Managing in a Downturn:
May 2009 survey results:
An update of expectations
six months on
Ian Oakley-Smith (Director, PricewaterhouseCoopers LLP)

We are pleased to have collaborated once again with CFDG and the Institute of Fundraising to provide an insight into the expectations of Finance Directors and Fundraisers as to the impact of the current economic climate on their charities.

The results of the survey support what we are seeing with our clients. There appears to be an increased level of anxiety as to the scale, but in particular the duration, of the impact of the recession on income sources.

In the first “Managing in a Downturn” report in December 2008, we stated that the impact of the recession was only just starting to be felt and that this was the time for strong leadership. These results suggest that the impact is now more widespread. We also suggested that there would be a lag between the recession itself and the impact on charities. In the light of this, we expect that charities will continue to face challenges well into 2010 and possibly beyond. The need for strong and strategic leadership will be essential for many charities and this survey reinforces the need to consider a wide range of options to ensure that your charity remains robust and effective in delivering services to your beneficiaries in the long term.

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

We are delighted to be working with the Institute of Fundraising and PricewaterhouseCoopers on this second survey. As the recession has moved on it is interesting to see how this has affected the expectations of sector finance and fundraising teams.

With unemployment expected to rise further and the potential reduction in public sector contracts and grants, it is more than likely that there is still more bad news to come. However, it is in difficult times that good leadership comes into its own; such leadership will ensure that their charities are well managed and look for and take opportunities to strengthen their charities and maximise their chances of coming out of the recession stronger than they went in to it. Whether or not the recession is beginning to turn it will take some time for the economy to climb out of it; during this time we must continue to put our beneficiaries first and ensure that our strategies and plans deliver what they really need from us.

Lindsay Boswell (Chief Executive, Institute of Fundraising)

Since we worked together on the first “Managing in a Downturn” report there has been a lot of research that looks at aspects of the recession. By bringing together Fundraisers and Finance Directors and using the wider perspective of PricewaterhouseCoopers, this report provides a unique insight into attitudes and experiences of charities. It was important that we repeated the work six months later to allow some comparison and analysis to take place. In fundraising terms it is clear that the reality has been more brutal than anticipated, and as a result it, comes as no surprise to see greater pessimism about the future.

This report provides a vital sense-check of thinking and attitudes at a crucial time.
PricewaterhouseCoopers LLP (PwC), the Charity Finance Directors’ Group (CFDG) and the Institute of Fundraising (IOF) have again collaborated in the development, issue and analysis of a comprehensive survey on the ongoing impact of the economic downturn on the charity sector.

This survey was conducted among the members of both CFDG and IOF in May 2009. There were 198 responses from charities of all types, locations and size, summarised in the tables below.

We are pleased to say that we have also taken into account the findings of a recent survey conducted by the Association of Charitable Foundations to provide an insight into the plans of Trusts and Foundations.

Charity types (respondents could elect more than one category)

<table>
<thead>
<tr>
<th>Charity Type</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Animals</td>
<td>4%</td>
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<tr>
<td>Disability</td>
<td>11%</td>
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<tr>
<td>Homelessness</td>
<td>5%</td>
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<tr>
<td>Religion</td>
<td>4%</td>
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<tr>
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<tr>
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<tr>
<td>Education</td>
<td>17%</td>
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<tr>
<td>Human Rights</td>
<td>2%</td>
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<tr>
<td>Environment</td>
<td>7%</td>
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<tr>
<td>International Aid</td>
<td>8%</td>
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<tr>
<td>Society/Workplace</td>
<td>3%</td>
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<tr>
<td>Cancer/Hospices</td>
<td>3%</td>
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<tr>
<td>Health</td>
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<tr>
<td>Older People</td>
<td>4%</td>
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<tr>
<td>None of the above</td>
<td>0%</td>
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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), 55% of respondents classified as medium (total income of between £1m and £10m) and 32% as large (total income of above £10m).
It is clear from responses to this survey that the impact of the recession has now been felt by more charities than in December 2008, and the expectation of respondents as to the impact on their charities going forward has also worsened. This is true across all income streams: in December 2008, on average, 39% of respondents expected a decrease in income and 36% expected no growth. By May 2009, these expectations had worsened to 56% percent and 26% respectively. In addition, on average 45% of respondents have reported a decline in income since December 2008 and a further 30% have reported no growth in income.

### Headline perceptions

The table above summarises the expectations of Fundraising and Finance Directors of possible changes in income streams over the next 12 months, together with their assessment of the actual changes in income streams in the past 6 months. The results of the December 2008 survey are provided as comparatives. It will be seen that respondents have all reported a greater actual decline in income than that which they expected in December 2008. No doubt partly as a result, expectations at May 2009 for income decline are on average 17% worse than they were in December 2008, with typically 80% of respondents expecting income to remain flat or decline.

The following sections of the report look in more detail at some of the income categories.

### Christmas appeals

We asked respondents whether they had performed a “warm” appeal at Christmas, on the basis that, for a number of charities, income is seasonal, with a significant proportion being earned at Christmas. Some 28% of respondents undertook a Christmas appeal in December 2008. Of the 28%, 35% reported that they had identified an impact on the base level of their appeal as a result of the downturn. This result appears to support a suggestion that there is an increased trend in the impact being felt by charities: in our first survey, some 25% of respondents stated that they had seen an impact on income, based upon the 12 months to November 2008. By Christmas, it appears that this figure had risen to 35% and the summary table above suggests that some 50% of charities are now seeing an impact.

### Income

<table>
<thead>
<tr>
<th></th>
<th>Respondents' income forecasts at Nov 08 (%)</th>
<th>Respondents' income forecasts at May 09 (%)</th>
<th>Respondents' actual performance in the intermitting period (%)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Decline Flat Growth</td>
<td>Decline Flat Growth</td>
<td>Decline Flat Growth</td>
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<tr>
<td>Committed Giving</td>
<td>35 40 25</td>
<td>66 20 14</td>
<td>49 26 25</td>
</tr>
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<td>Major Donors</td>
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<td>55 25 20</td>
<td>44 31 25</td>
</tr>
<tr>
<td>Other general public fundraising</td>
<td>35 45 20</td>
<td>62 24 14</td>
<td>49 28 23</td>
</tr>
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<td>Membership</td>
<td>31 38 31</td>
<td>51 31 18</td>
<td>45 33 22</td>
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<tr>
<td>Corporate</td>
<td>51 20 29</td>
<td>56 26 18</td>
<td>61 14 25</td>
</tr>
<tr>
<td>Legacy</td>
<td>38 48 14</td>
<td>50 34 16</td>
<td>30 40 30</td>
</tr>
<tr>
<td>Trusts, Lottery and Foundations</td>
<td>45 24 31</td>
<td>63 20 17</td>
<td>45 30 25</td>
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<tr>
<td>Statutory</td>
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<tr>
<td>Trading</td>
<td>28 29 43</td>
<td>40 30 30</td>
<td>36 32 32</td>
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<tr>
<td>Investment</td>
<td>70 17 13</td>
<td>80 10 10</td>
<td>78 11 11</td>
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Fundraising income

There have been a number of recent surveys commenting on the impact of the economic downturn on income streams, including fundraising income. The importance of the questions in our May 2009 survey was in seeking to understand the perceptions of Finance and Fundraising Directors for the future, as well as the actual impact in the previous six months. We have performed this analysis on three broad types of fundraising income: committed giving, major donors and other sources of fundraised income.

In summary, comparing the results of perceptions now to those six months ago, there is a clear increase in anxiety in the sector. Some 17% of respondents with fundraised sources of income stated that they did not know what increase or decrease they would experience in the coming 12 months. Of those with an expectation, 61% expect a decline in income; nearly double the 31% who expected a decline in December 2008. Only 13% of respondents expect an increase in income compared to 23% in December 2008. The increase in concern appears to be in part a result of the impact experienced in the 6 months since December 2008, where declines in income were 14% greater than those forecast at December 2008.

There has been some commentary in the press that there appear to be some indications of “green shoots” in the economy. We feel it is important to re-emphasise the statement in our December 2008 report that there is likely to be a lag between the economy starting to grow and the availability of disposable income to support an increase in donations to charity.

The rate of unemployment is seen by many as an important factor. The Office of National Statistics reported the largest fall in quarterly employment (at June 2009) since comparable records began in 1971. The unemployment rate is at 7.2% and some forecasts suggest it will reach 3.2 million people in the second quarter of 2010. As indicated in our December 2008 report, we expect a delay in the full impact of the downturn, such that there will be a continued slow down in fundraised income well beyond the point where the economy starts to recover.

Statutory income

In the short term, expectations are that statutory income is the most resilient to the current economic downturn. In December 2008 we reported that 49% of respondents expected 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. The position remains broadly consistent at June 2009: whilst on average there had been an increase in anxiety (36% expecting a decline and 34% expecting no movement), some 83% of respondents indicated that they had not yet experienced any impact of the recession on statutory income.

Whilst current perceptions are that statutory income is the most resilient of the income streams, commentators, including the authors of this report, are keen to communicate the potential impact of the 2011 public spending review. The UK Government borrowing is widely forecast to be worth 79% of GDP by 2013, a result of borrowing £175bn per year for the next 2 years. It is expected that an element of this debt is to be repaid through efficiency savings and cost reduction in the public sector; what is unknown is the impact on third sector funders’ budgets and how these will be passed to not-for-profit organisations. We feel that the financial spending review could occur soon after the next general election, which must be by May 2010, we discuss further the potential impact of this on charities in the conclusions of this report.
**Attrition rates**

The rate at which committed donors stop donating – “attrition rates” – provides a valuable insight into future income streams. To obtain an insight into the effect of the downturn on attrition rates, we asked charities with committed giving to state the change in attrition rates since December 2008. Some 15% of charities indicated that there had been a decrease in attrition rates (in other words, an improving position); however, 48% reported an increase of up to 1%, 18% up to 3%, and 14% greater than 5%. On this basis, depending on the type of charity, the downturn can be assumed to have had an impact on attrition rates of between 0% and 3% on average. By inference, any charity experiencing an increase in that period greater than 3% might consider that there are more specific issues affecting the charity in question, and that it should be seeking to address the reasons for this.

It is also of interest that the responses suggest that some 58% of charities with income of less than £1m state that the change in attrition has been greater than 10%, inferring that donors might be differentiating between the smaller charities and those which are larger, perhaps with brands which are seen as more reliable or robust.

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**Corporates income**

In December 2008, we reported that the area of greatest concern for respondents was income from corporates, with some 71% expecting no growth or a decline in income. Some 87% of respondents now report that they expect no growth (61%) or a decline (26%).

Of those expecting a decline in income, only 5% expected a decline of between 0% and 5% and, some 41% expected a decline greater than 5%. Some 18% of respondents expect a decline of between 5% and 10% and 20% of respondents a decline of between 10% and 30%.

At December 2008, 37% of respondents reported that they had already begun to experience the impact of the downturn. At May 2009 this had increased to 56%. This is supported by the 61% of respondents who had experienced a decline in income since December 2008. Whilst charities have reported a reduction in monetary donations, some have, however, commented on corporate donors looking to increase non cash support. Others have reported that they are targeting 2010 as a year to generate new partnerships for the future. Finally, some charities have reported the increased competition on gaining corporate partners and the difficulty in retaining and replacing partners.
Trading income

The December 2008 report commented that 43% of respondents expected an increase in trading income, a potential income stream that could benefit from a reduction in consumer spending and cost cutting. One area of concern, however, was the level of donated goods to support the delivery of sales growth, with some 47% expecting no change and 17% expecting a decrease. In the 6 months since the December 2008 report, 55% of respondents have reported that there has been no change in the level of donated goods; interestingly, 21% of respondents expect an increase, and an equal number expect a decrease.

Some 61% of respondents have experienced an increase in demand for their goods, while only 4% are experiencing a decrease. Interestingly, in line with the other income streams, respondents are now anxious about this income, with only 30% of respondents now reporting an expected increase in income, and most of those expecting increases of less than 10%.

Legacy income

Some 73% of respondents reported that they had felt no impact of the downturn on legacy income as yet. In the prevailing 6 months, only 30% of charities have reported a decrease in legacy income, an equal number have reported growth and some 40% have experienced no change.

In the coming 12 months, half of respondents expect income to decrease, whilst only 16% expect an increase. Respondents have reported that due to the legacy pipeline, the full impact of the downturn is expected in the coming 12 to 24 months, although the volume of legacies is not expected to change, the realised value is. The largest expected impact on income is the reduction in investment and property values.

Investment income

At December 2008, 70% of respondents expected a decline in their investment income, 36% expecting a decline of up to 10% and 14% a decline greater than 15%. For the period to May 2009, only 82% of charities were able to quantify movements in income reported, of these, 78% reported that they incurred a decrease in income since December 2008, 44% reported decreases of up to 10% and 34% reported decreases of greater than 30%. In addition, some 40% of respondents reported no change in the capital value of their investments, whereas 35% experienced reductions of up to 20% and 25% of respondents, reductions of up to 40%. The movements appear to be broadly in line with those being experienced by all sectors.

Following market expectations, charities state that, whilst they eventually expect income to improve over the coming 12 months, 81% of respondents expect a decrease in income for the period as a whole, with some 26% of charities expecting this to be greater than 30%, and some 59% expecting the decrease to be up to 15%.

There appears to be uncertainty over the future capital value of investments. 27% of respondents do not know what the change will be, 32% of respondents expect no change and 38% a decrease of up to 20%. It is of note that no respondents expected decreases greater than 30%.

Anecdotally, respondents have reported that as a result of the downturn, they are seeking to deposit cash with a number of institutions as opposed to one, reviewing investment portfolios and balancing the risk of portfolios. Some respondents are seeking to make short term gains from markets.
As stated in our December 2008 report, management’s ability to understand the relationship between income and expenditure is a key factor in strategic decision making and scenario planning. With some 82% of respondents expecting a decline or no growth in income, expenditure is an area where management can exercise control, either reducing costs or utilising reserves to fill the gap between incoming resources and expenses. Key to these decisions is the quality of information and forecasts.

Expectations at December 2008 were that expenditure was likely to increase in line with the Retail Prices Index (RPI) at some 4.3% on average. At the time, we suggested a degree of caution over RPI as a measure of inflation for charities, as RPI was distorted by, for example, decreases in the price of white goods not typically purchased by charities.

We asked charities again what their expectations were of the real change in their cost base, in the coming 12 months, not accounting for the effect of any investment or divestment. Some 16% of respondents expected no change in their cost base, 31% expecting a 0-4% increase. Surprisingly, there was a range of expectations of increases and decreases, 45% of respondents expect an increase, whilst 39% expect a decrease. On average respondents expected a modest increase in costs of between 0-2%, which is broadly in line with current expectations of inflation in the UK.

The average expectations in relation to the expected growth in print and production costs have also decreased since the December 2008 report, as have those for fuel and energy.

Wages and salaries

In the current economic environment, there have been many news reports in the media, commenting on reductions in staff pay, hours and freezes on salary increases, together with some innovative ways of reducing costs by way of part-time working and unpaid leave. Broadly speaking, we would expect that the salaries of charity staff might be somewhere between that of the public and private sectors. The Office of National Statistics reported that in the year to April 2009, pay growth (including bonuses) in the private sector stood at 0.3 per cent compared with 3.6 per cent for the public sector.

As a result, it is perhaps unsurprising that some 50% of respondents were expecting to increase salaries by 1-3%, but we were surprised to see that a further 10% expected to increase salaries by greater than 4%. In the current economic environment, we see one of the opportunities for businesses and charities alike is the recruitment and retention of quality staff at competitive rates. We have seen examples, particularly in smaller charities where staff relations can be very close, of a reluctance to take what might be seen to be unpopular decisions on pay rises, and we would urge all charities to consider very carefully the need for clear and decisive action which has the interests of the beneficiaries at heart.
As with the December 2008 survey, many respondents identified opportunities as a result of the current downturn. As before, we have summarised the observations we feel reflect a greater understanding of the impact of the recession. We have categorised these under five broad headings below, together with a sample of quotes from responses.

**Opportunities**

- "We could provide outsourced services for other charities; short-term staff and consultants instead of permanent staff; we are training local overseas staff.”
- "Increased opportunities for collaborative working.”
- "Potential merger partners. Improved reserve management.”

**Reduced costs**

- "Obtaining discounts from suppliers, particularly fees from professional advisers.”
- "Chance to address cost inefficiencies, particularly in our overseas offices.”
- "Aldi factor – our organisation can offer value for money in the current climate.”
- "Availability of commercial property.”

**Collaboration**

- "We are monitoring markets and consulting professional advisers regarding appropriate asset allocations to take advantage of the recovery when it comes.”
- "We are devoting resources to working in collaboration with private sector providers, offering to carry out sub-contracted work as part of national large scale government funded contracts.”
- "Concentrating on a more focused fundraising strategy will provide benefits going forward, as will the collection of data during this period.”
- "Working hard on our website and the development of our database to work smarter.”
- "Investing reserves to develop proposals.”

**Investment in future opportunities**

- "Recessory pressures have made it easier to drive through hard restructuring choices as part of an overall strategic review.”
- "Excellent opportunity to stop mission creep, cut committees, raise charges to a sensible level, and stop pretending we can be all things to all people. We are already much more focused and much more businesslike. It is a shame it took the shock of a financial crisis to make us break out of bad habits.”
- "Ensuring that the organisation has better understanding of its cost base and is better placed to face the inevitable downturns that will follow the recovery from this recession.”

**Good governance**

- "The recession has raised uncertainties and worries in people’s minds about the economy/ job security and so on and will have reduced expectations about the level of increases at the next annual salary review. Although this is not an “opportunity” as such staff would be more likely to accept a lower award than usual in these circumstances, thus reducing the possible negative impact on morale.”
- "The ability to recruit skilled and experienced staff who can start immediately.”
- "Potential to recruit some good volunteers.”
- "New fundraising director recruited with alternative skills and experience.”
- "Increased pressure on the jobs market with many more applications for relatively low grade posts making it easier to recruit better trained people.”

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In our December 2008 report, we introduced the idea that charities might consider the period of recession as similar to a “pit stop” in a grand prix. We encouraged charities to use the recession as an opportunity to assess their overall strategy, how this might be impacted by the recession and to agree in advance what actions might be necessary as a result.

We are encouraged that 78% of respondents state that they are taking action as a result of the recession, up from 71% in December 2008. A further 74% state that their charity’s five year strategy will be impacted by the current climate. However, the responses suggest that there appears to be work to be done before all charities are managing their finances in the most appropriate manner.

**Actions to date**

Actions to date are many and various and include cutting costs, increased communications, investing reserves, recruitment freezes, increased relationship building with funders, greater scrutiny of management accounts, greater analysis of risks and scenario planning.

**Planned restrictions**

In the December 2008 report, we stated that some respondents were planning to restrict expenditure on capital projects, IT projects, website development, fleet renewal, recruitment and the use of agency or consultancy staff. The proportions of respondents looking to take such action had remained broadly constant, as indicated by the table below.

**Impact of downturn on operations**

At the time of our December 2008 report, some 37% of charities expected to see a decline in the level of their activity. This time, the equivalent figure is 34% and some 20% expect to see cuts in services. This is despite the fact that 36% of respondents expect to see an increase in the demand for their services.

Those charities expecting to make redundancies have fallen slightly from 34% to 31%, in line with those expecting to reduce their activity levels.

There has been a reduction in the number of charities planning to invest further in fundraising, which we take to indicate that some charities have already made further investment since December 2008 and do not plan to invest any more.

The least popular areas for investment seem to be direct marketing and community fundraising. A significant proportion of charities (39%) stated that they intended to cut back on direct marketing.

**Fundraising investment**

![Planned restrictions in the coming 12 months](image)

![Planned investment in fundraising in the coming 12 months](image)
The apparent ongoing investment in increased fundraising raises a challenging question for some Boards of Trustees as to the cost-effectiveness of fundraising activity. With the expectations of falling income overall, there must be a question as to whether the overall fundraising cost is justifiable or whether too many charities are competing for the same pot.

We are aware of at least one major charity which has combined fundraising teams with another similar charity, with a view to minimising the risk of duplicative costs. This is a bold move, but may signal a desire among some charities to think laterally about this issue. We discuss the benefits of collaborative working later.

A focus on reserves

The December 2008 survey highlighted that one of the key aspects of effective financial management was the use of reserves by charities. We indicated that charities should have a risk-based reserves policy, a key decision being how reserves are to be utilised to smooth the effect of the downturn.

With 6 months to action the “10 fundamental priorities” of the December 2008 report, we again questioned respondents on their reserves policy. Broadly speaking, 67% of charities are holding reserves sufficient for core operating costs of up to 6 months. A further 12% of respondents could support core operations for 12 months, whilst 4% of respondents report having no reserves, and are therefore significantly exposed to reductions in income or increased costs. The chart below shows a further analysis of reserves by the size of charity.

Some 44% of respondents stated that they intend to utilise reserves to fund services during the recession. We asked those intending to utilise their reserves what these would be utilised for, and found some common themes and interesting responses. Respondents indicated that reserves would be used to:

• Fund ongoing activity whilst the scale of reduced funding was better assessed;
• “Pump prime” investments in new opportunities to take advantage of those opportunities as early as possible; and
• Fund costs of restructuring, such as redundancies.

It should be noted that the respondents to the Charity Commission March 2009 Economics survey indicated that only 6% were considering drawing down on reserved funds. This may suggest that the increasing effect of the recession on the sector is causing more Boards of Trustees to consider using reserves as an appropriate way of smoothing the impact.

The extent to which reserves are used to maintain activities will be perhaps the most challenging decision facing many charities at present. The balance between potentially exposing the charity to further risk on the one hand and maintaining the level of services on the other will often be the cause of significant debate amongst Trustees and senior management.

In our view, charities will need to understand precisely what reserves are needed and in what circumstances they will be utilised. Only then can an informed judgement be made as to the extent to which they can be used now. Reserves may be needed for a variety of reasons, including working capital, a contingency for unforeseen expenditure, a desire to smooth service delivery and a wish to invest in new opportunities promptly.

In our experience, when a charity really understands why it needs to hold reserves, it can be the case that a lower level of reserves can be seen as sufficient, rather than a more cautious level which might arise if inadequate time is spent assessing the need.

We would strongly encourage Boards with reserves to consider such an approach – if reserves are there for a “rainy day”, then now may be the time to get out the umbrella.
Collaborations, mergers and acquisitions

Our December 2008 survey suggested that a significant minority, 34% of charities, would consider collaboration or partnership with another charity as part of their planning process, or would consider outsourcing as a remedy. By common consent, collaboration in the not-for-profit sector has remained at a relatively low level. However, the theories of economies of scale, rationalising in a downturn and the survival of the fittest are true of all sectors in the economy, so much so that the Charity Commission have included this as one of the “15 Key Questions” they feel Trustees need to answer in their recently published “Economic Downturn” checklist. Accordingly, we felt it important to question respondents further on this topic.

We asked again whether charities would consider merging and collaboration as part of their planning process and found this to be consistent with December 2008 responses, with some 22% saying yes. A further 10% are considering outsourcing and 4% stated that a full merger was a possibility.

Of those respondents considering the options above, 65% have indicated that they would consider pooling resources with similar organisations, whilst 32% stated that they would be interested in less viable organisations to support. Of those who would not consider collaborating, 74% think that they do not need to do so, but a significant 22% would consider it if they could find a comparable organisation. A further 11% claim that their independence would be lost.

In the December 2008 report we were reassured to see that a significant minority of respondents were actively considering collaboration and merger.

In this report, we wanted to consider further the benefits of collaboration and, even possibly, mergers. We acknowledge that this is an area of active debate in the sector; however, the one key consideration in this debate should be the delivery of the best outcome for beneficiaries. If this delivery might be enhanced through collaboration or merger, it warrants further consideration. This is a part of the strategic thinking and scenario planning which we consider later in our conclusions.

What do we mean by collaborative working?

There are a variety of ways in which charities could collaborate. At one end of the spectrum, a larger charity might provide, say, finance, HR or other services to a smaller one for a share of an existing cost, or charities may agree to “share” various overheads in order to maximise efficiency and create critical mass. In theory, any group of charities could potentially share “back office” services, e.g. finance, HR etc. However, the most likely candidates are those charities with something in common, such as proximity, Trustees, common funders or beneficiaries.

At the other end, certain services may be merged, for example a trading activity might be combined in some sort of joint venture, or the delivery of similar services might be combined.

Other interesting areas that might be considered could be fundraising, where similar charities are competing for a similar available pot of funds, and communications, where shared investments in communication might provide an overall increased benefit, without necessarily diluting the message of any one charity. One successful example of both collaborative fundraising and delivery of objectives is the Disaster Emergency Committee, whom coordinate the response of its members in times of disaster.

How could charities benefit from collaborative working?

In essence, the benefits can be summarised as follows:

- Reduced costs arising from increased purchasing power and efficiencies;
- Improved quality of resource arising from a greater critical mass, for example collaborating charities might be able to afford to employ higher qualified individuals (finance, fundraising, communications etc) than individual charities;
- Reduced risks arising from sharing investments in new services, contracting with third parties etc;
- A reduced need to hold reserves as a result of shared risk-taking;
- Greater access to professional advice (legal, property, accounting etc);
- A more coordinated approach to dealing with beneficiaries, contracting parties etc, leading to better delivery and cost savings; and
- More effective management of the charities’ affairs arising from the need to ensure that each individual charity’s interests are properly protected.

What are the obstacles which might prevent success?

The most frequent issue which prevents collaboration being considered is a perceived loss of independence in decision making or dilution of a brand. This, coupled with a lack of trust of the other organisations or a lack of faith in their competence, often dissuades charities from talking openly about how they might work together.

There are also very real issues around access to funders, with charities being concerned that they will get more “bites of the cherry” as individual organisations as opposed to a group which funders see as one organisation.

The process of establishing what benefits are worth making changes to achieve can itself be time-consuming and difficult. This, too, can prove terminal to the success of the process.

Finally, if the output of collaborating includes restructuring of personnel, some charities will find this difficult to implement and knowledge that this might be the case can itself prevent senior management engaging in the process, particularly if their roles may be called into question.

The Government have established a £16.5 million “real help for real communities” modernisation fund, providing grants of up to £10,000 to those seeking to collaborate or merge, and loans of between £30,000 and £500,000 to those with existing plans for merger or collaboration.

Summary

We do not underestimate the very real practical issues that collaborative working might present. The prize, in terms of reduced costs and the various other benefits outlined above, must be significant in order to justify the management time, professional expense and potentially difficult decisions which might arise.
The results this time around have not changed materially since December 2008. This is disappointing as it implies that at least one in three charities still do not consider that they have adequate systems and processes in place. In particular, it is of significant concern that only 56% of respondents feel they have adequate systems in place for cash flow forecasting. As reported in December in our “10 Fundamental Priorities”, cash is “king” in a recession and adequate management of cash flow, the ability to meet liabilities as and when they fall due, and to plan effectively for troughs in cash resources will, for some, be key to survival. In our view, the 44% of charities with inadequate cash monitoring are at the greatest risk of failure during this downturn.

Similarly, there has been no real improvement in those performing detailed scenario planning. Only 34% of respondents feel they have adequate systems in place. This, again, is one of the “10 Fundamental Priorities” we reported in our December 2008 report and the first of the Charity Commissions “Economic Downturn” checklist. Winners in the downturn will be those who demonstrate agility and flexibility: having assessed various scenarios will greatly improve a charity’s ability to be proactive not reactive, making well thought out and early decisions.
This second survey has once again given us a temperature check of the expectations of both Finance and Fundraising Directors as regards their expectations of changes in income and costs over the next 12 months. Whilst, again, there have been a range of responses, the following conclusions can be drawn:

• There is broad agreement that the experience of the 6 months since December 2008 was worse than expected.

• The impact of the recession is now being felt by a greater proportion of charities.

• Charities’ expectations of the impact of the recession in the next 12 months are worse than in December 2008 by at least 50%.

• Many charities continue to see opportunities arising from the recession.

• Charities have not made significant improvements to the manner in which they manage their financial affairs and this is an area of concern.

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

We discuss below those aspects of this updated survey which we consider to merit particular consideration amongst Trustees and senior management.

Collaboration and merger

We discuss in this report the need for charities to consider carefully the potential benefits of collaboration and possibly merger as a response to the impact of the recession. Such actions take time to implement and we believe that charities will not be in a position to make the necessary changes if they leave it until money starts to run out. It may be that it is simply a contingency plan at this stage, but a good understanding of what might be possible and who might make appropriate collaboration or merger partners might be critical if the need subsequently presents itself.

Opportunities arising from the recession

In this report, our respondents have again identified a number of opportunities that have occurred and will continue to occur, as a result of the current economic downturn. In the conclusions to our December 2008 report, we provided a framework of effective financial management and decision making. We feel that in order to succeed in the downturn, Trustees and senior management should embrace the principles of effective financial management and decision making, utilising these tools in decision making, being proactive in managing through the downturn and taking advantage of the opportunities, as opposed to reacting to issues as they arise.

Opportunities will, of course, vary widely depending upon the present position of your charity. However, Trustees and Senior Management will be well advised to take time to consider some of the issues identified in both surveys and to be proactive in pursuing them.

Use of reserves

In this report, we stress in particular the challenges faced by many charities as to when, and to what extent, to use reserves to minimise the short term impact on services. We highlight that, in our view, it is crucial for Trustees to have a detailed understanding of why reserves are held and in what circumstances they will be utilised. Only then can an informed decision be taken as to what extent reserves can and should be used now.

Statutory income

Broadly, charities expect the impact of the recession to be 50% worse than that expected in December 2008. Whilst management cannot control income, management of costs and the use of reserves do allow management to control any gaps in budgets that occur as a result of income reductions.

One area of income which may be impacted a result of the downturn long after the upturn in the economy is statutory income. Many commentators, including the authors, expect that charities will be affected by likely significant cuts in public sector spending between 2011 and 2014. We feel that the financial spending review could occur soon after the next general election, which must be by May 2010. This means that the potential impact on statutory income sources may occur earlier than anticipated. Charities reliant on statutory income will be well advised to consider carefully the likelihood that such income may be under pressure from mid 2010, and ensure that their financial position allows them to react as flexibly as possible in the event that cuts in public spending impact adversely on their income.

Relationships and management information are key. Having an open dialogue with funders on this issue will allow an insight into any potential cuts in funding sooner rather than later. Detailed “what if?” scenario planning based upon high quality information will allow management to identify the potential impact of any cuts. On the basis of this planning, foresight can be had on the big decisions that may be faced in the future.
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 1,600 members. As of early 2008, CFDG’s membership manages a total of £14.7 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 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, including the Charity SORP committee.

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 organisations 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 a thriving fundraising sector and provide 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.

**References**

The report refers to a number of publicly available reports, please see details of these below:

Charity Commission, (March 2009), Economics Survey of Charities

Charity Commission, (June 2009), The economic downturn, 15 questions trustees need to ask
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

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