

Managing in a Downturn: November 2008 survey results, analysis and key messages





Ian Oakley-Smith (Director, PricewaterhouseCoopers LLP)

The events of recent months have provided a sharp reminder of the potentially significant impact of the so-called “credit crunch” on everyone. Trustees, Finance Directors and Fundraising Directors will be well aware that charities are far from immune to the possible consequences: whilst these consequences will of course vary widely depending upon the circumstances of each individual charity, many Trustees should be prepared to address the likelihood both of increased costs and of falling income in the current environment.

The purpose of this report is to provide an insight into the current perceptions of Finance Directors and Fundraisers as to the potential impact of the economic downturn on their charities. In addition, the report looks at the overall lessons learnt from the last major recession in the early 1990s and offers some observations on how this recession may differ. Finally, we draw together some of what we consider to be the key messages for charities at this uncertain time.

We acknowledge that this report has been prepared before the full extent of the impact of the current economic conditions on charities is known; however, what is clear is that now is the time for leadership of charities to be strong in order to minimise that impact as much as possible.



Keith Hickey (Chief Executive, Charity Finance Directors' Group)

In all but a technicality the recession is upon us and the economic climate is looking bleak. Over the last year we have seen high levels of cost inflation, rising unemployment, falls in consumer confidence and the beginnings of falls in income.

The great uncertainty is just how hard and where the recession will hit the charitable sector. The diversity of the sector makes this hard to do although it is clear it will hit each of us differently. Whilst comparisons to previous recessions are interesting the charity sector has developed out of all recognition since the last recession in the early 90's. In this light it is imperative that Charities demonstrate strong leadership, both internally in managing their affairs and externally in supporting the most vulnerable people in society who will be hit hardest by the recession. The one certainty going forward is that our beneficiaries will need us more than ever and many new beneficiaries will be drawn to our support. We must respond to this demand by ensuring that our Charities are strongly led and able to ensure that we make the maximum possible use of resources in the days and months to come.

CFDG is really pleased to be part of this piece of work and hope that it is a valuable tool to you as you think ahead and plan your charities operations.



Lindsay Boswell (Chief Executive, Institute of Fundraising)

Through collaborating with PricewaterhouseCoopers LLP and the Charity Finance Directors' Group we wanted to enrich the debate about the effect of the credit crunch, as it develops into recession, with the same quality of advice and interpretation that is available to the FTSE 100.

Fundraising does not operate in a vacuum and it was important for us to join with CFDG and ACF in capturing headline opinion. Much of this report confirms what we have all, in isolation, been guessing for ourselves. Corporate giving is suffering now and is expected to continue. Many report legacy giving holding up but are worried as the recession goes on. There are some really important conclusions within this data. There is a clear divergence of thinking between smaller and larger charities. Many smaller charities are more optimistic about the future but may well lack the resources to fully model the impact of the recession that is causing the larger ones to less optimistic. It would seem sensible for all charities to test their assumptions against these collective views as part of their risk planning.

It is very clear to the Institute that a charity that has a diverse voluntary income base with a mix of fundraising techniques is going to weather the downturn better than those with a narrow fundraising strategy. It is encouraging to see that 62% of charities plan to increase their fundraising as a strategy to manage the downturn. Successfully done these charities will be best placed to expand and exploit when the economic upturn returns. Those that have shed their fundraising capacity we be left behind as they re-recruit and try to build new relationships.

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Survey respondents

PricewaterhouseCoopers LLP (PwC), the Charity Finance Directors' Group (CFDG) and the Institute of Fundraising (IOF) collaborated in the development, issue and analysis of a comprehensive survey on the potential impact of the economic downturn on the Charity Sector. The survey was issued to the members of both CFDG and IOF and we are pleased to say that there were 362 responses from charities of all types, locations and size, summarised as follows.

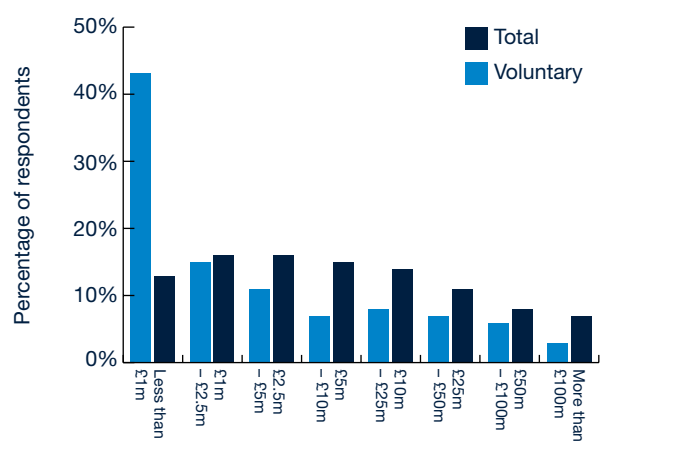
Charity types (respondents could elect more than one category)

Animals	4%	Arts/Culture	6%	Cancer/Hospices	8%	Children	15%
Disability	12%	Education	18%	Environment	7%	Health	17%
Homelessness	6%	International Aid	10%	Older People	7%	Religion	5%
Society/Workplace	3%	Sport	3%	Human Rights	2%	Other	14%

Location of respondents' operations



Respondents' voluntary and total income

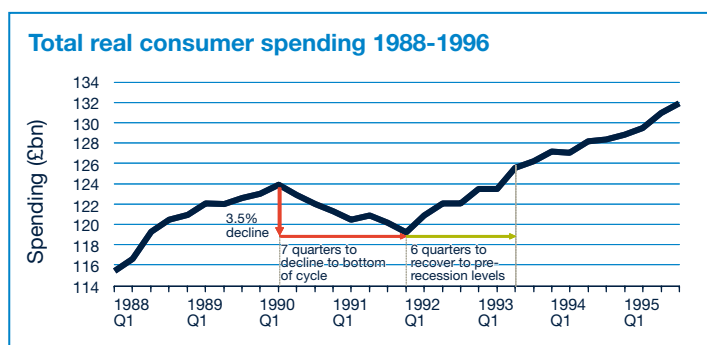


Using the Charity Commission size guidelines, 13% of respondents were classified as small (total income less than £1m), 47% of respondents classified as medium (total income of between £1m and £10m) and 40% as large (total income of above £10m).

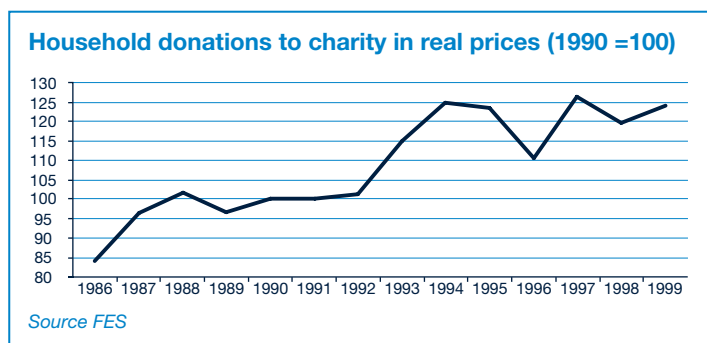
The extent of future decreases in consumer spending is unknown, as is the length and breadth of the decline. Whilst charities may look to the previous recession for an insight to the relationship between consumer spending and charitable giving, changes in the economy and the charity sector raise questions over the relevance of this data as a predictor for current recession.

What happened last time

During the 1990s recession consumer spending declined by 3.5% in real terms, and took a total of 13 quarters to recover to pre-recession levels.



In contrast, the Charity sector appears to have remained relatively resilient. A report by the Donation Foresight Consortium (2001) performed a detailed analysis of charitable giving during the 1990s by household. The table below details the level of donations per household in real terms (1990 = 100).



Where we are today

Some of the factors which would have contributed to the resilience of charitable giving during the 1990s, now look very different. The table opposite is a snap shot comparison of key performance indicators. During the last recession there was no global financial crisis, nor was there a "credit crunch", restricting the availability of credit to consumers. Importantly the level of household debt and savings are dramatically worse than in 1990, suggesting that consumers will have less ability to absorb the effects of a downturn. In addition, house prices are declining at a rate double that during 1990 and this may also have an impact upon consumers' confidence.

However, on the plus side, interest rates are significantly lower than in 1990. In addition, Government is taking steps alleviate the immediate impact and, in particular, the Chancellors latest pre budget statement has introduces a number of measures,

such as a temporary reduction in VAT to 15%, which are designed to lessen the short term impact.

In short, in many respects the economy exhibits very different characteristics to those in 1990 and any reference to that recession can in no way provide a safe prediction as to the impact on consumer spending of this current downturn.

Sector change

In addition to the fact that the economy is arguably in a very different position now when compared to the recession of the early 1990s, the charity sector has also changed significantly in many ways. These include:

- The sector is more heavily reliant on Government than previously;
- There are many more charities competing for available funds;
- Lottery funding is now a mainstream part of charitable giving;
- There are more sophisticated funding arrangements available for charities than previously;
- Charities are more heavily reliant on contract or project specific income; and
- There is arguably a greater emphasis on reserves.

As a result of these and other changes, as with the economy as a whole, any attempt to rely upon the early 1990s as an indicator of what to expect in this current downturn is likely to prove fruitless.

Key messages

Charities can expect a lead time between a reduction in consumer spending and the bottom of the cycle, there will also be a lead time between the commencement of an upturn and reaching the level of pre downturn spending. The full impact on charities is unknown, however this lead time should be viewed as a window of opportunity in which to prepare for the impact of the changes ahead.

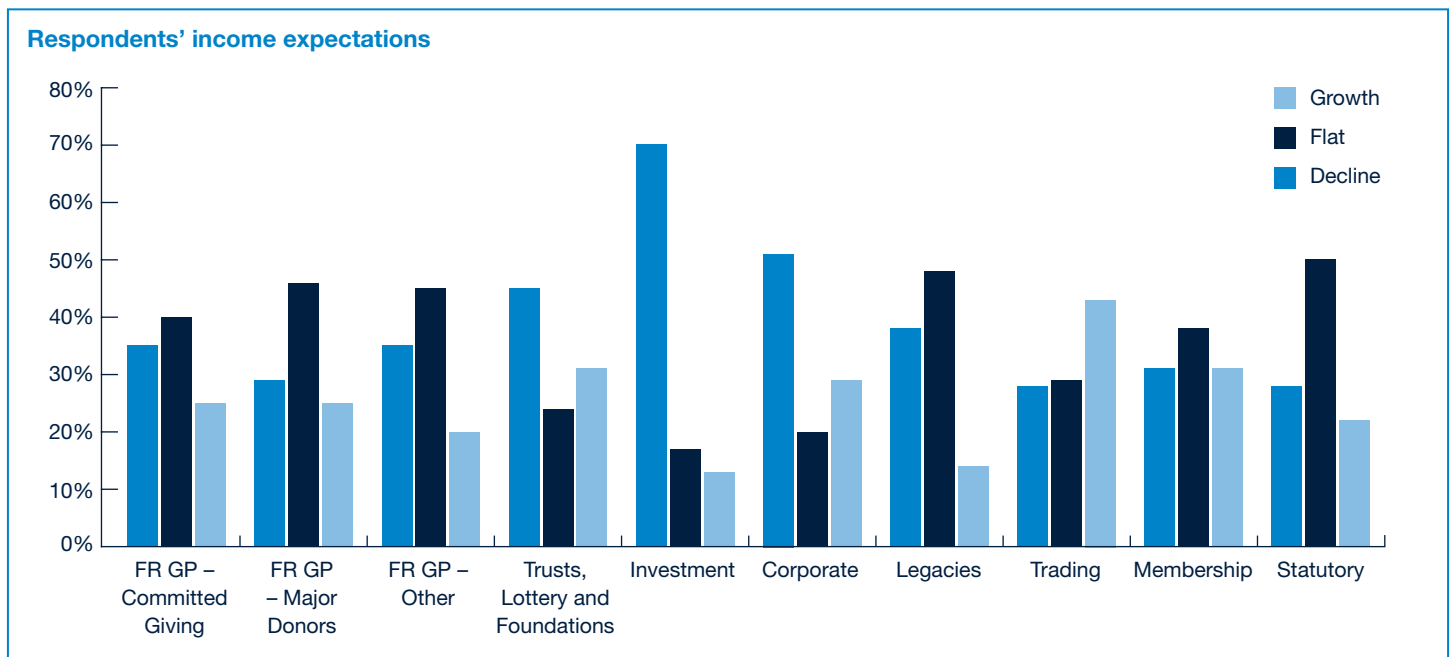
KPI	1990	2007	Latest	
Real GDP growth	0.8%	3.1%	(0.5)%	Q3
Real consumer spending growth	0.7%	3.1%	2.3%	Q2
Interest rates	14.6%	5.5%	3%	Nov
Inflation	6.9%	2.7%	4.5%	Oct
Unemployment	7.0%	5.3%	5.8%	Jul-Sept
House price growth	(6.2%)	8.9%	(12.4)%	Sept
Household debt (% GDP)	75%	123%	n/a	
Savings ratio (% disposable income)	8.4%	2.5%	0.4%	Q2
Consumer confidence	(27)	(7)	(36)	Aug

Source: ONS, Bank of England, Nationwide, GfK
Notes: inflation is RPI excluding housing; Consumer confidence index based on the balance of people positive/negative over the outlook for the UK economy

Income

The Managing in a Downturn survey focused on the perceptions of charity Finance Directors and Fundraising Directors on the impact of the downturn on various income categories over the next 12 months. The Association of Charitable Foundations has provided details of the actual impact of the downturn on some of its members.

It is clear from the survey that there is widespread concern that most sources of income will, at best, remain static and that income from trusts, corporates and legacies in particular will decrease.



Headline perceptions

The table above details the expectation of both charity Fundraising Directors and Finance Directors of possible changes in income streams over the next 12 months. Broadly, respondents expect trading income to benefit somewhat from the downturn with 43% of respondents expecting growth. However, with all other income sources, between 70% and 90% of respondents expect a decline or no growth in income.

The significance of no growth

Whilst many respondents have stated that they expect income streams to remain static, this is of course a concern in itself. With costs increasing (see later in this report) no expected growth in income will itself represent a real decline and charities will either need to rely upon reserves or find efficiencies in order to maintain service levels.

Corporate income

Expected income from corporate giving gave our respondents the most concern, with some 71% of respondents expecting either no growth or a decline. Of these, 19% of respondents expected the decline to be greater than 15%, with this proportion being constant across the range of sizes of the respondents. However, it is notable that some 29% of respondents said that

they expected some growth, with the larger charities apparently slightly more optimistic than the smaller ones.

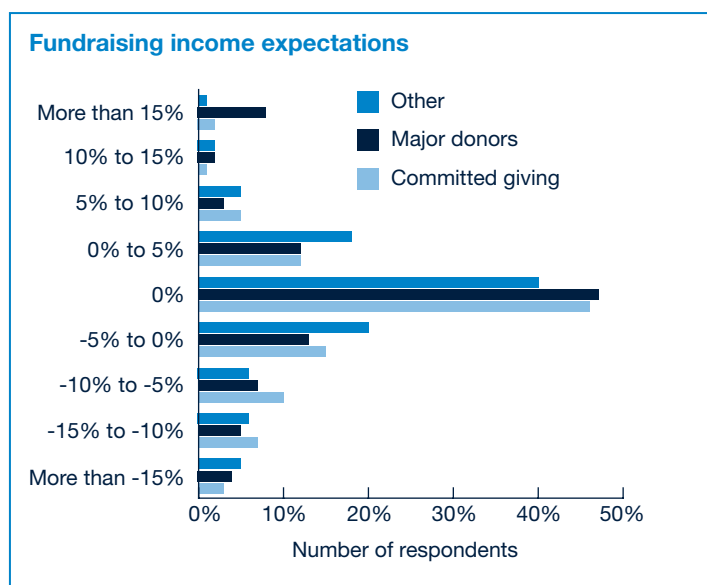
Some 37% of respondents report that they have already begun to experience the effects of the downturn on corporate giving. Some charities have reported up to a 50% decline in income from current donors, with many quoting a delay in receiving confirmation of planned giving. Inevitably, the nature of the corporate's business activity is also a factor: many respondents stating that those corporate's in, for example, the building and financial services sectors are proving difficult to predict at the moment. However, it is notable that a significant majority (63%) state that there has been no effect to date.

Trading income

Trading income from shops appears to present more of a mixed response, with some 43% of respondents expecting growth in trading income. Interestingly, 40% of small charities expect growth to be between 5% and 10%, compared to the 9% average, whilst only 7% of large charities expected growth greater than 5%. Although 43% of charities expect income growth, it is notable that some 47% expect no change in the level of donated goods, with a further 17% expecting these to decrease (23% not sure, 13% to increase). This raises a question as to where charities will source the goods to deliver the expected sales growth, unless there is the scope to increase prices.

Charities' expectation of other trading income is slightly worse than that of their trading income from shops, with some 34% of respondents expecting a decrease (14% of which expect it to be between 1% and 5%), whilst only 32% expect an increase (21% an increase of 1% and 5%).

Only a small minority (13%) of charities have reported that they have experienced the effects of the downturn to date on trading income. Those which have done so have commented on competition from online auctions, with donors choosing to raise personal funds through the sale of goods, rather than donate to charity shops.



Committed giving income

A significant majority (75%) consider that income from committed giving will either stay the same or reduce in the coming year. It is evident, however, that there are significant differences between small charities and medium/large organisations. Some 60% of small charities expect no change in the level of committed giving, with 20% expecting an increase and a similar proportion expecting a decrease. However, only 27% of medium/large charities expect no change in the level of income, with 42% expecting a decrease and 31% expect an increase.

Some 20% of charities say that they have seen some evidence of a reduction so far, citing greater attrition rates and cancellations of direct debits and standing orders.

Major donor income

A similar majority (75%) of respondents say that they expect income from major donors to remain static or reduce. There is again an apparent difference in expectation between small/medium charities and large organisations in respect of major donor income, with a greater pessimism amongst the smaller and medium sized charities. Some 14% of respondents say that they have experienced a reduction in income from major donors already, stating that they have received indications from major donors that they may not be in a position to match previous levels of giving.

Other fundraised income

As regards other fundraising income (warm appeals, community fundraising, cash donations) some 81% believe that this will remain static or decrease in the next year. Again, some 14% claim to have seen some evidence of this to date, commenting on the fact that general donations have dropped recently and citing an expectation of the environment becoming more challenging and the need to consider how successful appeals are in the short term.

Legacy income

There is a difference in opinion between small, medium and large charities in expectations of legacy income, with 41% of large charities expecting income to decline and a further 40% expecting no change, compared to 34% and 61% respectively of small and medium charities. Only 6% of small and medium charities expect to see an increase in income from this source, compared to 17% of large charities.

There is general agreement that the market value of assets will effect the value of income received, not a reduction in legacy volume and 69% of charities expect no change in their pipeline (14% decrease, 17% increase). Charities' cash flow will be impacted by the fall in house and investment values, plus the increased time in realising the cash from legacies.

At present, whilst a large majority (73%) of respondents have seen no effect of the downturn on legacies, those which have seen some effect have reported decreases in the market value of both property and equities, as well as increased time and investment required to make sales and realise funds.

If we make the assumption that large charities have a greater understanding of their pipeline in the short term (as a result of dedicated legacy officers for example), then the consensus seems to be that there will be limited reduction in volume, but there is an expectation that value will decrease by between 0 and 10%.

Membership income

There is no clear consensus from respondents as to the effect of the downturn on membership income: 38% of respondents expect no change in membership income, 22% expect a decrease of up to 5% and 20% expect an increase of up to 5%. Some 40% of small charities expect to see an increase of up to 5%. Of the 9% of charities expecting a decrease of more than 10%, 30% of these were from the education sector.

A very large majority (83%) of charities have yet to experience the impact of the downturn on membership income, potentially explaining the expected 0-5% increase on inflationary uplifts on fees. The 17% who have experienced the impact of the downturn comment mainly on a difficulty in recruiting new members.

Investment income

Whilst a large majority of respondents (70%) of charities expect a decline in investment income, there is no clear agreement as to the rate of decline. Some 26% expect a decrease of up to 5%,

20% up to 10%, 10% up to 15% and 14% expect decreases of above 15%. Of the 14% expecting an increase, the large majority expect only a modest increase of between 0% and 5%. Respondents suggest that there will be reductions from all sources of investments, in particular equities and property.

It is notable that 61% of charities now acknowledge the need to spread investment risk. Some charities have commented on the need to utilise a number of institutions at the cost of yield and the need to diversify their equity portfolio, whilst others continue to view equity investments as long term and delivering long term gains. This is partly reflected in that a majority (57%) of charities state that they do not expect to change their investment strategy in the coming months. Those that are planning to change are in the main considering the need to hold higher levels of cash or other liquid assets and have shorter and tighter investment criteria in order to remain flexible.

Trust income

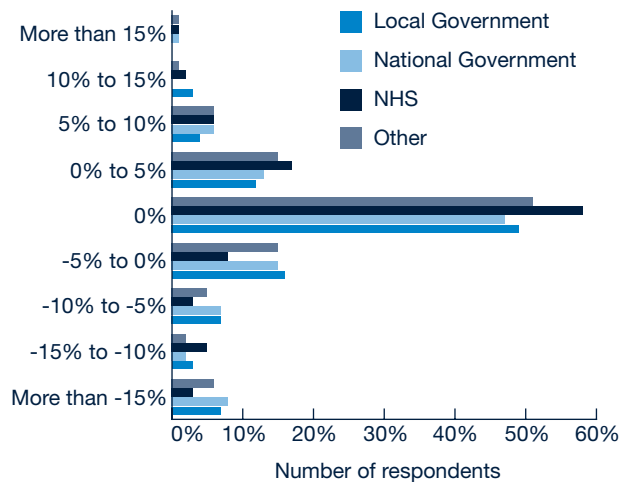
A majority of respondents (71%) expect either no change or a reduction in income from trusts, the Big Lottery Fund and foundations. The ACF undertook a survey of its own members during November 2008, analysing their expectation on charitable expenditure in the coming months.

The dominant single message being returned from members of the Association of Charitable Foundations (ACF) is that the full impact of the downturn investments is unknown, and therefore Foundations have been unable to assess fully the impact this will have on future funds available for charitable activities. In addition, large foundations have yet to see a significant increase in the number of grant applications, although they envisage the full impact of the down-turn to affect the sector in 2010 and 2011.

A significant 47% of ACF members anticipate no change in their grant making budgets in the coming year, however an equally significant 42% expect a decrease. A total of 80% of ACF members surveyed expected budgets to stay the same or decrease in the next two years, with 48% of foundations indicating that reduced grant expenditure would be realised through a reduction in volume and not average grant value. It is also noteworthy that 27% of foundations state that they felt the criteria for grant making may change.

Only 18% of respondents state that they have seen any evidence to date of the impact of the economy on their receipts from trusts, the Big Lottery Fund and foundations. Of those, many cite competition amongst claimants to grant providers, delayed decision making and an increased difficulty in accessing Lottery funding.

Statutory income expectations



Statutory income

There appears to be broad consensus amongst respondents that no change is expected in statutory funding, with 49% expecting no change in local Government funding, 47% no change in national Government funding, 57% no change from NHS funding and 51% no change from other statutory sources. In each case there are comparable variations either side of this, with a large majority expecting changes between -5% and 5%. Respondents are slightly more optimistic about the NHS as a source of funds.

As regards some of the more specific questions in the survey, some 66% of charities expected to see no change in the inflationary uplift in the coming year and 81% no change in the length or terms of funding. Of the 19% who do expect to see changes in terms, most are fearful of a reduced funding period to reflect uncertainty on the part of the Government department in question as to its own funding.

Some 32% expect to see increased monitoring of the outputs from funding and 28% expect to see some change to the proportion of overheads recovered. The commentary here suggests that Government funders will be under greater pressure to make their money go further and will therefore scrutinise outputs and overhead costs more tightly.

To date, only 16% of respondents are saying that they have experienced any impact to date and there is no real trend amongst the comments received other than a general anxiety as to indications received that there may be problems from some sources.

Expenditure

The above analysis of income suggests that, on average, 36% of charities expect no increase in income and a further 39% expect a decrease in income, with only 25% expecting an increase. In addition, a total of 21% of charities have reported that they have experienced an impact of the downturn on their income.

Given that some 75% of charities consider that income will remain stable or decrease, it is therefore even more important to take into account expected increases in costs. In recent years of growth and relatively low inflation, there has arguably been less drive for the private, public and not-for-profit sectors to operate as efficiently and effectively as possible. As the climate changes, it will require a significantly greater emphasis on costs and value to ensure the most efficient use of funds and to minimise the impact of reductions in income.

The charts below indicate the expected level of increase in total costs and compares this to wages/salaries, fuel and energy and print/production costs.

Some 30% of respondents expect total costs to increase in line with September RPI of 5%, with a further 25% expecting cost to increase at rates above 5%. Only 35% of respondents expect such increases to be below this figure. The average expected rate of increase is approximately 4.3%.

CFDG has commented on how appropriate RPI is as a measure of inflation for charities. The inclusion of white and other goods drives the general rate down, extracting goods not usually purchased by charities, CFDG expects the rate relevant to charities at September 2008 to be 6% to 7%, only 11% of respondents expect this rate of price increase.

It is notable that some 10% of charities expect a decrease in base costs, which may indicate that 10% of charities are already planning efficiencies.

Importantly, most charities consider that their wages and salary costs will increase by 5% or less as demonstrated by the chart below, with nearly half (49%) suggesting that the overall cost will be 3% or less.

However, 34% of respondents indicated that they expect to see an increase in the number of volunteers as a result of the

economic conditions, citing increased unemployment and increased awareness of a need for charity as reasons. Some 38% were planning to take positive action to attract volunteers.

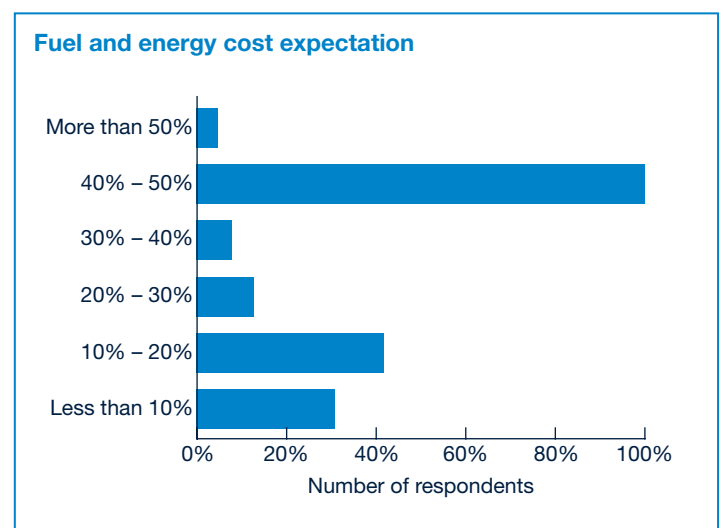
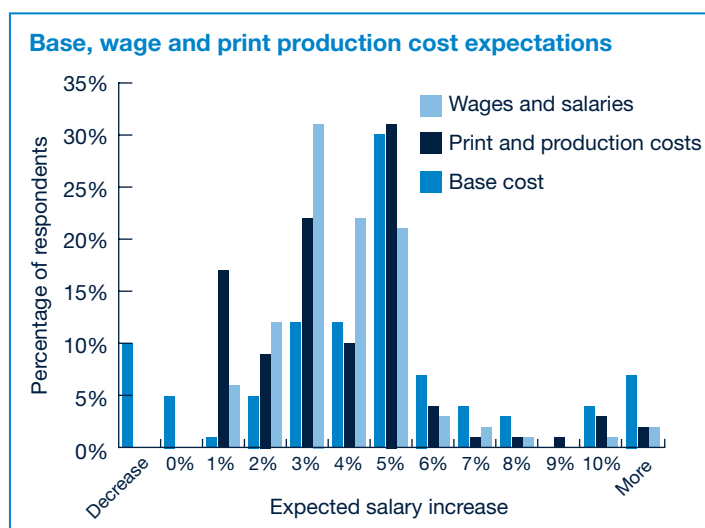
Understandably, there is more pessimism when it comes to fuel and energy costs, with only 31% of charities expecting energy costs to increase by less than 10%. A large proportion (43%) expect increases of up to 20% and a significant minority (26%) are saying they expect fuel and energy costs to rise by over 30%.

The expectations in increases in print and production costs are broadly in line with total costs, with a slight expectation that print and production costs will increase slightly less than the total.

Pension costs

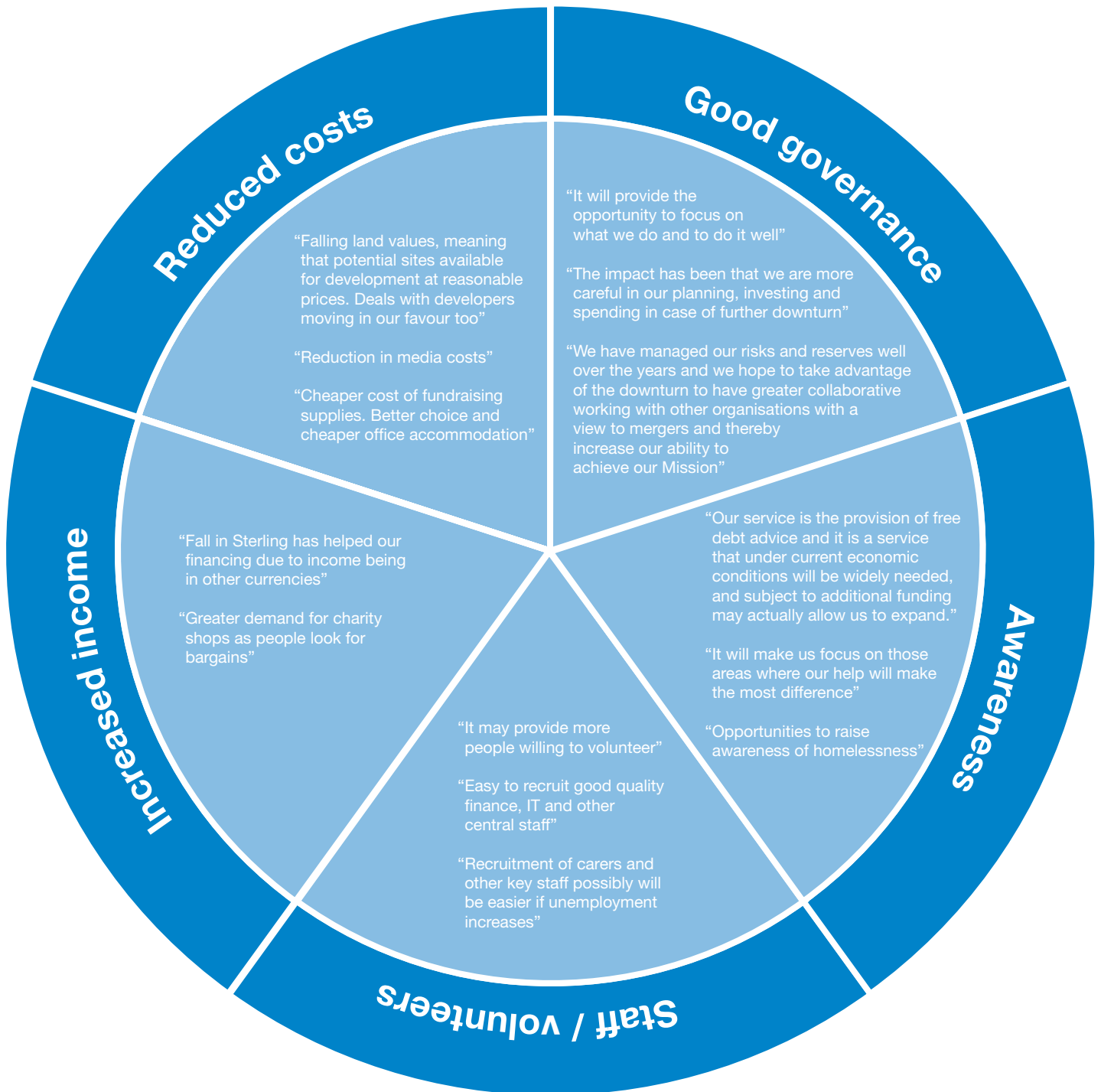
A significant proportion of respondents (44%) say that they operate defined benefit pension schemes and, of these, a large 57% remain open to new employees. Significantly, some 54% of those with defined schemes expect an increase in funding requirements over the next 12 months with a further 18% not sure; however 50% of respondents do not plan to reduce benefits, with 36% undecided.

It is expected that charities with defined pension benefit schemes will need to consider the risk of these schemes and whether they should remain open.



Opportunities

When asked the question “do you see any opportunities arising as a result of the current downturn?”, 42% of medium charities, 50% of small and 62% of large charities said that they anticipated some positive impacts. We have summarised these observations into five broad categories below, together with a sample of quotes from responses.



There can be little question that we are entering a recession and that this in turn will impact upon most charities. Those charities that embrace this reality as part of their planning process are most likely to emerge stronger than those that do not. A way to consider the current economic climate is akin to a “pit stop” in a grand prix. The full impact of the downturn has yet to be felt and experience says that there will be a lead time between the economy entering recession and the full effect of the consequent downturn in consumer spending. This lead time is hard to predict, but could be many months. There is a window of opportunity: actions taken by charities now will directly impact how well they weather the potential storm and how well they emerge at the end of the downturn.

It is important to note that a large majority (71%) of respondents say that they are already taking action in light of the current economic climate: indeed, 3% even say that they are unsure if they will survive the current downturn, whilst 50% of respondents say that they have identified potential advantages of the downturn.

Actions to date

Some 71% of respondents have already reported that they have taken action in response to the current economic climate. Comments vary, but we summarise the common themes as regards actions taken to date.

A number of charities have reported that they are closely monitoring cash flow requirements over the coming 12 to 24 months and many have begun implementing new treasury management policies. Some 34% of those charities with a risk-based reserves policy state that they plan to change this policy.

A number of charities have reported recruitment freezes and redundancies, whilst others have opted to review in detail budgets, forecasts and monitoring.

Charities are reporting that the downturn has provided the catalyst to improve their control environment and governance.

It is clear from responses that charities' actions are currently mixed: those beginning to consider the impact of any downturn and those taking pre-emptive steps.

Planned restrictions

Of the 71% of charities reporting that action had been taken to date, 32% stated that capital projects had been put on hold, with a further 34% of respondents also stating that planned IT projects were expected to be restricted in the coming months.

A smaller 22% of charities expected to restrict their investment in website development, whilst only 11% planned to restrict their planned fleet renewal.

The largest area of planned restrictions are on staff costs, 61% of respondents expect to restrict planned recruitment, whilst 68% plan to restrict spending on agency and consultancy staff. Many charities claimed a “blanket” freeze on recruitment, suggesting an indiscriminate approach to staff recruitment. Others were more flexible, indicating only that the business case for recruitment would be more rigorously challenged.

Impact of downturn on operations

A significant 37% of charities expect to see a decrease in their activity in the coming 12 months, at a time where charities' services are expected to see an increase in demand. A further 33% of charities expect to increase the charges for services they provide. As a consequence, some 34% of charities expect to see staff redundancies in the coming 12 months.

Fundraising investment

A majority (62%) of charities are expecting to increase their fundraising activities in the coming months, to seek to mitigate the effects of the downturn, with 42% of charities planning to invest in committed giving; 25% of charities planning to invest in community fundraising and 31% of charities planning to invest in event fundraising. Only modest numbers of charities plan to divest in these areas.

Some 43% of charities plan to invest in corporate fundraising, whilst only 13% plan to reduce investment. This is interesting in the light of reports from some of the 37% of charities who have already experienced difficulties in generating income from new corporate donors and a reduction in income from current donors.

Some 52% of charities plan to invest in major donor fundraising and fundraising from trusts. Again, this is interesting when considered against the view of 75% of charities that major donor income will remain stable or reduce and the expectation of 80% of ACF members that grant budgets will remain stable or reduce within the next 12 months.

Some 44% of charities plan to invest in direct marketing, compared to 26% who are planning to decrease investment in this area. The only area of fundraising in which charities were not planning to cut investment was in legacies, where 41% stating they planned to increase investment.

Although many charities expect to increase investment in fundraising, only 22% expect to see an increase in the number of fundraisers compared to 24% who are planning to reduce numbers and 58% who are planning to freeze recruitment. Some 27% of charities expect to invest in staff development compared to only 8% who plan to reduce total staff numbers.

Financial planning

Observers of the charity sector have commented on the need for charities to assess their governance and financial management procedures in times of growth and downturn. Good governance and financial management is fundamental in making informed efficiency and investment decisions in the coming months.

A large number (74%) of charities reported that they felt they had adequate budget setting and regular monitoring systems in place. A similar proportion state that they produce detailed activity based budgets, whilst 85% of charities say that they produce regular management accounts.

However, a large number (43%) of charities report that they feel additional monitoring of cash flow is required; 40% feel Trustees should be more involved in planning and a very large 61% feel detailed scenario planning is required.

As a result of the financial planning process, a very large minority (47%) of charities expect to take pre-emptive actions ahead of potential increase in costs or reductions in income and a further 66% of charities report that the economic climate is impacting the development of 5 year strategies. Charities are reporting short term strategies to reduce costs (redundancies) and improve liquidity (aggressive debtor collection).

Collaboration and mergers

Most respondents (84%) stated that they would consider collaboration or partnership with another charity as part of their planning process, with a further 26% considering outsourcing as a remedy. Only 11% of charities are to consider mergers in their planning process.

Conclusions

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 comments arising from the results of the survey can be summarised in terms of recommended actions, both in relation to fundraising and effective financial and strategic leadership.

Fundraising

Each area of fundraising is subject to different pressures and those charities that have a mixed and diverse fundraising strategy will be better than those who have underinvested in the past. Fundraisers need to be effective at making the point to their boards and chief executives that cutting back on their investments in income generation now will guarantee that the downturn has a knock on effect well into the inevitable recovery period that will follow. Those that use this period to build a solid and diverse fundraising strategy will accelerate away from the pack once recovery begins. Relationships are equally vital with corporates, trusts, major donors, potential legacy prospects and individual givers. As a consequence the rate of return on investment is likely to drop but the Institute of Fundraising will work hard, with the Charity Commission, CFDG and others to manage these headline messages if and when the need arises. There is some evidence that smaller charities are more optimistic about the future than their larger equivalents. This may be well placed as they have close relationships and can do a more detailed interpretation of the impact. There is a danger, however, that the larger charities have greater resources to analyse the impact and therefore their greater pessimism is based on detail that smaller charities do not possess. We are all agreed that we have not seen the impact of the downturn and that this will impact in 2009.

Effective financial management

Whilst what is described below is a process which charities should have in place in any event, it is crucial that they do so in the light of the likely pressures on income and costs. Failure to devote sufficient time to any of the above will increase the risk of the charity being vulnerable to the economic downturn and may result in unplanned responses at best and possible failure at worst.

Strategy

Charities should have in place a long term strategy to meet their charitable objects. This strategy should cover finance, operations and governance. During a downturn, it is imperative that the charity remains strategic in its focus. Consideration of all options should be made and Trustees should not avoid difficult questions. Activities may be need to be prioritised and even basic questions such as “should we survive as a stand-alone charity?” or “are we able to generate funds cost-effectively?” should be addressed.



Risk assessment and scenario planning

Once clear on the charity’s basic strategy, budgets, including income & expenditure, cash flow and balance sheet forecasts, should be drawn up at a level of detail to allow Trustees to understand the impact of the downturn and other risks on the strategy. Such detailed scenario planning should take place for all realistic contingencies, ie “what if our fundraised income declined by 20%?”. This should enable the charity to understand – *really understand* – what it would do in the event of those contingencies materialising.

Only then will Trustees know how to react. This process of planning should not be underestimated: seeking agreement amongst the Trustees as to what may be very difficult decisions will of itself take time, as not every Trustee will necessarily have the same view.

Reserves policy

The charity's reserves policy will need to be reviewed in the light of the scenario planning above. If a charity has a risk based policy already, then this should make life easier; if not, then now is the time to put one in place. The extent to which reserves are utilised in order to "smooth" the effect of the downturn will be a key decision, as will the extent to which activities should be reduced yet further if reserves are insufficient in order to build up a reserve.

Investment policy

The charity's investment policy will need to be reviewed in light of the current economic environment. Firstly, policies must address the risks associated with investments, whether the risks are accepted by the charity or whether action is taken to mitigate these risks. Policies and procedures should be sufficient to ensure Trustees' will is communicated, documented and adhered to.

Secondly, charities should consider the return of investments and their relative liquidity, how changes in actual return will impact the fulfilment of the charities objectives, and if necessary, how such risks can be addressed.

Management information

More than ever, detailed and appropriate management information will be vital to a charity's understanding of the extent to which the downturn is affecting its performance. The better the information, the earlier the charity will be aware of any issues and the longer it will have to implement a response. This is about optimising your charity's chances of surviving and prospering in this downturn.

The top 10 key messages

The table opposite contains the key messages charities should take away and consider in the coming months.

There will be winners and losers during this downturn as with any other. Winners will have considered their environment, implemented good management, have strong cash resources and used reserves appropriately. All our experience of recessions says that they tend to polarise: the strong get stronger and the weak either fail or lose their identity through enforced merger.

A guide to Managing in a Downturn

1 Take a closer look

The goal posts are moving; understand the true picture not what you'd like to believe. Get to the bottom of what's driving the charity; what you do best and why. Understand how the charity is being impacted by the downturn

2 Act decisively

With increased uncertainty and volatility it is important to take tough decisions early. Focus relentlessly on the key drivers of value and the key risks across the charity. Don't sit back and wait; the winners will be those who position themselves to take advantage of the upturn

3 Remember "cash is king"

Ensure your finances and working capital are in good order; protect your liquidity; re-examine your treasury, financing, funding and pension exposures. Monitor your performance against financial and non-financial key performance indicators (KPIs). Adopt a hands on approach to cash management

4 Focus on what really matters

Evaluate which activities, projects and channels create or destroy value. Revisit your existing programmes – what initiatives could you stop or defer

5 Manage your cost base

Focus on enhancing operational performance; go for targeted rather than across the board cuts; extract better value; reduce unnecessary complexity; look at whether your business model needs to change

6 Reliable management information is key

Now more than ever you need the right management information; clearly defined KPIs are essential. Decision making needs to be based upon facts; speed of decision making needs to improve

7 Plan for different scenarios

Winners demonstrate agility and flexibility; model a range of financial, operational and workforce scenarios that reflect the impact of the downturn on your charity; adapt quickly; explore your strategic options

8 Recognise the value of your people

Regular and clear communication with employees is key to their engagement. Identify key talent and develop appropriate incentives for them – retaining and motivating the best people is critical to your future

9 Take your stakeholders with you

Evaluate the likely impact of the downturn on your funders and other stakeholders; make sure you understand their agendas. Perception is often reality so maintaining regular and open dialogue is essential

10 Take advantage of the opportunities

Don't stop innovating or investing in those areas of growth you will need for the future; don't forget your brand. Have an eye for the future; think beyond the next quarter

10 Fundamental Priorities

Some information about the authors

Charity Finance Directors' Group (Reg charity No. 1054914)

The Charity Finance Directors' Group (CFDG) is an umbrella charity with the aim to advance public education in and promote improved standards of management in charities. Our vision is a transparent and efficiently managed charity sector that engenders public confidence and trust. With this aim in sight, CFDG delivers services to its charity members and the sector at large which enable those with financial responsibility in the charity sector to develop and adopt best practice. Founded in 1987, CFDG today is a dynamic network of professionals in charity finance. Started initially by a group of finance directors of large charities who felt they would benefit from sharing information and cooperating in some areas, the organisation has grown to currently over 1,500 members. As of early 2008, CFDG's membership manages a total of £13.7 billion of charity income.

The culture of sharing and contributing to the wider sector beyond the individual charities has remained the same and builds the strong backbone of CFDG's activities today. CFDG is active in the policy arena as well as in education and training and provides information and support for members and the wider charity sector on different levels. We work with other organisations, regulators and charities to input charity expertise into the regulatory process, and to develop best practice in charity management. In this quest, CFDG is represented on many committees and working parties established by professional bodies and government departments, including the ASB Public Sector and Not-for-Profit Committee and the SORP Committee.

CFDG members benefit from a variety of services, such as a regular newsletter, free members' meetings, conferences, training courses and a lively networking framework. Most importantly members can contribute through CFDG to regulatory consultations, share knowledge with peers through the electronic CFDG document library, and share some of the financial expertise of their organisation with others, for the wider benefit of the charity sector. Although administered from London, CFDG has a number of Regional Groups, run by a Committee of members who arrange a series of meetings each year.

Institute of Fundraising (Reg charity No. 1079573)

The Institute of Fundraising is the professional body for UK fundraising. We support fundraisers, through leadership, representation, setting standards, and training, and we champion fundraising as a career choice. Our members abide by a Code of Conduct and to Codes of Fundraising Practice and we offer professional recognition and peer support.

There are three membership schemes, which run parallel to each other and offer different benefits:

Individual membership

Individual members demonstrate commitment to raising standards, achieving best practice and developing their career in fundraising.

The Institute champions and promotes fundraising as a career choice, this membership scheme is about fundraisers, their career and their professional development. Additionally, we offer support and networking opportunities through our National, Regional and Special Interest Groups.

Organisational membership

Organisational members are showing their commitment to the sector by supporting the Institute in its long-term aims. Our organisational members are leaders in the sector, committed to achieving the highest standards of fundraising practice. Their agenda is part of the Institute's lobbying portfolio, ensuring their voice is heard at the highest level.

Organisational members are automatically included in the process of developing and revising Codes of Fundraising Practice, ensuring that the standards are practical, fair, realistic and meaningful to fundraisers, donors and beneficiaries. The Institute also helps organisation in terms of providing support and information on the big issues in fundraising and also in ensuring that the needs of fundraisers are fought for at the highest level. The Institute's policy and campaigns team has publicly fought across a range of public policy issues.

Corporate membership

Corporate members demonstrate their commitment to the a thriving fundraising sector and provides their businesses with a voice and a mark of best practice.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP has a long-term commitment to working with the not for profit sector. Our team of specialists provide assurance, tax and advisory services to over 450 charity clients. We advise them on every stage of their life-cycle – from those starting up or reassessing their governance structure to more mature organisations perhaps expanding overseas. Whatever stage your organisation is at, whatever role you play, we can support you in addressing those issues that are keeping you awake at night. We will work with your team to find a working solution tailored to your organisation.

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