



*Soundbites*

# *A time for more change?*

Allowing charities to be  
fit for the future



**pwc**

***Charities are in danger of becoming the forgotten casualty of the economic downturn. The impact of the downturn in the public and private sector has been well documented and analysed in depth. However, less commented on has been the impact on charities.***



So why has this not yet reached the public consciousness? Our view is that despite being under enormous financial pressure, charities have been remarkably successful in maintaining and improving their work to meet their charitable objectives.

However, many charities are now reaching a tipping point. The salami slicing of budgets and the refocusing of priorities has been a relatively successful short term strategy, but it is not sustainable in the longer term. The pressures that have been building are not going away; in fact they are becoming the 'new normal' for the sector.

These growing pressures can be summed up into 3 key themes:

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***Increased demand for services:***

- The demand for charitable services has arguably never been higher. Time and again the sector has innovated and stepped in to provide where public services has reduced provision. Our 2014 '*Managing in a Downturn*'<sup>1</sup> survey of the Charity sector found that 68% of charities expected a surge in demand for their services in the coming 12 months.

<sup>1</sup> 'Managing in the New Normal', 'Managing in a Downturn' 2014 survey report-PwC, Charity Finance Group and the Institute of Fundraising



- Coupled with this increased demand, charities are now also providing an ever wider range of services as they respond to the growing needs of the individuals who require them. This diversity of service provision has resulted in the duplication of processes within and indeed between many organisations.

#### **Reducing public sector funding:**

- Grants from across the public sector are becoming scarcer and will continue to do so.
- Those bodies that continue to fund charities are rightly looking for evidence of the impact and outcome of the work, making access to the funds more competitive.
- Many charities rely on public sector contracts. Many of these contracts are both reducing in scale, becoming more onerous to comply with and have a greater focus on demonstrating a reduction in costs.
- This drop in public sector funding is already having an impact, with *'Managing in a Downturn'* showing that charities have already experienced a net reduction in public sector income over the past year.

#### **Increased pressure on donors:**

- The sector has seen a pressure both on donations from individuals and the public, and corporate sector and donor organisations.
- This reduction in donations to many charities has been compounded with the increased expectations from donors. How can they be sure their donation is being put to best use and having the most impact?

These are by no means the only difficulties currently facing charities – for example, there are often also increasing legislative and administrative requirements and pressure on charities to provide more transparency in the way they work.

All these challenges mean that a longer term, strategic approach is needed. Some charities have seen the scale and long term nature of the challenge and have moved early to establish ambitious change programmes. *'Managing in a Downturn'* showed that charities are becoming more aware of the need for a step change in the way they work. Taking a strategic, long term view can enable charities to develop programmes which reshape the organisations, introducing new ways of working, using technology more effectively and freeing up staff capacity to focus on the delivery of the charitable objectives.

We have observed two main drivers behind successful change programmes in response to the challenges:

#### **1) Reviewing the overall charity business model/strategy**

Charities often have a limited analysis of the impact of the services they provide. Charities are increasingly recognising the importance of measuring the impact of their interventions:

- 'Do we really make a difference to the lives of the individuals, families and communities who use our services or the assets we are stewarding?'
- 'Are we achieving the impact and outcomes we intend?'

Given the pressures from donors, there is a growing need for charities to clearly define who they serve now and who they will support in the future. Only once a charity understands the impact of its existing services and who it seeks to support, can it reshape its services, organisation and staff accordingly.

The development of a new business model should be assisted by agreeing performance measures that allow charities to measure the impact of its services and interventions against its overall objectives and purpose. These activities can help to optimise funding and also to seek to ensure that effort is focused on those areas which provide the most impact.

## 2) Transforming the underlying charity operating model

With a clear business model and strategy in place, the way charities work (their 'operating models') can then also be reshaped to support the delivery of these new ways of working.

Most charities have grown organically over many years and have evolved to their current ways of working rather than by design. Many have become over complex and operate with fragmented and duplicated processes and poor IT systems and data. Often the ways in which they work do not enable them to focus the maximum effort on their charitable objectives and purpose.

Although cost reduction is often at the top of every charity board's agenda, many charities haven't yet fundamentally restructured their operational costs or the ways they work. Most change is typically focussed on tactical, short term measures. Whilst there is no single model that will work for every charity, we are seeing 3 key trends:

1. The way services are accessed and navigated is changing – many are starting to look to open up new channels (online, mobile, social media etc) to improve the efficiency of the way they engage with customers and other stakeholders
2. The efficiency of support functions is improving by simplifying and standardising the way they work, professionalising operations and improving the use of core IT systems to free up front line staff to focus on core charitable work
3. Driving value by exploiting buying power and economies of scale is improving the efficiency of supply chains

There are real challenges facing the sector, but by tackling these head on and taking the initiative to change their organisations, charities can ensure sustainable and lasting improvements that reduce costs and refocus staff, enabling a greater focus on the charity's reason for being - delivering on its values and charitable objectives.

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