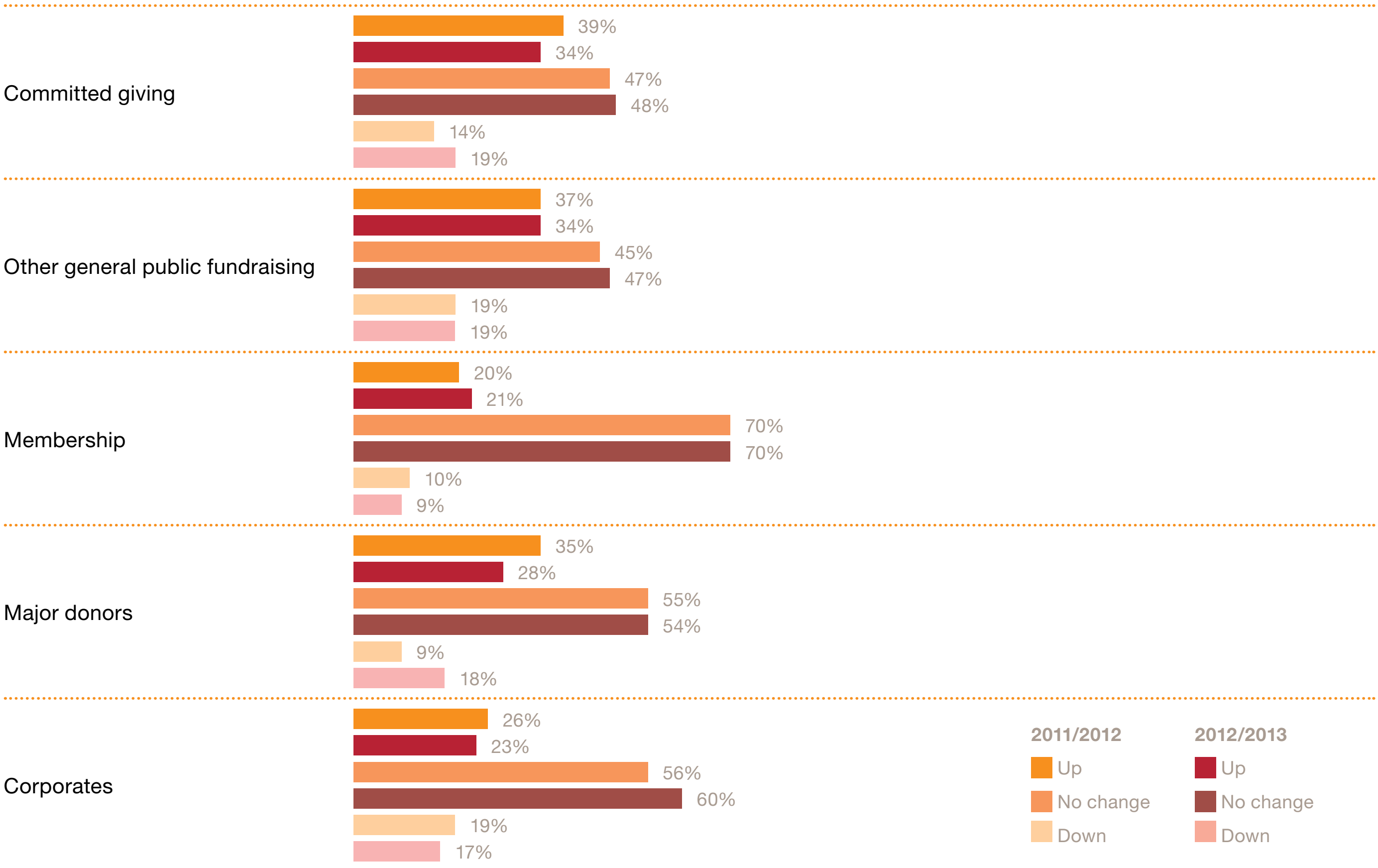
"It is difficult to identify clear trends in giving for 2012, as surveys give different results. What we know from previous UK and US research is that giving does not fall at the same rate as the economy in the short-to-medium term. There are good reasons for this. Spontaneous lower-value giving is related to 'money in the pocket', which falls when incomes drop, or unemployment increases. Larger planned gifts are made from wealth, and less influenced by short-term economic volatility. What we don't know is how the impact of prolonged recession and spending cuts on budgets and savings will affect giving."

Cathy Pharoah
Professor of charity funding
Cass Business School

What has been the change in your average ATTRITION (lost donors) rate in the past 12 months for the following income streams?



What has been the change in your average ACQUISITION (new donors) rate in the past 12 months for the following income streams?



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We asked respondents to report on the number of new donors (acquisition) and the number of lost donors (attrition) across different types of income.

The results for donor attrition are encouraging and show an improving situation: Overall, 14% fewer charities reported an increase in donors ceasing to donate compared to last year (the most significant drops were for committed giving, which fell by 23%, and other general public fundraising, which dropped by 17%). Again, this supports the view that donors are perhaps acclimatising to the new economic reality and are choosing to continue supporting their favourite charities.

The outlook is less rosy, however, when we turn to reported donor acquisition over the last 12 months.

The number of charities reporting an increase in donor acquisition fell by 3%, as did the number of charities reporting a decrease. However, major donors saw the biggest change: 7% fewer charities reported increased acquisition, and 9% reported a decrease.

This indicates a shift in how major donors are contributing to charities, and could have been influenced by the proposed – and subsequently dropped - reform of higher rate tax relief on charitable donations in the Budget 2012.

The other notable change was in committed giving, with a 5% decline in increased acquisitions and 5% rise in those reporting a decline. When considered alongside the attrition figures for committed giving, we can see a situation where fewer donors are stopping their support to charities compared to last year, yet fewer donors are starting to give to new charities. This highlights how important it is for fundraisers to strengthen existing supporter relationships in addition to seeking new donors.

View from a new charity

The Canal & River Trust share their experience of rolling out a fundraising strategy in a less than buoyant economy.

"The Canal & River Trust was formed in 2012 following a complex and protracted legislative process that transferred the assets and business of British Waterways from the public sector to the newly formed registered charity. From a fundraising perspective we could have chosen a more buoyant economy to launch into but, as they say, we are where we are.

The Trust, the guardian of the canals and rivers in England and Wales, has a vision of a sustainable and evolving canal and river network that is a national treasure – accessible to and cherished by all. In order to fulfil this vision we are engaging people in our waterway communities, whether that be through fundraising or volunteering of their time and skills. Our fundraising strategy is based on individual giving and seeks to secure 100,000 regular donors within the first ten years, using a mixture of face-to-face fundraising – significantly on our own land – and digital methods.

Despite the difficult economic climate for fundraising, we have had a good deal of success with almost 3,000 people signing up to make a regular donation by direct debit. We have of course seen some attrition, but have retained well over 80% of them, a result we are attributing at least in part to the recruitment on our own land while supporters are enjoying our product. The economy has of course meant that our fundraising team has had to be more creative in their work – never a bad thing – and this has produced positive results with our interaction with a number of corporate sponsors including Marks & Spencer, who clearly see the value of our canal and river network and engage in volunteer work parties as part of their team-building efforts.

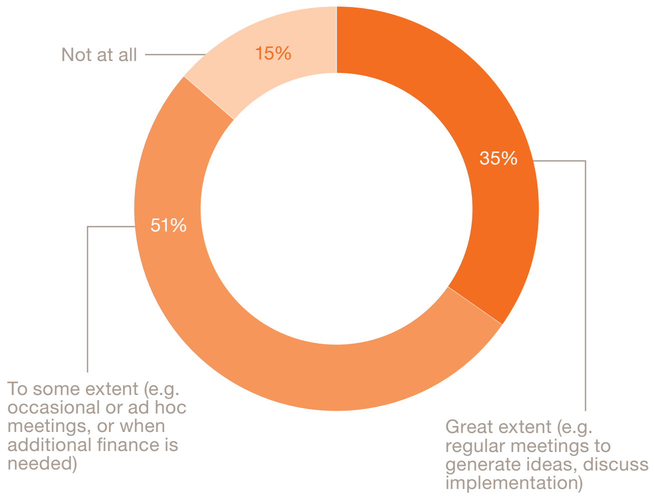
The past six months have seen hard work, many challenges and a great deal of learning as we settle into our new sector. There is, of course, much more to do, but we have had a very positive start and look forward with enthusiasm and a definite sense of optimism."

Finance and fundraising teams working together

A strong partnership between fundraisers and finance is important in good times but absolutely crucial when things are difficult. Devising funding strategies and ensuring the charity is solvent will only work if the two groups work together to identify needs and possible solutions.

Respondents generally reported a good level of engagement between the two teams – only 15% said that there was no engagement at all.

To what extent do finance and fundraising teams work together to consider new ways of financing your organisation?



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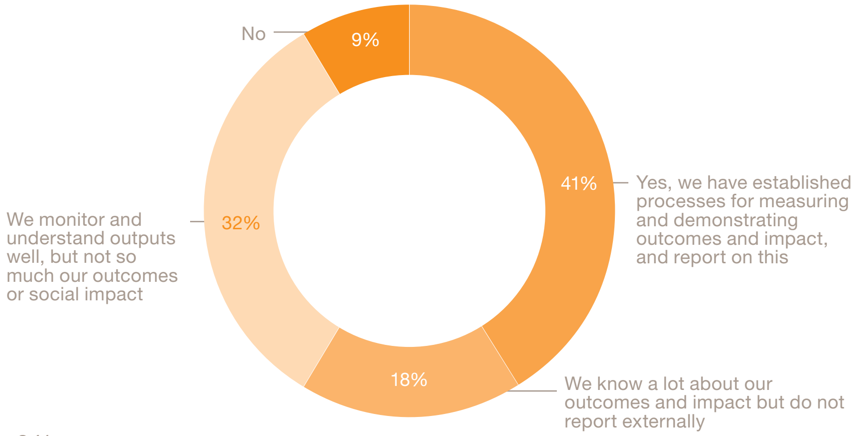
Impact – are funders and donors demanding more?

There is an increasing recognition of the importance of measuring and communicating impact. This means going beyond simply reporting what your charity is doing and instead telling donors, supporters, funders and other stakeholders how it is fulfilling its purpose and making a difference in people's lives. Positively, the majority of respondents reported that they were measuring and taking steps to demonstrate outcomes and impact – in total 59% indicated they were doing so.

Anecdotally we have been hearing that funders and donors are increasingly looking for charities to show they can demonstrate their social impact and the difference they are making. Our findings show some evidence of this trend: While half of respondents have reported no change in focus on impact from donors, 44% reported an increase.

We anticipate that the focus on impact by donors and funders isn't a trend that's going to go away. Measuring and demonstrating your impact won't just improve your standing with stakeholders; it will also help improve the way the entire organisation works together and focuses on a shared goal. We would recommend that any charity that hasn't explored impact measurement, should do so – refer to the Principles of Good Impact Reporting, guidelines written by the sector for the sector, which will support charities on their impact journey.

Does your charity have a strategic focus on measuring and demonstrating outcomes and social impact?



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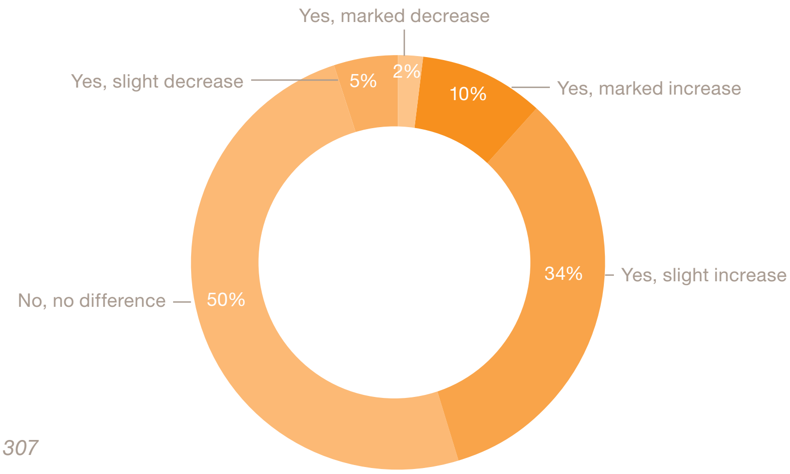
In relation to fundraising, have you observed change in focus on social impact from donors?



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Working together: Collaboration and merger

In good times and in bad, it is always helpful to have strategic discussions about what others are doing in the same space as your charity, what they are doing better and whether there are any opportunities to join up. While not suitable for everyone, effective collaboration or merger can deliver cost benefits, improve the quality of services or help charities reach a more diverse range of beneficiaries.

One of the positive effects of recent years is the fact that more charities than before are open to discussions about how they perform, relative to their peers, and are demonstrating an increased willingness to avoid competition where possible.

Key findings

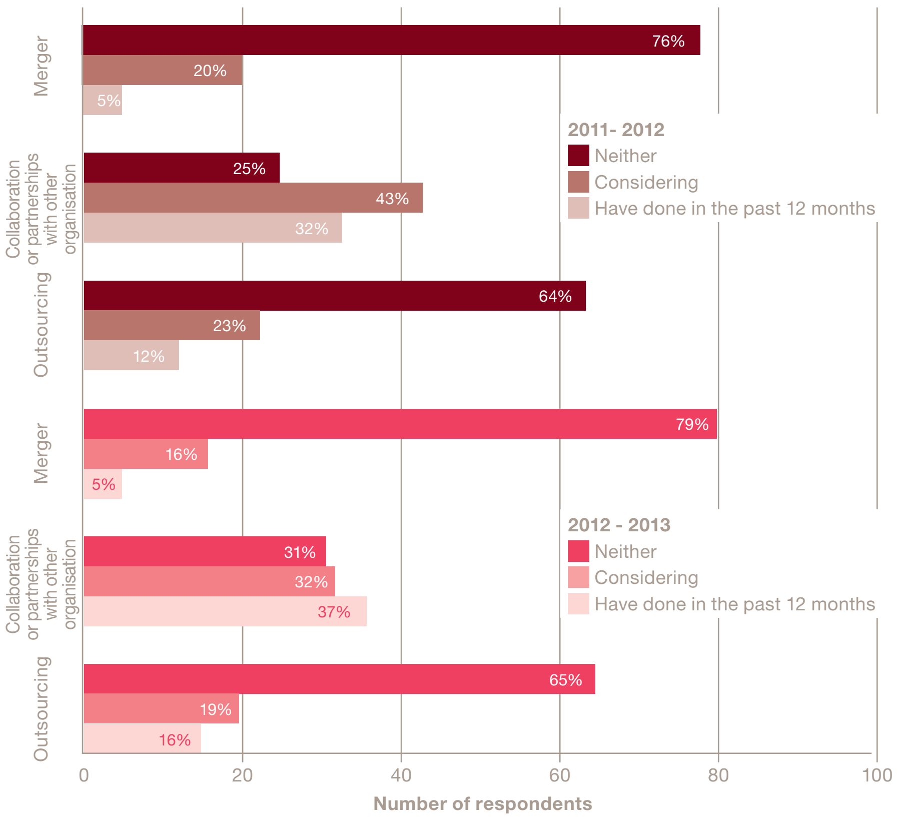
- **5% of respondents had merged during 2012 and 16% were exploring the possibility of merging** during 2013 – down slightly from the one in five considering merger last year.
- While the majority (66%) of charities who hadn't merged said this was simply because they didn't need to, 34% cited other reasons such as a lack of appropriate **merger partners (16%)** or **worries about losing the charity's identity (10%)**.
- Working collaboratively remains a popular activity – **69% of respondents said they had partnered with others or were considering doing so**.
- **Joint programmes or service operations were the most common form of collaboration –** accounting for 66% of joint activity. **Sharing staff or back-office services was least popular**, indicating perhaps that barriers remain, despite measures such as the introduction of the VAT cost-sharing exemption.

While merger can strengthen organisations and the services they provide, the reality is that it's often viewed as a last resort, reserved for times of crisis rather than a prudent, strategic move. One of our headline findings from last year's survey was that 1 in 5 charities was considering merger, a notable increase from the 12% in 2010 and significant for this reason.

This year the number considering merger has dropped slightly, to 16%, although the proportion of respondents who had merged in the previous year was unchanged at 5% (17 charities last year, 16 this year).

Of those that haven't merged, 66% said that they simply didn't need to and 26% said they would consider merger, but hadn't due to a lack of suitable partners, or worries around loss of identity. For charities that have an established brand and reputation built up over the years, merger can be a sensitive topic; however, we would always stress that merger should be explored if in the best interests of beneficiaries. We would also encourage discussions to understand what may be possible, on the basis that charities will learn from the process and may be pleasantly surprised by the outcomes of those discussions. In the event that there are pressures on a charity's balance sheet, the earlier these discussions start, the more likely an effective outcome can be identified.

Please indicate which of the following you are actively considering as part of your planning process, or have done in the past 12 months



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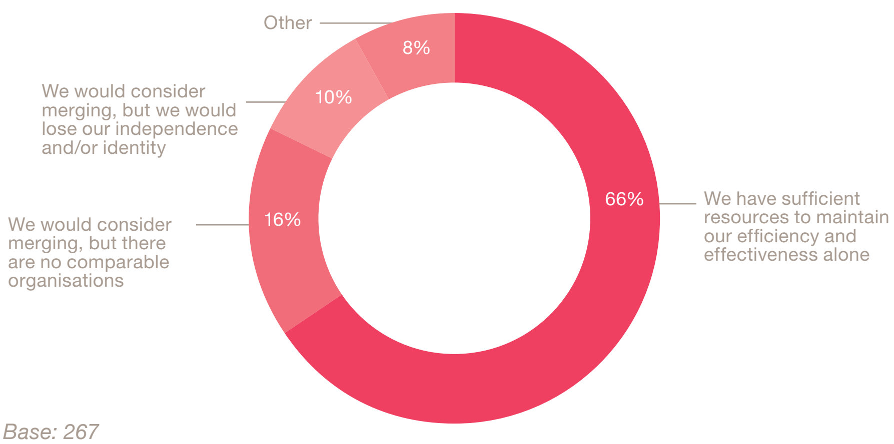
If you HAVE NOT merged or considered merging in the past 12 months, why not?



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Merger – good, bad or ugly?

We asked the respondents that had previously merged what their experiences of the process had been – with mixed responses.

Common themes included:

Staff and board buy-in is crucial:

“It’s difficult to handle the sensitivities of people who have enjoyed ‘ruling the roost’ and now have to lose some influence.”

“The most difficult and underestimated aspect is ensuring that the employees from the smaller organisation genuinely feel welcome and part of the significantly larger organisation.”

In-house expertise is beneficial:

“having access to people in-house who knew how to construct a merger [was important].”

“We had a very good merger experience. This was down to 2 factors: (a) culture and openness; (b) having in-house expertise on how to conduct M&A.”

They aren’t only for times of crisis:

“We merged in 2009 before the financial crisis and not as a response to finances. We have had a period of significant growth after that. Mergers are time consuming and need a lot of work. This has taken its toll on the managers but it has created a strong, focused service delivery organisation.”

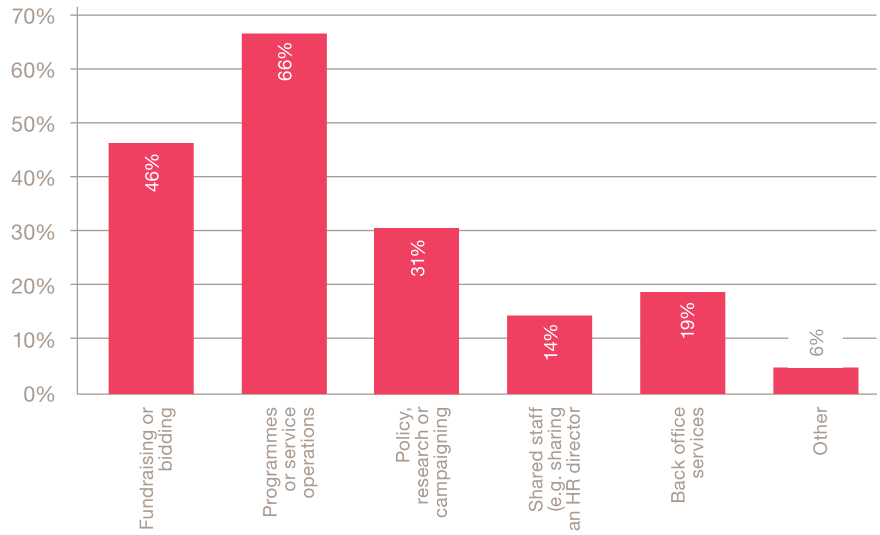
How are charities collaborating?

When it comes to working with others, at the other end of the scale is collaboration – which 69% of respondents said they had either done or were considering. There is a wide spectrum of activities within the collaboration banner – ranging from simple, informal arrangements such as supporting a joint policy campaign to more involved, formalised initiatives like the joint delivery of services.

Joining up on programmes or service operations was the most common area of collaboration, accounting for 66% of respondents' collaborative activity. Sharing staff or back-office services were the least popular (with 14% and 19%, respectively) – the tax implications are often cited as a barrier to this type of working and our feeling here is that the long-awaited VAT cost-sharing exemption didn't deliver all it was hoped to.

When we asked charities who had not merged or considered merging in the past year why they hadn't, 'Other' responses included "[we have a] defined group of beneficiaries not replicated elsewhere", "Why should we?!!" and "We merged before the financial crisis in 2009… [merger] must be for the right reasons and not financially driven."

If you HAVE collaborated or partnered with other organisations, or plan to do so, please indicate the areas/activities of partnership or collaboration (Please tick all that apply)



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People

A charity's most valuable asset is arguably the people who work for it – both staff and volunteers – but also the most common and, in some cases, efficient area to target when cost savings need to be made.

Each year, throughout this series of surveys, a significant proportion of respondents have reported plans to make redundancies (23% this year – see graph on page 17), and other research has shown evidence of fluctuations in employment levels. A recent survey by the Office of National Statistics[2] found that the number of voluntary sector workers had increased by 10% in the past year, although this simply represented a return to 2010 levels.

Key findings

- The economic pressures are clearly taking their toll on staffing arrangements, with **50% of respondents indicating that they had taken steps to reduce wage and salary costs during 2012**.
- Of those that had acted to reduce expenditure in this area, **31% of charities had some form of restructure, 26% had made redundancies and 16% had reduced their number of hires**.
- Despite evidence of staff changes in many charities, the net impact on staff numbers has not been as drastic as could be expected – **73% of respondents said that headcount had stayed the same or increased** during 2012.
- Promisingly, respondents reported that the mood and morale of staff was good: **46% said their team appeared energised or optimistic** – and only 3% reported demoralised colleagues.
- This upbeat mood is particularly pleasing as it is in sharp contrast to last year's survey, where the overwhelming message was that the mood and morale of staff was a real concern.

[2] Office of National Statistics Labour Force Survey 2012.

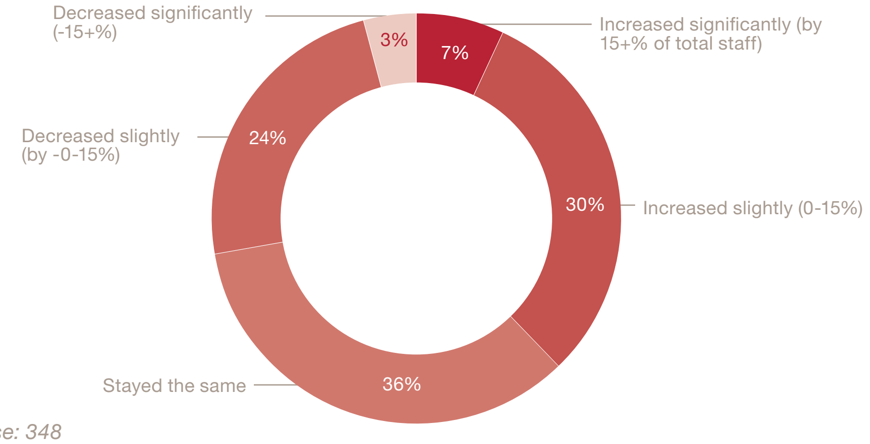
We asked respondents how their staffing levels had changed in the past year. With the categories aggregated there was a near equal split: 37% of charities reported an increase in staff numbers, 36% stayed the same and 27% reported a decrease in headcount.

Despite the slight uplift in staff levels, a significant 50% of respondents had taken steps to reduce wage and salary costs within their organisations in the past 12 months: of those taking action, over a quarter had made redundancies and almost a third had some form of restructure.

Last year one of the overwhelming messages coming from respondents, particularly in open-ended questions, was that maintaining confidence and morale was a major challenge and that economic pressures were really testing staff. In response, we introduced a new question asking respondents to rate the mood and morale of staff – expecting it to reflect last year's position. The results however were surprising. Despite the prevalence of redundancies and restructure, and the strength of feeling last year, the majority of respondents reported that the mood and morale of staff was positive – in total, 46% felt staff were upbeat compared to 18% who thought staff took a more negative view. In addition, it is noticeable that the comments in the open-ended questions at the end of the survey suggest that staff morale is much less of a concern than a year before.

We feel this is a huge testament to the resilience of the sector and the commitment of charity staff. It may be that the emotional connection and commitment many employees have to their work means they can remain more upbeat during difficult times than their private or public sector counterparts. In addition, we observe that there appears to have been much less volatility in the last 12 months than previously. This has perhaps reduced uncertainty, which in turn may have helped staff remain resilient.

In the past 12 months, how has the number of staff employed by your organisation changed?



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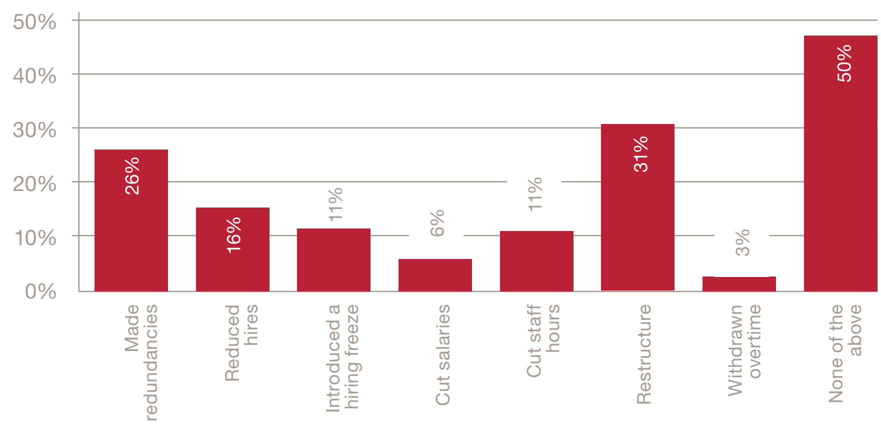
Has your organisation taken any of the following steps in the past 12 months to reduce wage/salary costs? (Please tick all that apply)



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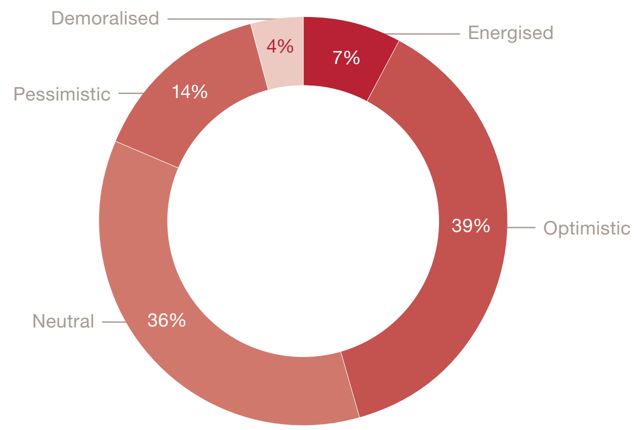
How do you perceive the mood and morale of your team to be?



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Trading

While commercial activity has not traditionally been considered part of the charity space, a significant number of charities now trade – the latest NCVO Almanac[3] showed that 1,793 charities had set up a trading subsidiary, generating £566m in 2009-10 , and 60% of our respondents received trading income. In addition, the 'anxiety index' for trading income has improved from last year to this year and is forecast to improve further.

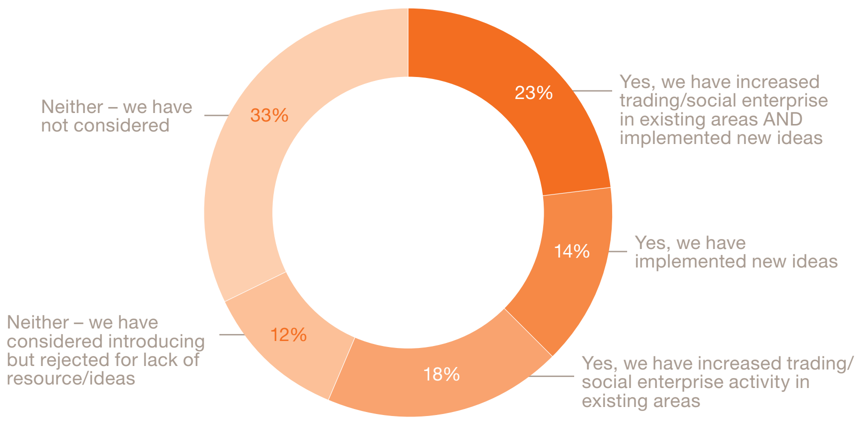
Given its increasing prevalence, we wanted to hone in on trading in this year's survey and asked how many charities had increased trading or social enterprise activity since the start of the downturn. A significant 55% reported that they had, and showed that 39% planned to up this during 2013.

Key findings

- Trading is a key strategy being turned to as a means to generate additional income. **55% of respondents had increased trading or social enterprise activity since the start of the downturn**. This includes 37% of respondents that had implemented new ideas.
- Indications elsewhere in the survey also show the value of trading to charities – **39% plan to increase trading during 2013 and 31% cited it as one of their most important income sources**.

[3] NCVO. 'The UK Civil Society Almanac 2012'

Has your charity introduced or increased trading or social enterprise activity since the start of the downturn?



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CASE STUDY: KCA

Integrating social enterprise with beneficiary support

KCA provides adult substance misuse, mental health and young persons' services across the South East.

Like many charities in their field, KCA has seen greater pressure on traditional income streams and have looked to social enterprise as a potential way to differentiate themselves in the marketplace, with the added bonus of additional revenue creation. One of their early successes – Roots Wood Yard, a timber re-use project – has demonstrated how getting it right can mean not only financial success, but also an opportunity to extend the support and opportunities they provide to their core service users.

As they expand from wood collection and recycling into sales and carpentry projects, Roots Wood Yard is not only providing employment and volunteering opportunities for service users, but also incubating other start-up social enterprises, creating a cycle of opportunities. Recognising this success, KCA is looking to extend their social enterprise strategy with the core goal of creating local employment for not only their own service users, but those indirectly affected by the issues they work to address.

Reserves

While trends in use and the levels of reserves held by charities are interesting, there isn't always an obvious correlation with the health and financial sustainability of a charity. Low reserves don't necessarily mean poor financial health and similarly using your reserves doesn't indicate desperate circumstances – reserves can be used to fund future projects and innovative new fundraising strategies.

However, reserves should be set and reviewed periodically as part of a charity's financial and strategic planning process – therefore, we would expect to see charities adjust their reserves' position to adapt to changing economic circumstances.

Key findings

- Drawing on reserves continues to be a course of action many charities are taking. **39% have definite plans to utilise reserves during 2013**, and a further **24% were considering it as an option**.
- Of those, the **majority were planning to use reserves to maintain services** (49%) or **fund operating costs** (43%) – leading us to question whether some charities' use of reserves was sustainable.
- The level of reserves held by charities had changed little since last year; most **commonly an amount equal to 3-6 months' worth of operating costs** were held in reserve.
- Of those not using reserves, 62% of respondents said this was because they simply didn't need to. However, of those not using reserves approximately **one in four cited reluctance from trustees and one in four a reluctance from management as factors** holding them back – perhaps evidence of an institutional aversion, within some charities, to tapping into reserves.

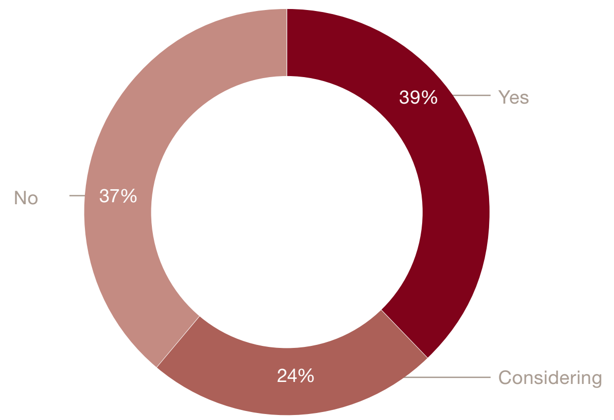
We asked respondents to indicate their levels of reserves, based on how many months they could support core operating costs. However, we recognise that this is a very crude indicator of charities' reserves' position, as holding 'x' months' worth of reserves is in most cases not the most effective way of setting a reserves strategy. As the table illustrates, the level of reserves held by charities has changed very little over the past year.

Level of reserves	2011-12	2012-13
No reserves	4%	4%
Less than 3 months	20%	17%
3-6 months	38%	37%
6-12 months	17%	21%
12-18 months	7%	6%
18 months +	15%	15%

A significant 63% of charities are planning (39%) or considering (24%) drawing on their reserves in the next 12 months – a slight decline on last year when 73% indicated the same (45% a yes and 28% considering).

It appears from the results that charities using reserves predominantly tend to do so when the 'rainy day' scenario kicks in. Most of the respondents planning or already dipping into reserves are using the funds to maintain services or fund operating costs, rather than to finance new initiatives such as a change in fundraising strategy or restructure. Other uses for reserves (22% selected 'other') included using reserves to fund a new CRM system, to diversify and pilot new services, and to cover property costs – either building or moving.

Do you intend to use your reserves in the coming 12 months?



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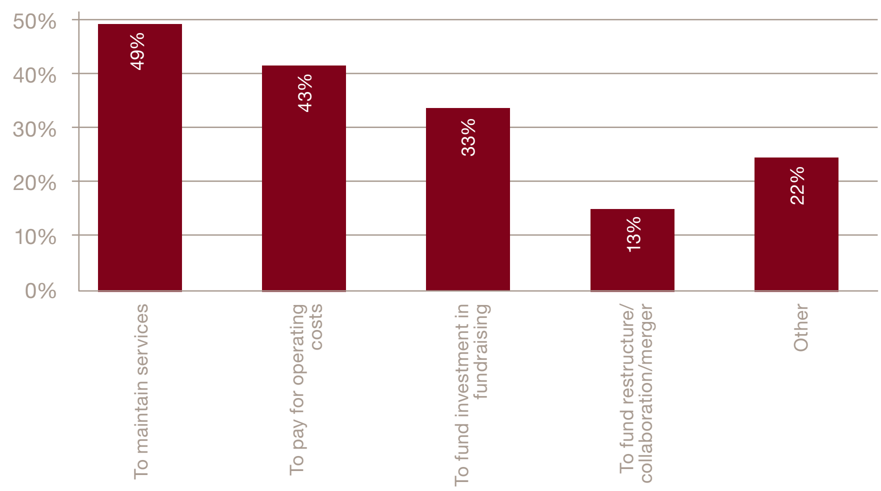
If yes or considering, what are you likely to use the reserves for?



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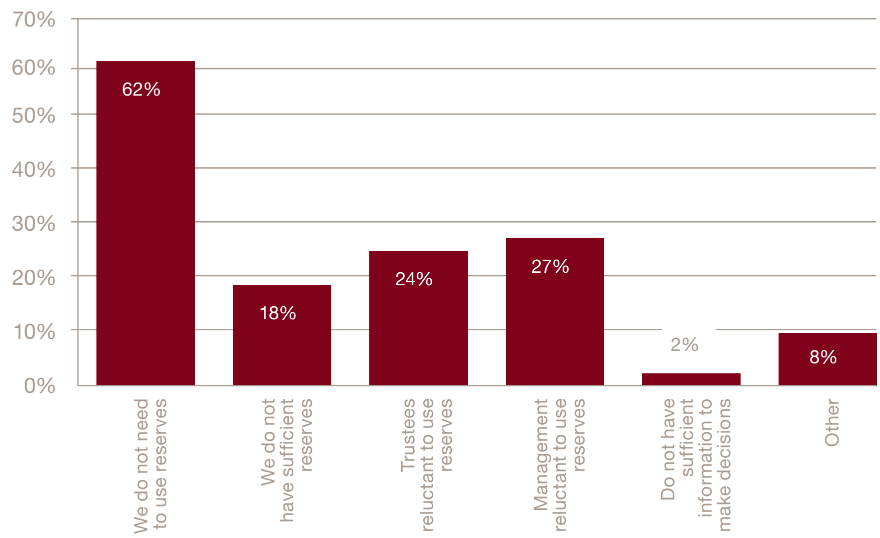
We also asked respondents who were not planning to use reserves why this was the case. While 62% indicated that there simply wasn't the need, 24% and 27% said the reason was reluctance on the part of trustees and management, respectively. These are notable proportions and if in these cases there is a clear benefit to using reserves, we'd urge these charities to explore the issue further and discuss concerns with management and the board. After all, charity funds are there to be spent, furthering the charity's aims; while reserves are a necessary element of supporting an organisation's sustainability, they should not simply act as a comfort blanket.

Finance teams in the spotlight

Anecdotally, we have heard from many charities that the finance teams have been expected to play an increasingly strategic role as the pressure falls on them to make stretched resources go further. 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. In total, 58% of respondents said that the finance function was more engaged, although interestingly there was a 15% difference between fundraiser and finance perceptions – 48% of fundraisers report a greater level of engagement vs 63% of finance.

Last year, 66% of respondents said that the finance function had become more engaged. While the change is not statistically significant, the decline could be taken as an indicator that greater finance involvement is ever-more viewed as the norm as charities increasingly recognise the importance of robust financial management during stretched times.

If NO, why are you not intending to use your reserves? (Please tick all that apply)



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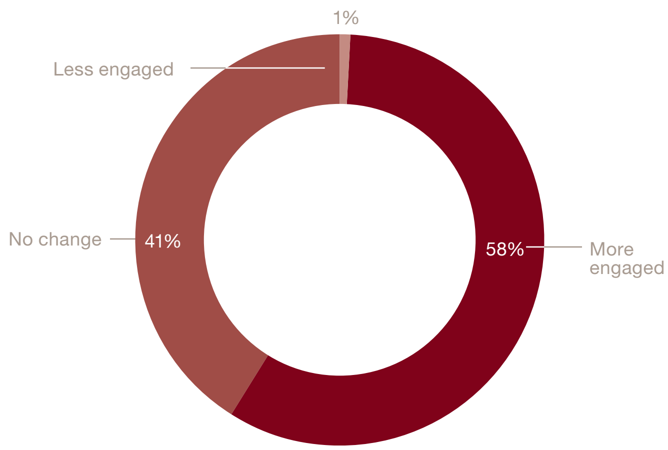
How do you perceive the finance function's engagement with the rest of the charity to have changed as a result of the recession?



Base: 338

Repayable and social finance

Social investment and social finance have been the 'buzz' concepts in charity financing over the past few years. In 2011, the Government published its social investment strategy and articulated its ambition for social investment to become the third pillar of finance for the sector, alongside traditional philanthropy and Government grants.

The year 2012 saw the creation of Big Society Capital and the launch of a number of other funds by the Cabinet Office and Big Lottery Fund, designed to support organisations get 'investment ready'. Much has been made of social finance's potential for transforming the way the sector is funded, and we were keen to understand charities' appetite for repayable and new forms of social finance.

Key findings

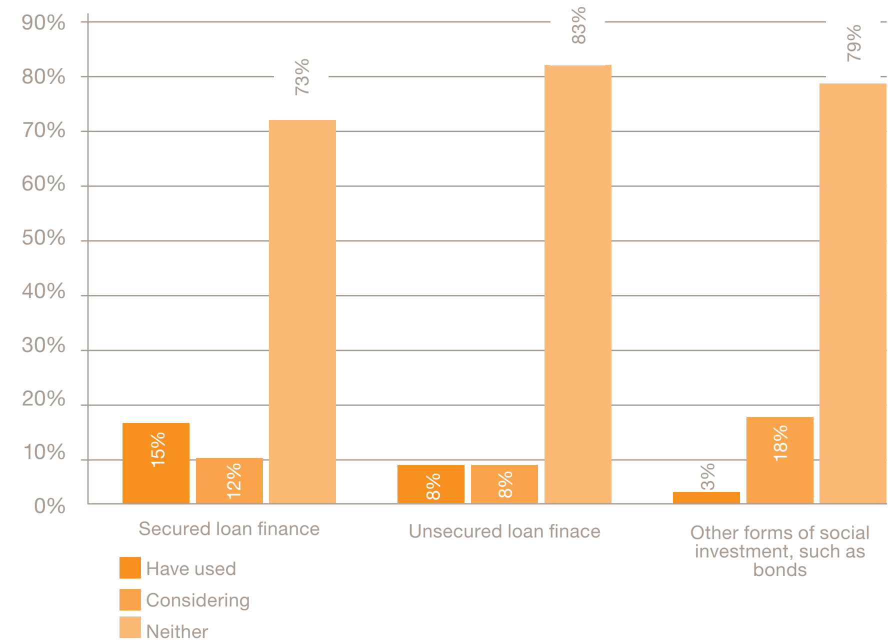
- Despite the fanfare around social investment, only **eight respondents had used social investment products and 79% hadn't even considered** it.
- This is perhaps not surprising, given the market's infancy; however there was very low appetite for repayable finance generally: approximately **three-quarters of respondents had not considered secured loan finance and 83% felt the same about unsecured loan finance**.
- **33% of respondents cited management (16%) and trustee (17%) discomfort with taking out loans** as the reason why they had not considered social investment products. And comments suggest there is a **deep-seated or institutional discomfort with repayable finance in a substantial number of charities**.

Overall, but perhaps-not unsurprisingly, there was a low take up of social investment products in the last year – only eight charities indicated that they had used these and 79% said that they hadn't even considered it. Given the market's infancy, it's not particularly unexpected; however, what was surprising was the general lack of enthusiasm for traditional forms of repayable finance. 83% and 73% had not considered using unsecured or secured loan finance, respectively.

These findings potentially sit at odds with the growth trajectory forecast by Boston Consulting Group in 2012[4], which forecast an increase in demand for social investment from £165m in 2010 to £1bn by 2015. This projection was based on first, the likely growth in the market for public services and social outcomes and secondly, an increase in market share for social purpose organisations.

In our survey, when asked why respondents had not used loans or social investment products, the majority (74%) said there simply wasn't the need to, a statistic that given the predicted changes in the commissioning and services' landscape may change overtime. However, 33% reported that trustees (17% of respondents) and managers (16%) were not comfortable with taking out a loan. These figures and the comments in this section suggest there is a deep-seated or institutional discomfort with repayable finance in a substantial number of charities.

What is your charity's appetite for repayable finance, such as loans and other social investment products?



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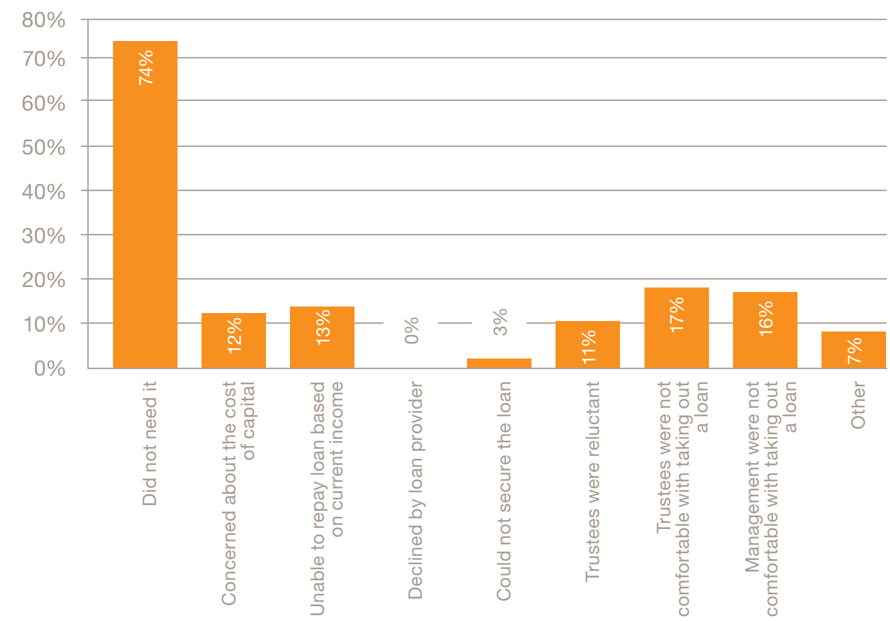
If you have not used loans or social investment products, please indicate the reason(s) why (Please tick all that apply)



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[4] Boston Consulting Group. ' The First Billion: A forecast of social investment demand.' Adrian Brown and Adam Swersky. 2012.

The comments provided in the 'other' category provide some interesting insights, which we've grouped into themes.

As the economic and political context continues to evolve, it could prove that these perspectives mean that some charities miss out on opportunities which those more open to alternative financing models - in particular to provide working capital for outcomes based contracts, may be able to access. It's early days, and we will continue to monitor this next year to see how these views have changed over time, if at all.

Borrowing is not considered appropriate for a charity

"There are VERY few circumstances where borrowing is the appropriate economic solution."

"Loans are not suitable for non-profit organisations, as there is no profit from which to pay the interest!"

Organisation objects to borrowing

"Organisation has no debt policy."

"Contrary to Christian principles."

Lack of awareness and/or understanding

"No one has raised or thought of it."

"Trustees and management do not fully understand how these might all work in practice."

Part 3: Looking ahead - The challenges and opportunities

The last section of this report looks at what charities anticipate 2013 will hold in store. While many charities have identified opportunities and will be exploring new and innovative courses of action, it's clear that significant challenges remain.

Key findings

- The responses to our questions have again highlighted various issues and opportunities facing charities. We have sought to illustrate these with a range of quotes that we hope will provide a sense of some of the themes contained in the responses.

The challenges

As with the last survey, we asked the question "What do you feel have been the biggest challenges in the past year and what challenges do you anticipate?" The responses in the last survey suggested that, while reducing income was of course a major concern, the welfare of staff and staff morale was the largest single concern.

We summarised the responses last year into six broad categories:

- Uncertainty and lack of understanding
- Changes to operating models
- Managing significant change
- Fundraising in a difficult climate
- Maintaining confidence and morale
- Stemming increases in costs

Unsurprisingly, the same broad themes have emerged again this year. However, it is very notable that of the 245 free text responses, a significant majority related to pressures on income. While this is in many ways unsurprising, it does suggest that the ongoing pressures on income - year after year - have combined to create an environment where concerns around the impact of reductions in funding are at the forefront of many charities' minds.

The table analyses the responses by theme and we again reproduce below some of the many interesting responses, charities have put forward.

	No of responses
Pressures on income	137
Managing change	37
Dealing with uncertainty	18
Maintaining staff morale	15
Maintaining focus on core activities	8
Meeting increased demand	8
Sustaining growth	7
Recruiting and retaining appropriate resource	5
Managing and stemming increased costs	4
Keeping abreast of legislative environment	3
Maintaining financial discipline	2
Diversifying activities and income streams	1
Total	245

Staff morale

"Maintaining morale after a restructure, reduced hour contracts being demonstrated as a positive measure, more work and less staff."

"Internal politics impacting staff morale following restructure. The staff turnover has been very high, and I do not feel we have got to the end of it; I anticipate this will continue and the loss of organisational knowledge will be a big challenge and incur further unnecessary costs in the coming year."

Uncertainty

"Lack of communication on funding from government so it is hard to make strategic plans. We can cope with bad news but not at very short notice and that also makes responding more expensive."

"Uncertainty of the income stream has been and remains the biggest challenge when forecasting and planning."

"The stock market and its vagaries lead to our biggest challenges both in the past and into the future."

"The changes to the Government funding may have an impact on us, but much is unknown at the present."

Change

"Increases in complex nature of clients' needs and lack of support from statutory agencies leading to increased time commitment from our staff. We see this increasing."

"We had a large restructure which involved increased hours and pay cuts. The focus of the last year was settling the staff after this and recruitment. Up and coming challenges are mainly around competition, ensuring we remain competitive in both the supported housing market and fundraising."

"The speed of change is slow due to the challenging external environment. While we are making positive changes and are moving in the right direction to achieve financial sustainabilty it is slower and tougher than we had anticipated."

"In last year – educating trustees, staff on charity's financial position and austere outlook. In coming year – making redundancies and restructuring, and managing the negative perception from staff and stakeholders."

Income

"Competition for funds and contracts. We anticipate that this will get worse and that larger organisations will win contracts to deliver services."

"Persuading funders to support us, whether government, other public sector or private sector. They all want more for their money, more information on outcomes and impact or more campaigning."

"Easily fundraising and projecting into future years – high risk of not achieving targets and getting the organisation to think and make decisions about long term sustainability."

"Impact of economic change on donors who have remained very loyal and supportive to date but as more donors feel hardship there is likely to be a greater impact on fundraising."

"Last year, legacy funding fell by 75%, leaving us with a much higher deficit than planned. Not only are we trying to fundraise to meet the increased demand on our services, but also to stabilise the income. Historically, our organisation has lacked investment in fundraising for some time and whilst this is now being addressed, we are trying to play catch up in a difficult funding environment. Looking to the future, I must also identify a way to create a step change in income to enable the organisation to really move forward."

"great new ideas for increased income but limited resources to implement – chicken and egg situation."

"More charities going for the same pots of funding. Those that were funded by the government all looking at the same places that we were."

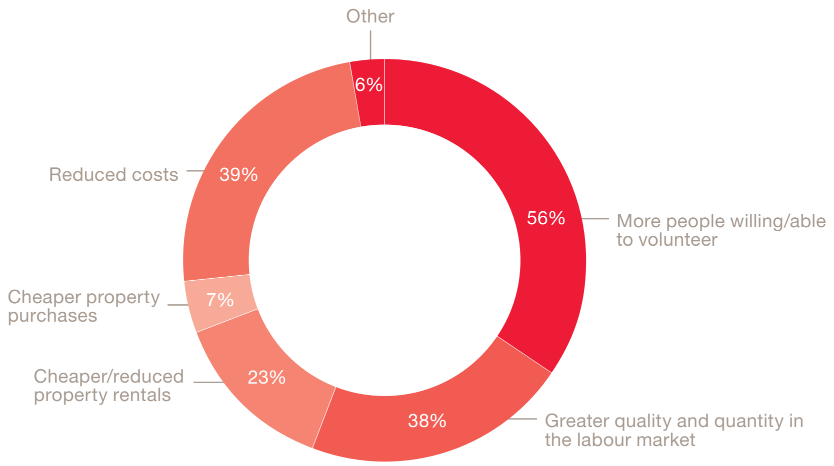
The opportunities

Of note here is that the proportion of charities indicating they've taken advantage of increased numbers of people willing and able to volunteer is up from 47% to 56%.

Although it's too early to draw any firm conclusions now, it will be interesting whether next year's results show a sustained uplift and any evidence of an Olympics volunteering legacy.

In addition, we asked respondents what opportunities to innovate they have identified. A review of these responses suggests that there are five broad categories. These are listed below, with some of the many interesting suggestions.

What opportunities has your charity taken advantage of as a result of the recession? (Please tick all that apply)



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Collaboration

"We have to respond to competition from the commercial sector by being able to compete (which we struggle to do). We also need to work through the issues that a competitor might also be a funder and a collaborating partner – and what that means (and who manages them)."

"Partnership working is one of the key areas that we are looking at, but there are pitfalls, including the difficulty for small charities to invest time in seeking out partners and running that relationship."

"We have a long lease on our building from the council so we are looking at innovative ways of working with other groups."

Sustainability

"Closer working between finance and fundraising, more shadowing and cross departmental/ team working ('super-workers') to save costs and provide cover without using expensive agencies/locums."

"Further integration of the service delivery and fundraising functions."

"Need to diversify into more sustainable income sources to become less dependent on grants."

Technology

"Exploring cloud computing to increase efficiency and effectiveness for workers out and about."

"Improve annual report (better written and laid out) to help with PR and marketing. Employ someone to keep website up to date weekly rather than quarterly."

Enterprise

"Making better 'commercial' use of our CRM data."

"Looking at new trading initiatives to supplement our already successful chain of charity shops (bought in products in addition to donated goods, and high-end branded donated products through specialist resale outlets)."

"Business approach to create new income streams, but these have been trialled and there has been limited take-up due to target customers needing to reduce costs."

Diversification

"Developing a greater range of programmes, moving into new areas of delivery."

"Recruiting donors/companies outside of UK to support our work."

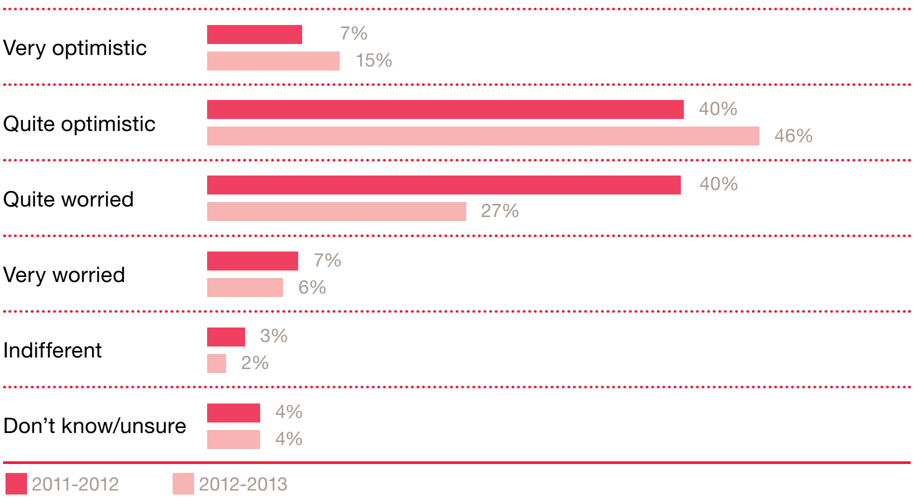
"The need to provide services to our client base that are going to be withdrawn or cut-back by other providers."

"Increased interest in legacies, property bonds, and longer term finance vehicles."

Overall optimism for next year

And to end on a positive – it's pleasing to see that overall, despite clear evidence of ongoing challenges, there has been an uplift in mood since the last survey. This year 61% were optimistic overall and 33% worried, tipping the balance from last year where 47% were optimistic and 47% were worried.

How optimistic are you for the outlook of your charity in the next 12 months?



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Conclusion

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. While 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 is 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.

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.

An online survey was completed by CFG and IoF members between 7 January and 4 February 2013, which was just over one year on from the fifth survey, which was compiled in October 2011. In total 427 respondents took part in the survey, however they were able to skip questions so not all respondents have answered every question.

Survey respondents have been categorised and referred to by size in the following way:

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

The report is CFG, IoF and PwC's combined analysis of the survey data, covering both finance and fundraising perspectives.

Answer Options	Response Percent	Response Count
Animals	4.5%	19
Arts/Culture	7.1%	30
Cancer/Hospices	6.9%	29
Children/Young People	17.6%	74
Disability	16.9%	71
Education	18.3%	77
Environment	7.4%	31
General charitable purposes (grant-makers)	7.4%	31
Health	24.0%	101
Homelessness	5.2%	22
Human Rights	4.0%	17
International Aid	8.1%	34
Older People	11.2%	47
Religion	7.4%	31
Social Enterprise	3.8%	16
Society/Workplace	5.0%	21
Sport	1.7%	7
Other	8.8%	37
If OTHER, please specify		45
Answered Question		**421**
Skipped Question		**6**

Where does your organisation operate?

Answer Options	Response Percent	Response Count
International	22.8%	97
National (UK wide)	39.4%	168
Regional	37.8%	161
Answered Question		**426**
Skipped Question		**1**

If you selected REGIONAL, please indicate areas of operation (please tick all that apply)

Answer Options	Response Percent	Response Count
Northern Ireland	0.6%	1
Scotland	5.0%	8
Wales	5.6%	9
London	26.9%	43
South East	25.0%	40
South West	17.5%	28
East Anglia	5.6%	9
East Midlands	5.6%	9
West Midlands	10.0%	16
North West	12.5%	20
North East	6.3%	10
Yorkshire and the Humber	9.4%	15
Answered Question		**160**
Skipped Question		**267**

What is the size of your organisation, based on total income?

Answer Options	Response Percent	Response Count
Small (< £1 million)	23.5%	99
Medium (£1 million – £10 million)	48.3%	204
Large (> £10 million)	28.2%	119
Answered Question		**422**
Skipped Question		**5**

Is your primary role

Answer Options	Response Percent	Response Count
Fundraiser	20.0%	69
Finance	62.0%	214
Both	18.0%	62
Answered Question		**345**
Skipped Question		**82**

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