No more small change
The future charity challenge

Soundbites

pwc

> *Pressures on charities are intensifying. Small, incremental change has often allowed charities to scrape by in the past – it is no longer enough. Against an increasingly challenging backdrop, charities need to change fundamentally if they are to survive and thrive. This will mean charities have to rethink their purpose, transform their operations enabled by the developments in technology, and engage collaboratively.*

The prospects for 2017/8 and beyond

Growing demand and expectations

Charities are experiencing an **increasing demand for services**. This is a trend that will continue and charities need to step up further in the coming years to meet this demand.

65% of charities are experiencing increased demand

39% of charities are needing to deliver the same, or more, with fewer resources[1]

64% of charities delivering public sector contracts rely on other sources of income to fulfil these contracts[2]

Increased demand takes a number of forms. Charities commissioned by the public sector are being asked to deliver the same, or more, with reduced contractual payments. Even those who are not directly commissioned by the public sector face increased numbers of service users whose demands are no longer met. This is coupled with ever growing expectations of the services charities can deliver.

But there are also new opportunities. As the public sector recedes, charities can play a role in looking after community assets and taking on new responsibilities. Smart responses to this changing landscape will require fundamental change of what and how a charity delivers.

In addition, there will be growing opportunities for charities to **collaborate more** with each other. Many have been predicting fewer charities in the UK, but we think that far greater collaboration between charities will be the norm.

Changing public sector funding

Public sector funding changes continue to have a serious impact on charities. Although grants continue to drop this has in fact been more than balanced with the increase in public sector contracts. This change in public sector funding puts an external pressure on charities to change their operations in response[3].

5 YEARS

Over half of charities are uncertain about being operational in 5 years[4]

---

[1] Charity Finance Group, Institute of Fundraising and PwC, 2016, Managing in the New Normal 2016
[2] NPC, 2017, Charities taking charge: Transforming to face a changing world, www.thinkNPC.org/StateoftheSector

[3] NCVO, 2017, UK Civil Society Almanac 2017, www. data.ncvo.org.uk/a/almanac17
[4] Local Charity and Community Group, 2016, Sustainability report 2016, www.localgiving.org/what-we-do/reports/sustainability-report-2016

Government grants

£5.2 billion
2004/5

↓

£2.9 billion
2014/15

Government contracts

£12.4 billion
2014/15

↑

£6.9 billion
2004/5

Increased scrutiny

Scrutiny from the public, commissioners and regulators has never been higher for charities. Charities of all sizes are facing increased expectations in terms of monitoring and reporting on public sector contracts that emphasises the achievement of outcomes as well as or in place of, measuring inputs such as the number of hours delivered.

Pressure on donors

There is ongoing pressure on individual and corporate donations, exacerbated by the legislative changes to individual donations in response to a fall in public confidence in charities.

Individual donations declined from

£12.3 billion
2010

↓

£10.1 billion
2015[5]

40%
believe the Fundraising Preference Service will result in a drop

↓

in donation income[6]

29%
believe the Fundraising Preference Service will result in a

↑

better public image

It is likely that the new measures – especially the communications opt-outs within the Fundraising Preference Survey – will have a disproportionate impact on smaller charities due to their administrative cost burden.

The risks of getting this wrong – from reputational damage to action from the regulator – is significant. While operations need to be as agile and lean as they can be, administration and controls must be sufficient to minimise this risk.

What does this mean for charities?

Charities are already drawing on reserves, with our survey showing that almost half (47%) are planning to do so in this financial year. But this is a temporary measure and more fundamental change will be needed to achieve longer term sustainability:

- **Diversification and prioritisation of services** – this can be achieved by moving into new areas and services, and withdrawing from others, in response to the changing market, and changing beneficiary and customer needs. However, simply doing more is not the answer. NPC's State of the Sector[7] research highlights the difficulty some charities find in prioritising, with 74% of charities expecting to do more things in 3 years' time and only 4% doing fewer activities. It is essential that charities identify their strategic priorities and form an objective view of which capabilities, services and products are aligned to this and which should be stopped.
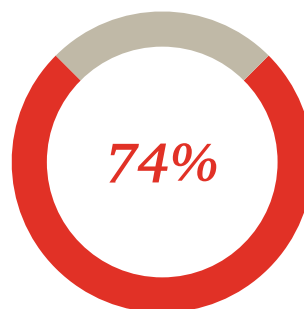
74%

*74% of charities expect to do more things in 3 years' time*

- **Embracing digital services** – technology opens up opportunities to deliver new services entirely. Mobile apps can offer different, engaging experiences for beneficiaries and new technologies can help overcome the 'digital divide' for those who struggle to make use of traditional keyboards etc. Online peer community platforms, too, can support and enrich traditional methods of support by connecting beneficiaries together as a community, creating the space for new interactions with members, volunteers, donors and the wider public. And collaboration tools can enable staff and volunteers working remotely and flexibly to be productive.

- **Targeting efficiencies** – as well as collaboration opportunities, efficiencies can be achieved through rethinking how services are delivered and focusing the number and breadth of services on the most viable areas – whether geographic, customer or product based. This includes the opportunities for collaboration between charities. Technology is a key enabler here and there may often be a need to invest to counter for periods of under-investment, to modernise working practices and to enable the organisation to keep up with the pace of demand for reporting outcomes.

[5] CAF UK Giving 2010 and CAF UK Giving 2016, www.cafonline.org/docs/default-source/about-us-publications/uk_giving_2011_full_rep.pdf?sfvrsn=5.pdf & www.cafonline.org/docs/default-source/about-us-publications/caf-uk-giving-web
[6] Institute of Fundraising & Small Charities Coalition, 2016, Views of smaller charities on fundraising reforms, www.smallcharities.org.uk/fileadmin/user/files_documents/IoF_and_SCC_Research_on_fundraising_reforms.pdf

– Most organisations in other sectors are pushing forward with the move from on-premise to cloud-based systems, as this market has matured, costs have reduced and risk has reduced. Charities are coming later to this agenda but have the opportunity to build on the investment made by the IT suppliers, which can reduce costs, improve security and free up physical and personnel resource.

– Many charities are also recognising the need to invest move from 'point' solutions that address specific business functions to 'enterprise' systems that can better connect the data across the organisation, provide increased insight and control over the data held and be a more trusted, single source of the truth.

– Finally, there is an ongoing shift that technology has supported to more corporate service activity being delivered through automation and self-service. For example in HR this covers processes such as sickness management, timesheets and new approaches to delivery such as e-learning modules. This means the benefits from digital can support staff to deliver a charity's work.

• **Increased collaboration and partnership** – collaboration offers significant opportunities. 60% of charities in the State of the Sector research reported that they currently partner with other charities and 52% said they expected to be partnering more with other charities in 3 years' time. This is not just about mergers or even joint delivery, there are opportunities to reduce administrative and 'back office' costs by sharing services within and across charities while still retaining the brand, strategic purpose and front line delivery unique to each charity. Those charities which are better equipped to work across boundaries, partnering with others for specific issues and projects as well as sharing the total overhead costs through increasing scale, will be in a better position to weather the uncertainty the coming years are expected to bring.

52%
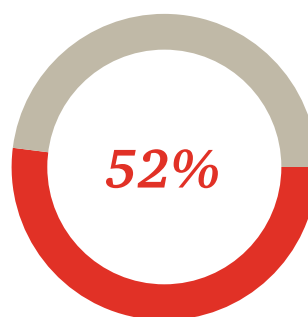
52% *of charities expect to be partnering more with other charities in* **3 years'** *time*

• **Income maximisation** – with shop income contributing up to 60% of some charity's income, charities need to be more commercial in their retail function and drive more unreserved income. In order to deliver profitable growth in a traditionally non-commercial environment, charities are increasingly required to embrace practices that are more typical of the private, rather than of the non-profit sector. In our experience, some action areas are typically:

– understanding and actively engaging with customers and donors, knowing the reasons they donate to a particular charity, and ensuring retail chains turn income potential into actual profit which can be put back into supporting their main cause

– actively managing and setting revenue and profit benchmarks to review how shops are performing in a relevant and realistic way, supporting this with a robust process where corrective actions are routinely identified and implemented

– managing retail cost base, especially in stock distribution and replenishment, using data to plan end-to-end distribution and striking the right balance between logistic costs and the availability of products in store.

---

[7]NPC, 2017, Charities taking charge: Transforming to face a changing world, www.thinkNPC.org/StateoftheSector

Delivering successful change

So how will charities move from small change to fundamental change? Going through change on this scale is not easy and charities seldom have the spare capacity and skills to focus on driving these activities all at once. The negative impact of starting, and not finishing, change of this nature often makes things worse rather than better. Employees disengage, trustees are frustrated and beneficiaries don't see the change on the ground.

In our experience, successful change projects that do deliver on their ambitions share the following four characteristics:

Start with a 'vision' and mission.

- Crucially, the vision and mission must be articulated in a way that genuinely shapes the way the organisation will work. This means being clear not only about the charitable purpose and the difference the charity wishes to make, but also the outcomes and impact the charity wishes to deliver and how it intends to do so.

Having a clear direction and strategy, enabled by digital.

- Our view is that a charity's strategy should have the opportunities from digital running throughout it. A charity should not a have stand-alone digital strategy, but an overall strategy fit for the digital age.

Providing an overall 'blueprint' or operating model for how a charity's people, resources and assets will be organised to deliver the outcomes.

- This isn't about having a series of glossy diagrams but having real clarity, and leadership buy-in, on how difficult decisions such as how geographical, service and customer-focussed activities are managed. The key is for charities to be able to have a way of working that makes best use of the extraordinary talent that exists in charities across the UK.

Being clear on the benefits.

- This includes baselining where the charity is now and where it needs to be in the future. It also includes setting up the tracking of how the charity will know the measures have been achieved. This is particularly important where investment in new technology is needed. Our experience in working with charities also shows the real gains to be made by early, momentum-building visible signs of change.

If charities are to be sustainable in future, embracing this radical change agenda will be essential.

We need to have the heart of a charity but the mindset of a business.

Charity leader, State of the Sector research

Our team

James Bowman

T: (0) 7841 563 804
E: james.bowman@pwc.com
@JamesBowmanPwC

David Gimson

T: (0) 7841 781 211
E: david.p.gimson@pwc.com

Paul Deegan

T: (0) 7903 720 714
E: paul.deegan@pwc.com