

Charities and the economic downturn



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FOREWORD

A message from the Chair and Chief Executive of the Charity Commission

Dear Reader,

The downturn in the economy in the last eighteen months poses a double challenge to charities right across the sector, with a potential increase in the demand for their services coupled with concerns about declining income. In this, our third comprehensive survey of the impact of the economic downturn on the charitable sector, we monitor both the effects of the economic situation on charities and the steps they are taking to respond and adapt.

For the first time we combine the results of our survey with case study material from our face to face discussions with charities, to give an even fuller picture of the opportunities and challenges the sector is facing.

The charitable sector is complex and diverse. Charities work in many different settings to help meet need within society and are organised and funded in a myriad of ways. It is therefore unsurprising that we are seeing a mixed picture, with different organisations experiencing the recession in different ways. And it is not all doom and gloom across the board. Some charities have found that donor loyalty has meant their income has remained constant. Others however have already seen their income drop, or tell us that with current grants or contracts coming to an end, they fear the real impact on funding is yet to come.

With a fifth of charities telling us that they are reducing their office and energy costs, and almost one in ten considering merging, collaborating or otherwise joining forces with another charity, more in the sector are clearly looking for ways to cut costs and protect the services and support they offer to their beneficiaries. While this is positive, we believe there is still more that trustees could be doing. Our survey shows that more charities are optimistic about the future than are taking steps to combat the effects of the downturn, and while that optimism is to some extent inspiring we urge charities to prepare for the worst while hoping for the best.

As regulator, we have a responsibility to ensure that we are offering the most current, clear and practical advice and guidance to help charities plan their response to the downturn. One such resource is the practical planning tool we produced for trustees. *Big Board Talk: The conversation all charities need to have*, poses 15 questions which charities of all shapes and sizes should be asking themselves during a recession. The findings of our latest survey and the conversations we have had with charities demonstrate the importance of sound strategic planning and Big Board Talk is just one tool which charities can use to aid them in this.

The challenge that the economic downturn presents for charities is real and current, as this report demonstrates. The energy, passion and commitment of those involved in the sector is needed now more than ever to ensure that the sector remains in the best shape possible to rise to that challenge.



**Dame Suzi Leather
Andrew Hind**

September 2009

**Chair
Chief Executive**

PART A: WHAT THE FIGURES SAY

Headline findings from our third Economic Survey of Charities

- *Impact:* 56% of charities report that they are affected by the economic downturn, an increase from 52% in February 2009.
- *Income:* Of charities receiving income from the following sources:
 - 69% have seen a decrease and 6% an increase in their investment income.
 - 31% have seen a decrease and 19% an increase in grant income.
 - 26% have seen a decrease and 13% an increase in their fundraising income.
- *Demand for services:* 17% of charities have seen an increase in demand for services over the last 12 months, with larger charities seeing a greater increase than small charities.
- *Responses:* 52% of charities have taken steps to counteract the effects of the downturn, up from 12% in September 2008. The largest charities are more likely than the others to have put measures in place.
 - 21% had looked to reduce the cost of things like stationery, printing, mobile phones and energy costs.
 - 8% had increased their fundraising activities.
 - 10% had drawn on their reserves; this was particularly the case for the large (20%) and largest (24%) charities.
 - 9% had considered merging, collaborating or forming consortia with other charities.
- *Outlook for the future:* Most charities, 71%, were optimistic for the short term future. Optimism levels vary by source of income and size of charity.

A1. Introduction

This report summarises findings from our latest and previous surveys to give a comprehensive picture of the impact of the downturn on charities and steps they are taking to respond and adapt. Our third survey builds on our research in September 2008, when the first indications of the downturn were registering within financial markets, and in February 2009, when the full global impact was being felt.

Methodology

For the latest survey, a total of 1,001 telephone interviews were carried out with a random sample of registered charities in England and Wales in July/August 2009. The sample was split between four income bands and weighted to reflect the number of charities in each size band on the Register. The income bands are small (0 - £10,000), medium (£10,000 - £99,999), large (£100,000 - £999,999), largest (£1 million upward). The research was conducted by Carol Goldman Associates and a full copy can be downloaded at www.charitycommission.gov.uk. Direct comparisons with previous surveys can only be made for certain questions and where possible they have been made in this report.

Overall impact

Overall, the impact of the downturn has increased slightly since we last surveyed charities in February 2009 with 56% now reporting they had been affected by the downturn. Charities in the large and largest income bands are more likely to report that they had been affected to some degree than those in the small and medium bands.

Chart 1: % of charities that say they have been affected by the economic downturn

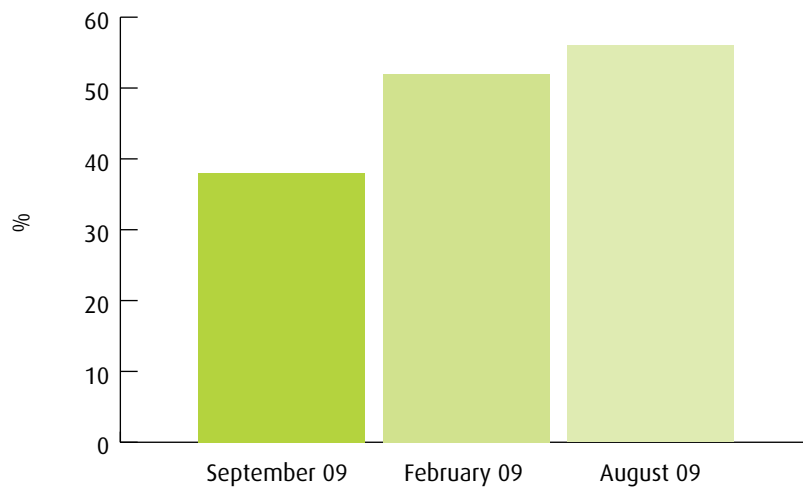
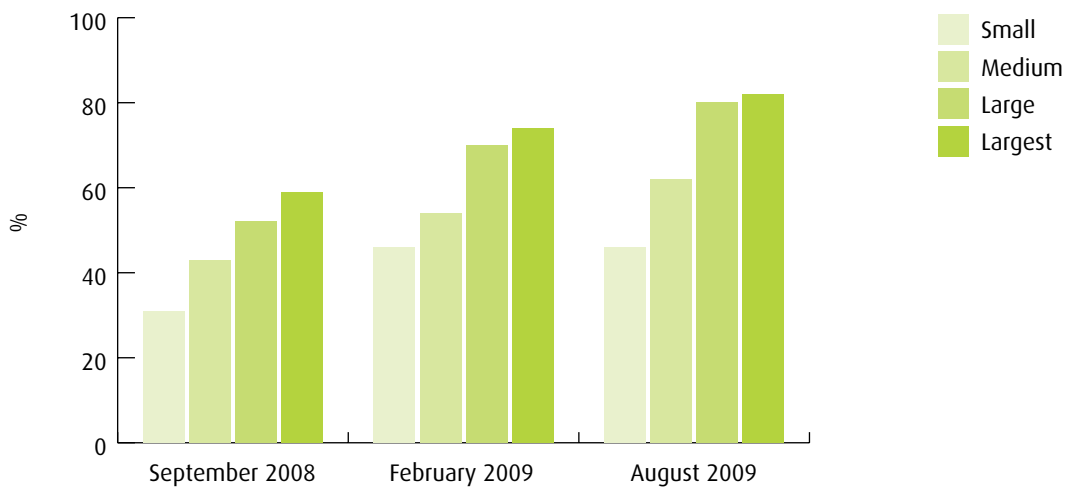


Chart 2: % of charities by size that say they have been affected by the economic downturn



A2. The impact on charity income

In February 2009, nearly three-fifths (58%) of charities that were affected by the downturn, reported a reduction in income, with just 1% of those saying that the drop was not related to the downturn.

For this third survey, we have explored further how particular sources of income have been affected and expectations for the future. Charities were asked where they received income from, what was their most important source, whether it had increased, decreased or stayed the same over the last 12 months and their expectations for the next year.

- *Fundraising income*

Over 40% of charities surveyed received income through fundraising and for 16%, this was their most important source of income.

More than a quarter of charities funded this way reported a decline in fundraising income over the past 12 months and 34% had reviewed fundraising efforts, with larger charities more likely to have increased fundraising efforts than smaller charities. On a positive note, some 13% had experienced an increase in fundraising income and 56% reported that it had remained the same. Looking ahead, charities are relatively optimistic. 63% anticipate fundraising income staying steady and 11% think it may increase. Some however are worried, with 17% predicting a decrease in the next year.

- *Investment income*

39% of charities said they received income from investments, 60% of those in the largest and 37% of those in the smallest income bands. Of all charities surveyed, a fifth (20%) said this was their most important income source.

Perhaps unsurprising given the trends in the investment markets, 69% of those drawing income from investment had seen it decrease in the last 12 months. Interestingly, given the continuing uncertainty of the markets, charities felt that investment income may not be quite as heavily affected by the downturn in the next 12 months as it has in the past year, (with 29% saying it would decrease compared with the 69% who said it *had* decreased). Other research suggests that trustee boards are devoting more time now to discussing and reviewing their investment strategies.¹ This survey finds that 14% of those receiving investment income reported they had changed investment strategies or reduced investments and again, indications were that charities in the large and largest income bands were most proactive about this.

- *Public sector funding*

15% of all charities received funding for public sector contracts, 15% of those in the smallest income band and, significantly more, 34% and 30% of those in the largest and largest income bands. While this was seen as the most important source of income for only 7% of small charities, 22% of large charities, with an income between £100,000 - £999,999, reported this to be the case.

¹ *Firm Foundations: A snapshot of how trusts and foundations are responding to the economic downturn in 2009.* (Charity Commission, August 2009).

70% of charities that obtained income from public sector funding reported that this income source had remained stable over the past 12 months, with only 13% seeing a decrease and 11% an increase. This stability may be a result of ties to funding contracts. Looking ahead, although a marginally higher number expect to see a decrease in the next 12 months (18%), for the most part charities appear optimistic. That said, this was the area of funding that charities were least likely to expect to increase (5%). Charities reliant on public funding should explore whether there are ways of minimising the risks that this reliance might cause. Our survey found that only 16% of those receiving public funding said that they had considered diversifying their income streams. While it is difficult to say exactly what the future holds, all indications are that public purse will be tighter and the knock on effect of this on the third sector is unknown.

- *Trading income*

14% of charities said they obtained funding from trading, 34% of charities in the largest income band and a tenth of smaller charities. 5% said that this was their most important source of income.

Half of charities that rely on trading for income reported that this source stayed the same, with 17% seeing an increase and 22% reporting a decrease. Looking ahead, this is one of the areas where charities were most likely to expect an increase in income (17%) and least likely to expect a decrease (14%), perhaps suggesting that charities are relatively confident that they are putting in place strategies to maximise trading income while minimising any losses or risks. However this was also the area where the highest number of respondents said they 'didn't know' what the impact might be, reflecting their uncertainty about the future commercial and trading environment but also the diverse range of sources from which charities can receive trading income.

- *Income from membership*

Membership was the third most common source and important of income for charities with nearly a quarter (24%) receiving funding this way. Smaller charities were more likely to say this was their most important source of funding than larger charities.

66% of charities funded this way reported that income from membership subscriptions stayed the same, with 18% seeing an increase and 12% reporting a decrease. This was the only category in which more charities had seen an increase than a decrease. Expectations around membership income were more optimistic than for any other source of income with 20% expecting an increase in the next year, the highest for any source of income stream, and only 8% expecting a decrease, significantly less than for any other income stream. This is possibly as this is an area over which charities have some control.

- *Income from grant making trusts and foundations*

34% of charities in the largest income band receive funding from grant making trusts and foundations and 12% of all charities. Undoubtedly income from trusts and foundations is significant for some, but only 4% of all charities identified this as their most important income stream.

Our recent report, *'Firm Foundations: A snapshot of how trusts and foundations are responding to the economic downturn in 2009'* found that grant making by the largest grant makers was holding steady for now but that the future was uncertain. This survey which includes grant income from both large and small grant makers, paints a slightly different and mixed picture. Nearly a third of charities (31%) receiving income from grant making trusts, foundations or funds had experienced a decrease in funding. However, nearly a fifth had seen an increase and 46% reported it had stayed the same. Looking ahead, this was an income stream that charities expressed the most concern about, with 30% anticipating a decrease and only 8% an increase.

- *Legacies*

Legacies are a source of income for 15% of the charities surveyed, 12% of small charities and 31% of large charities. 3% of all charities said this was their most important source.

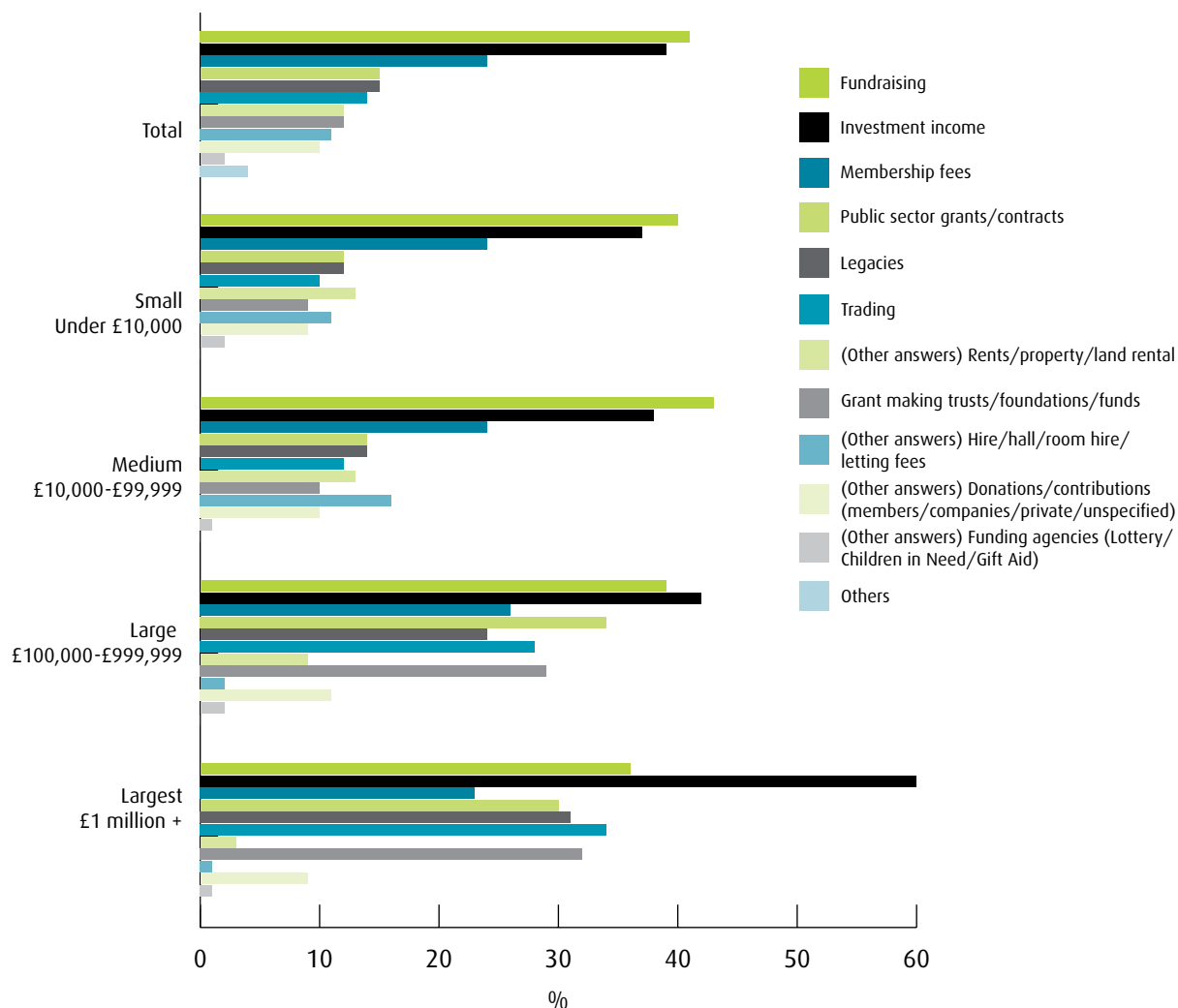
Just over a fifth of charities funded this way have experienced a decline in legacy income, with 60% saying it was stable and 16% seeing an increase. Charities were less optimistic about this funding source than many others with a quarter expecting it to decrease in the next 12 months and only 7% expecting an increase. This may be due to a time lag in charities receiving legacies and a reduction in their value following the decline in the property and investments markets.

- *Other sources*

Two income sources that have grown more common since our last survey are 'rents/property/land rental' (12% of all charities receive income from this now compared 4% in a previous survey) and 'hall/room hire and letting fees' (11% of all charities receive income this way compared with 3% previously). The growth in importance is significant as in this survey these sources were written in by interviewers as 'other answers' which can slightly depress incidence.

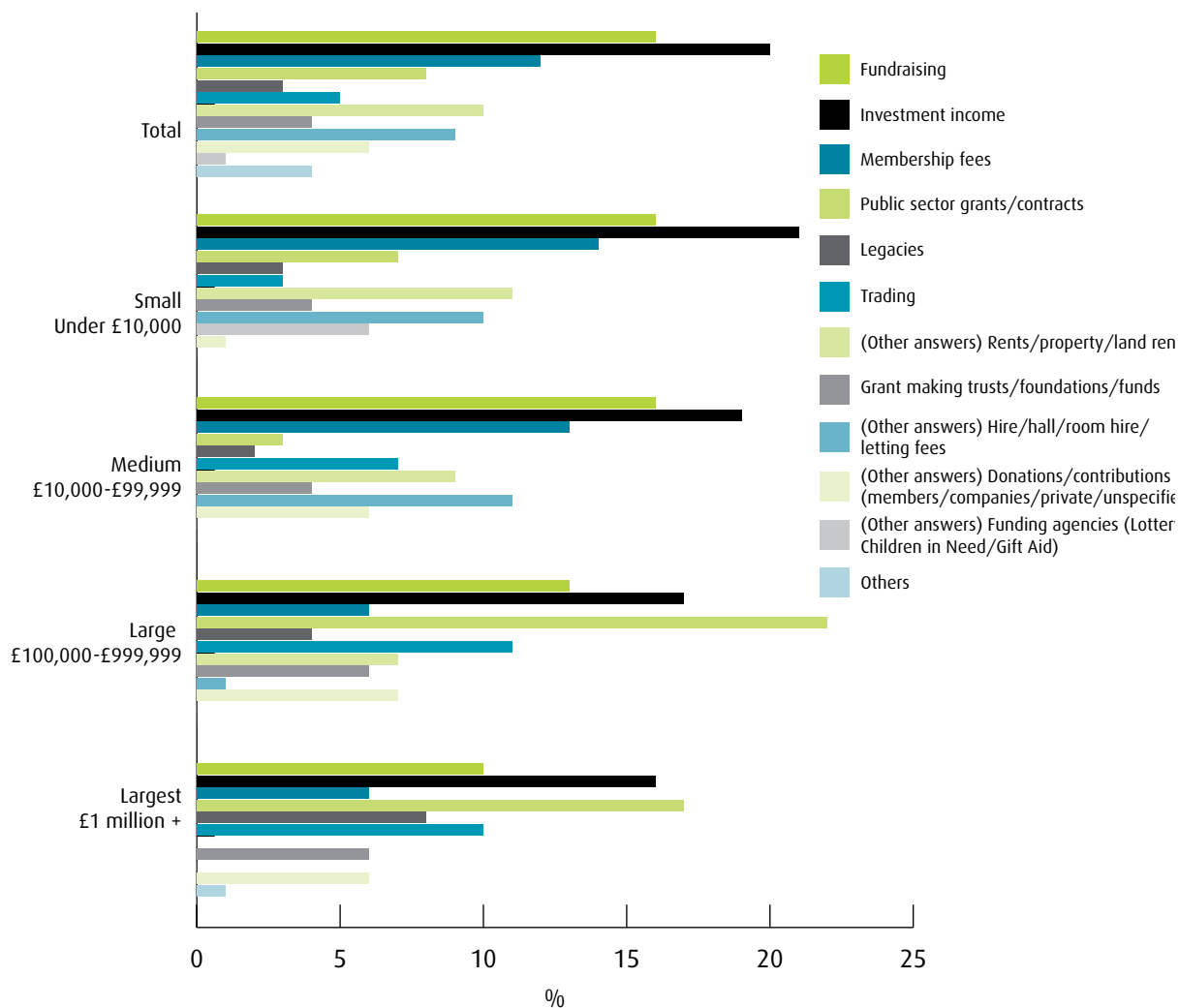
Rents/property/land rental are now the most important source for 10% of charities, up from 3% last survey where charities were specifically asked about this income group. Significantly this was 11% and 9% of charities respectively in the small and medium income brackets. Hall/room hire and letting fees was the most importance source for 9%, up from 2% last survey where charities were again asked specifically about this income source. This could suggest that smaller charities are beginning to look carefully at property assets to ensure that they are getting the best value for money out of this source of finance.

Chart 3: % of charities that said they obtained income from this source



Income Source	Total %	Small %	Medium %	Large %	Largest %
Fundraising	41	40	43	39	36
Investment income	39	37	38	42	60
Membership fees	24	24	24	26	23
Public sector grants/contracts	15	12	14	34	30
Legacies	15	12	14	24	31
Trading	14	10	12	28	34
(Other answers) Rents/property/land rental	12	13	13	9	3
Grant making trusts/foundations/funds	12	9	10	29	32
(Other answers) Hire/hall/room hire/letting fees	11	11	16	2	1
(Other answers) Donations/contributions (members/companies/private/unspecified)	10	9	10	11	9
(Other answers) Funding agencies (Lottery/Children in Need/Gift Aid)	2	2	1	2	1
Others	4	*	*	*	*

Chart 4: % of charities that said this is their 'most important' source of income



Income Source	Total %	Small %	Medium %	Large %	Largest %
Fundraising	16	16	16	13	10
Investment income	20	21	19	17	16
Membership fees	12	14	13	6	6
Public sector grants/contracts	8	7	3	22	17
Legacies	3	3	2	4	8
Trading	5	3	7	11	10
(Other answers) Rents/property/land rental	10	11	9	7	*
Grant making trusts/foundations/funds	4	4	4	6	6
(Other answers) Hire/hall/room hire/letting fees	9	10	11	1	*
(Other answers) Donations/contributions (members/companies/private/unspecified)	6	6	6	7	6
(Other answers) Funding agencies (Lottery/Children in Need/Gift aid)	1	1	*	*	1
Others	4	*	*	*	*

Chart 6: Of the charities that obtain income from source, % that expect it to increase, decrease or stay the same over the next 12 months

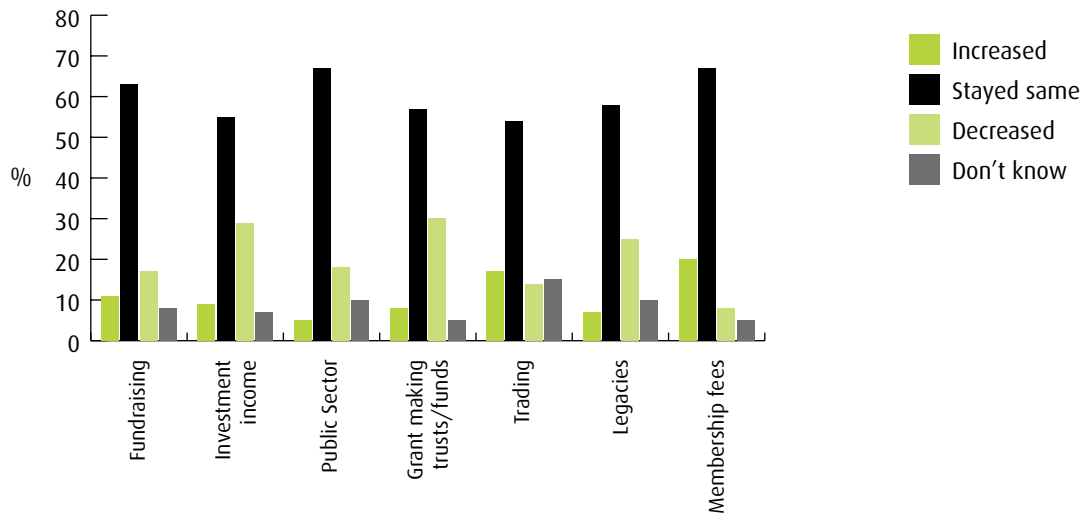
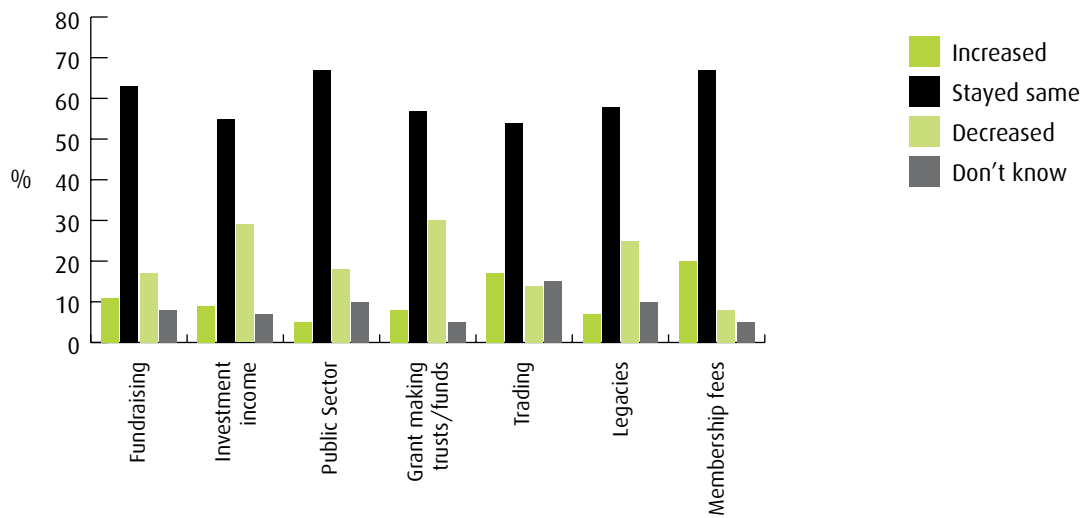


Chart 6: Of the charities that obtain income from source, % that expect it to increase, decrease or stay the same over the next 12 months



A3. The impact on charity services

In addition to concerns about declining income, some charities face a double challenge with a potential increase in demand for their services.

Just under a fifth of charities (17%) reported seeing an increase in demand over the last 12 months that they would relate to the downturn. Of those charities that said they had experienced more demand, over half (57%) were confident they could meet the increase and a further 18% felt they could 'partially' meet the increase. While this is reassuring, there remains a challenge for the quarter of charities that are unable to meet their increased demand. Large charities were more likely than the others to report an increase in demand (36% and 38% of charities in the large and largest income band vs 12% and 17% in the small and medium income bands).

Most charities seeing an increase, reported that it did not relate to any one specific service or named one other than those mentioned on the questionnaire. The most common services mentioned where charities had seen an increase included children/family support services, mental health services and housing advice.

Nearly a quarter (23%) of charities reported that they thought the recession impacted significantly or very significantly on their beneficiaries, whereas 71% said that it had not affected them significantly or at all. Small and medium sized charities were more confident about this than larger charities. Nearly three quarters (72%) of small charities and 78% of medium sized charities (compared with 50% of large charities and 61% of the largest charities) felt that the recession had not affected their services to beneficiaries. Charities in the largest income band were the most likely to report that their beneficiaries had been affected significantly (45%).

Chart 7: % of charities that have seen an increase in demand for services activities that they would relate to the economic downturn

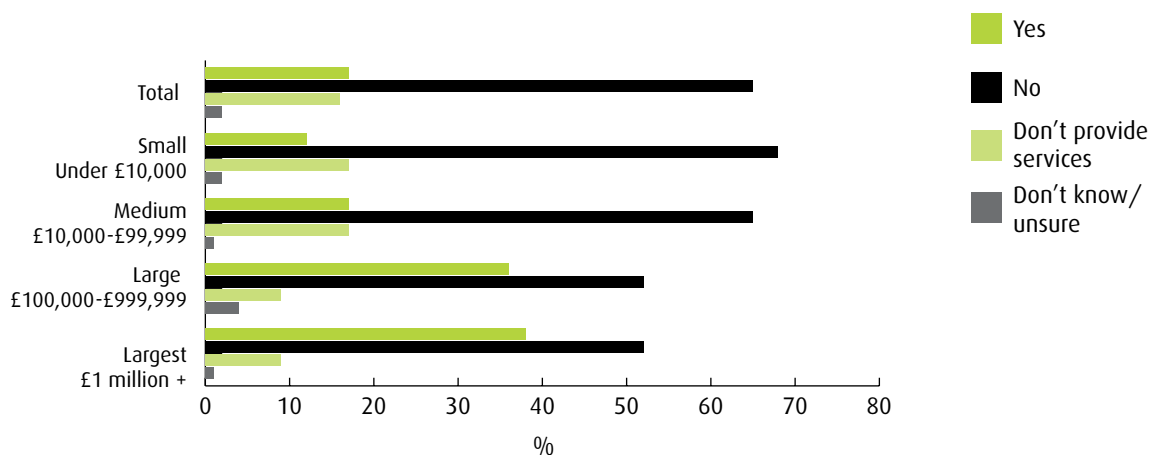


Chart 8: % of charities that have seen an increase in demand for services/activities that say they would be able to meet the increase in demand

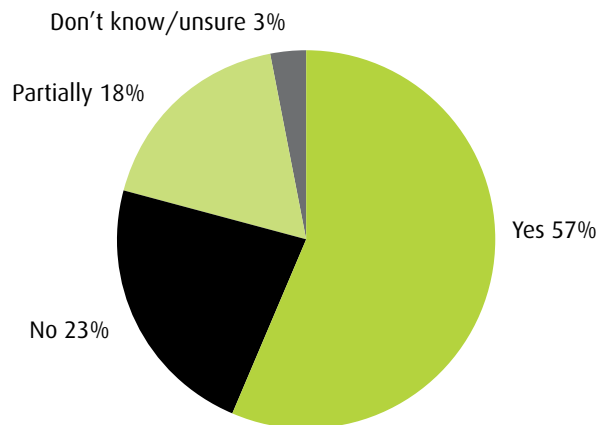
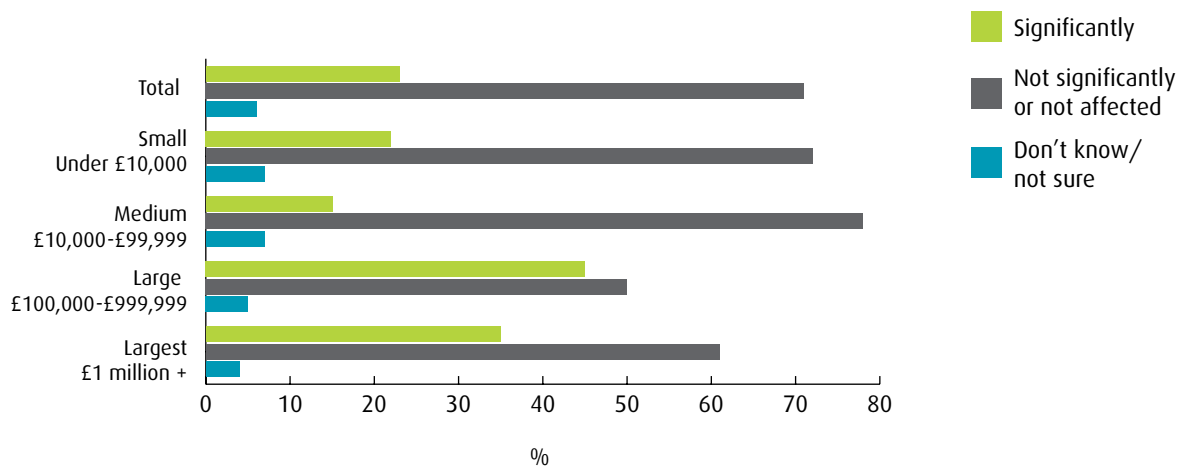


Chart 9: % of charities that say the recession has impacted on their beneficiaries 'significantly or very significantly' or 'not significantly or not at all'



A4. How charities are responding

Overall, 52% of charities surveyed said that they had put one or more measures in place to respond to the economic situation. The proportion that reported that they had taken some kind of action has increased significantly since the first survey, when 12% said that they had done so (and another 13%, that they intended to do so in future).²

Significantly more of the charities in the large and largest income bands (72% and 73% respectively) than charities in the small and medium income bands (37% and 44% respectively) reported that they had put measures in place. For example:

- 57% of charities in the largest band had reduced their stationery, printing, mobile phone bills and energy costs compared with just 13% of the charities in the small income band.
- 40% of the charities in the largest income band had reviewed their risk policies compared with just 6% of charities in the small income band.

Charities reported a number of different strategies for dealing with the economic downturn. Those which relate to income are addressed in section A2. Other measures are set out below:

- *Reducing administrative costs*

Over a fifth (21%) of all charities said they had looked to reduce the cost of things like stationery, printing, mobile phone bills and energy costs, significantly more than in February 2009 (14%). Charities in the large 49% and largest 57% income bands are particularly proactive in taking these steps.

- *Staff pay, numbers or hours*

A minority of charities said they had reduced or frozen staff pay (2%), hours (3%) or numbers (2%). However the largest charities were more active in taking these steps with 18% saying they reduced the numbers of staff, 11% freezing or reducing pay, and 7% reducing the number of hours.

- *Volunteers*

11% of charities reported that they had increased their drive to take on more volunteers, up from 7% in the last survey.

- *Drawing on reserves*

More charities than in February 2009 said that they had to draw on their reserves (10% now compared with 6%). This was particularly true of the large and largest charities, where 20 and 24% reported this measure in this survey, as opposed to 14% for both in February 2009.

- *Risk policies*

13% of all charities have reviewed their risk policies; 30% of those in the large income band and 40% in the largest as opposed to 6% and 15% of charities in the small and medium bands.

² Some care must be taken with interpretation as this question has changed slightly over surveys.

Delaying projects

7% of charities overall said they had cut back or held off on delivering new services/project/programmes. Nearly a quarter of the charities in the large income band (23%) and 17% of those in the largest income bracket had taken this course of action.

Merger and collaboration

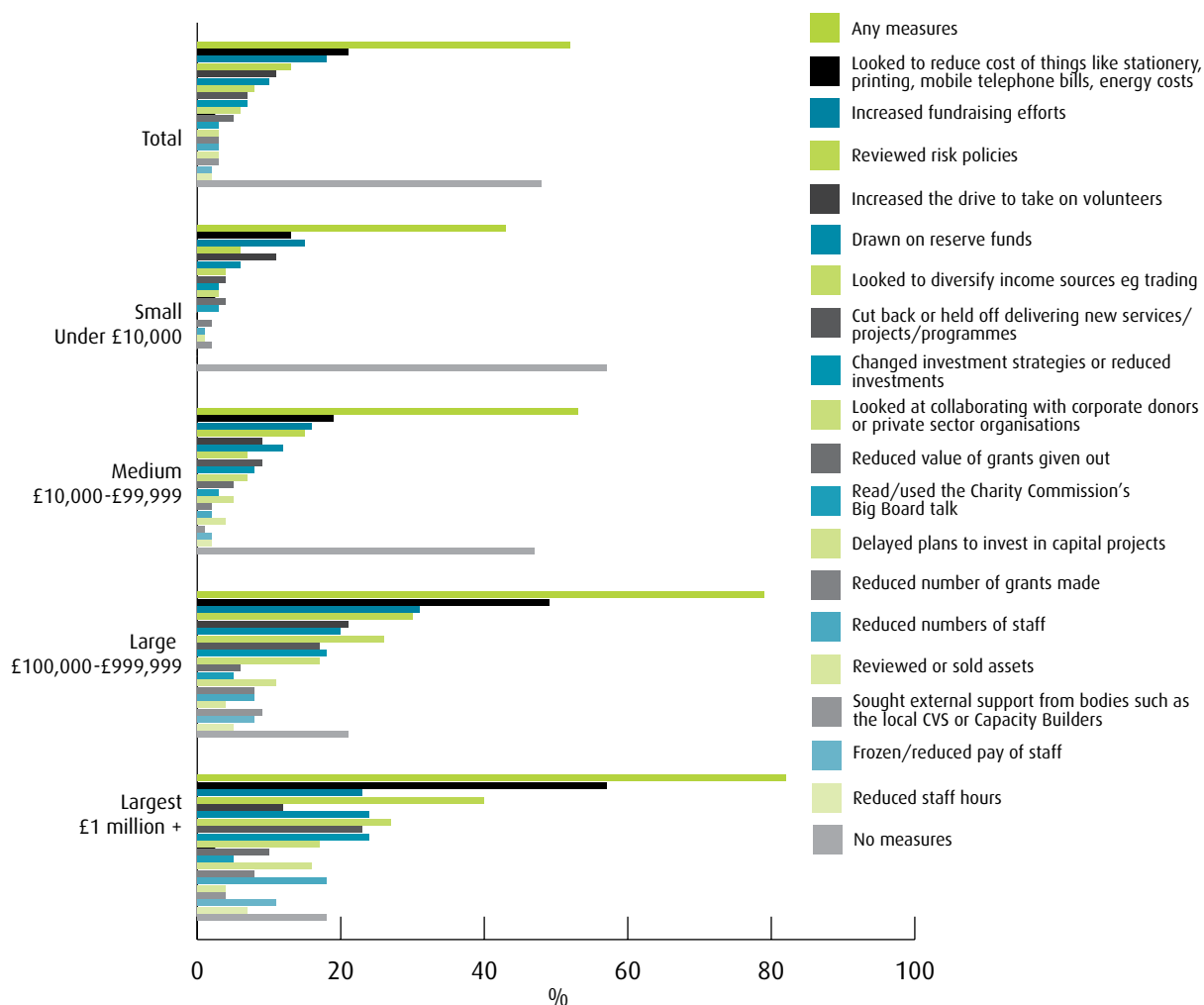
Just 9% of charities overall have considered merging, collaborating or forming consortia with other charities. Larger charities were more likely than those in the small and medium bands to have considered one of these measures. However, a fifth (20%) of charities in the large income bracket and 23% in the largest reported that they had considered taking one of these steps.

Collaboration with corporate donors

Some charities, 6%, said they had explored collaborations with corporate donors or private sector organisations. Large and largest charities were most likely to have explored this option with 17% considering it.

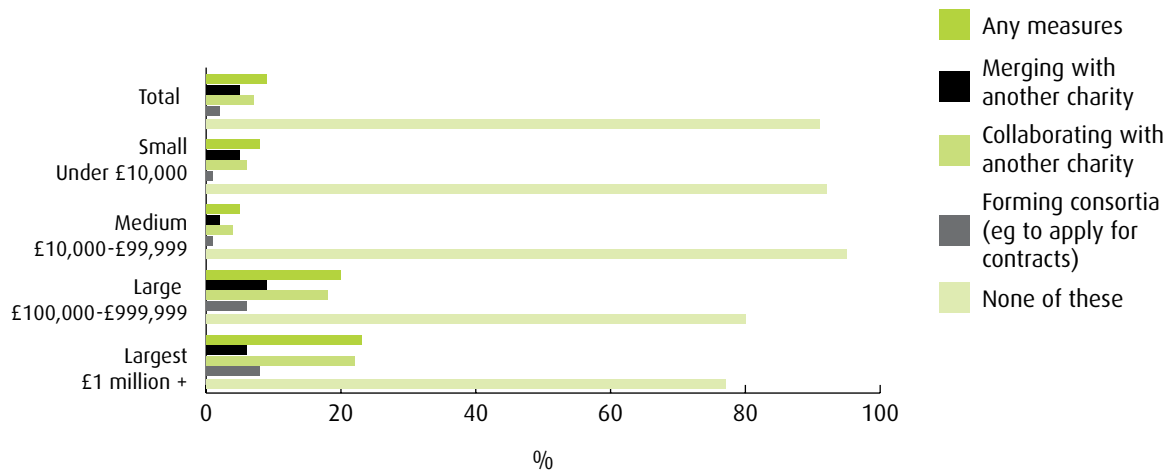
The wide range of measures charities are adopting demonstrate that many are proactively reviewing their financial health and considering whether they are resilient enough to sustain their operations. However, there is still more that trustees could be doing. Now is the time for planning and taking action and trustees should consider whether they need to monitor their charities affairs more closely for example by meeting more frequently or reviewing specific areas. To help charities plan their response to the downturn, we have produced a practical planning tool for trustees. *Big Board Talk: The conversation all charities need to have*, poses 15 questions which charities of all shapes and sizes should be asking themselves during a recession. The findings of our latest survey and demonstrate the importance of sound strategic planning and we would encourage trustee boards to use this if they have not already done so.

Chart 10: % of charities that have put any of the following measures in place in response to the economic downturn



Measures	Total %	Small %	Medium %	Large %	Largest %
Any measures	52	43	53	79	82
Looked to reduce cost of things like stationery, printing, mobile telephone bills, energy costs	21	13	19	49	57
Increased fundraising efforts	18	15	16	31	23
Reviewed risk policies	13	6	15	30	40
Increased the drive to take on volunteers	11	11	9	21	12
Drawn on reserve funds	10	6	12	20	24
Looked to diversify income sources eg trading	8	4	7	26	27
Cut back or held off delivering new services/projects/programmes	7	4	9	17	23
Changed investment strategies or reduced investments	7	3	8	18	24
Looked at collaborating with corporate donors or private sector organisations	6	3	7	17	17
Reduced value of grants given out	5	4	5	6	10
Read/used the Charity Commission's Big Board talk	3	3	3	5	5
Delayed plans to invest in capital projects	3	*	5	11	16
Reduced number of grants made	3	2	2	8	8
Reduced numbers of staff	3	1	2	8	18
Reviewed or sold assets	3	1	4	4	4
Sought external support from bodies such as the local CVS or Capacity Builders	3	2	1	9	4
Frozen/reduced pay of staff	2	*	2	8	11
Reduced staff hours	2	*	2	5	7
No measures	48	57	47	21	18

Chart 11: % of charities that have considered any of the following in response to the economic downturn



A5. Looking ahead

Overall, charities are optimistic about the outlook for the future with over two thirds, saying they are very or quite optimistic for the coming year.

Nonetheless, a fifth of charities remain concerned. Charities in the largest income band displayed higher levels of worry than small and medium sized charities, with 33% of those in the largest income band and 28% of large charities saying they were quite/very worried about the next six months (August 2009 to January 2010) compared with 19% of small and 18% of medium-sized charities. For the slightly longer-term future, January to June 2010, large and largest charities reported slightly lower levels of worry (25% and 28% respectively).

While overall charities' outlook is positive, levels of optimism varied according to source of income, with those who are funded by grant-making trusts, investment income and legacies, displaying slightly higher levels of concern than those funded by other sources.

Chart 12: % of charities that say they are optimistic about the outlook for 0-6 months time

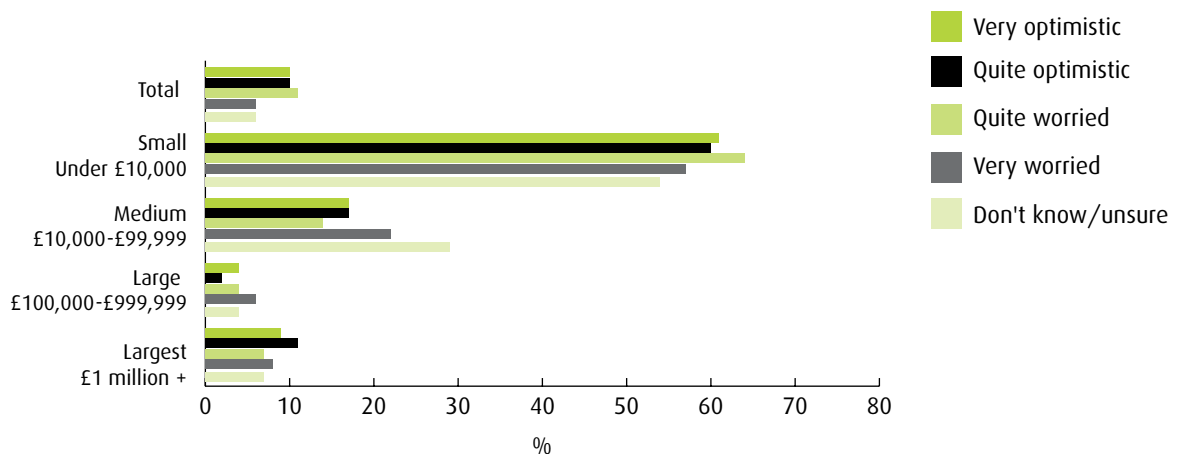


Chart 13: % of charities that say they are optimistic about the outlook for 6-12 months time

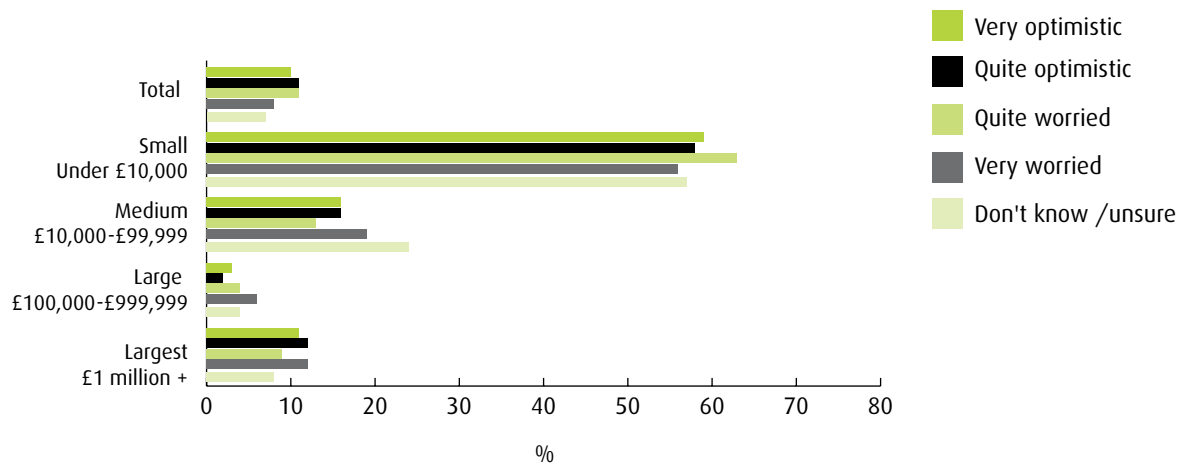
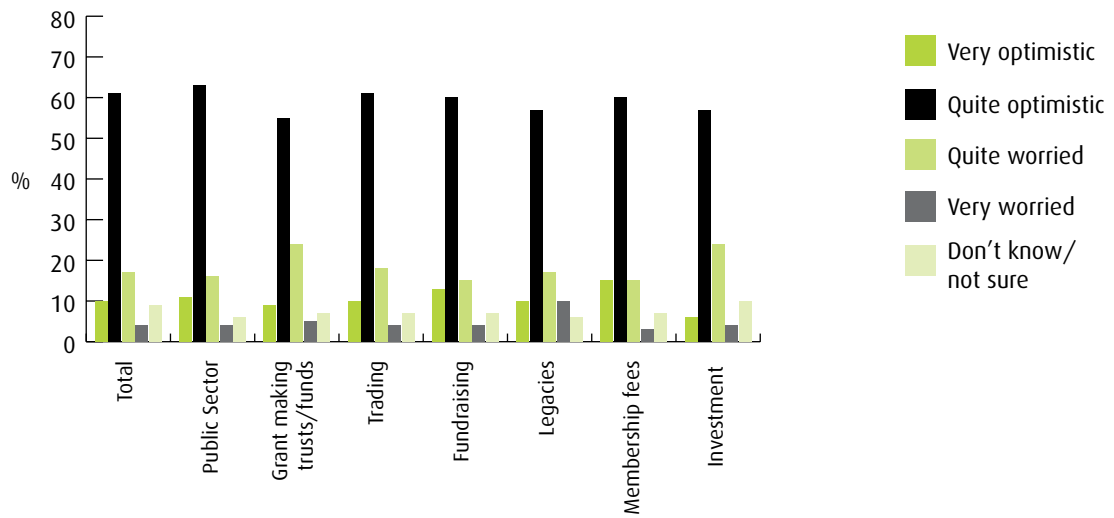


Chart 14: Of the charities that receive each source of income, % that say they are optimistic about the outlook for 0-6 months time



PART B: WHAT CHARITIES HAVE BEEN TELLING US

B1: Introduction

To accompany the latest survey, we have produced qualitative findings from a series of individual meetings and regional focus groups we held with charities between April and August 2009 to discuss the economic downturn.

We set out some of the key issues that charities have raised with us through these meetings and workshops, and some of the ways in which they have dealt, or are planning to deal with the challenges the economic situation presents. Although this is by no means an exhaustive list of the issues that charities are facing, we hope that it will give other organisations an insight into how the economic climate is affecting the wider sector and give those managing charities some ideas on how they can deal with the challenging issues they face.

Please note that this is a summary of discussions we have held with charities themselves and does not necessarily reflect the opinions of the Charity Commission or the wider charity sector, nor is this an exhaustive list of all of the issues which were raised.

B2. The impact on charity income

Our survey found that 56% of charities have been affected by the economic downturn. Reflecting this statistic, many of the charities we spoke to have told us about the challenges of maintaining income levels at a time when, right across society, people and organisations are tightening their belts.

While the survey findings show that charities are relatively optimistic for the coming 12 months, our conversations about the longer term, post 12 months, paint a different picture. We heard that where income may be stable at the moment, some charities were preparing for up to two or three years down the line when their current grants or contracts come to an end. Some suggest that the full impact of the recession on may not be felt in the charity sector for some time.

- *Fundraising:* Some charities noted that, whilst the number of regular donors may not have dropped off, they are giving less money. We also heard that it is difficult to attract new donors. One charity told us that they have not yet seen an impact on donor income, but are planning on the assumption that it is likely to drop in the future. Some charities which receive regular income from direct debits have told us that the first thing people do when money is tight is cancel direct debits to charities. Where charities have experienced this, they said it is important to try to maintain links with these donors so that when the economy eventually recovers, they may return to giving. Some charities have offered donation 'holidays' (a period during which the individual no longer donates, but remains on the charity's records) to give donors some time to assess their financial situation, without necessarily losing touch with the charity completely. Others have also offered donors the option of giving less money, or supporting the charity in a different way, through volunteering for example.
- *Investments:* Many of the charities we met with that rely on investment income have seen a drop, reflecting the survey finding that 69% of charities with investments reported a decrease in income from this source. This was largely due to collapsing investment values and falling interest rates. However, this is not the only impact. Major donors in particular have been seen in some quarters to decrease the level of donations as their investment portfolios are affected.

- Public sector contracts:* The length of some public sector contracts had given a number of charities longer term stability. However, as these come to an end in 2010 or 2011, many charities said they would find themselves in a difficult position. Some of the charities told us that they were using this relatively stable period to plan for what they are expecting will be a more challenging period in the future. Interestingly, our survey found that overall more charities are optimistic about the future than are taking steps to combat the effects of the downturn. The largest charities reported that they were more likely to be affected by the downturn and displayed higher levels of anxiety, with 33% saying they were worried for the future. This may reflect the fact that it is the largest charities which are likely to be deliverers of services, and are therefore aware of the potential impact when public service contracts come to an end. Charities raised other concerns about the public sector contracts and funding too. A number of charities had found that public bodies are increasing *reporting requirements* as they want assurances that the projects they are funding are secure. However, many charities are struggling to find the resources to meet the increasing demands for information. Some charities that were previously reliant on funding from statutory sources have found themselves in a position where this *funding* has been *withdrawn* and they have had to seek other sources of income. However, some have found that this has had benefits as well, helping them to focus more on value for money, looking at leaner management structures, and diversifying their income streams.
- Grant income:* Our survey found that a third of charities have seen a decrease in funding from grant making trusts. Some of the charities which we met with confirmed that they have found that grants are becoming harder to come by and that competition amongst charities to obtain grants has increased. Other charities noted that while they are currently part way through a grant, they are in a reasonably stable financial position. However they warned that when the grant comes to an end they expect either renewing the grant or finding an equivalent to be challenging. Some charities were finding that foundations which normally funded a wide range of groups had decreased capacity, with funding predicted to reduce by 20 – 30% in a few cases.
- Legacies:* Some charities, although certainly not all, have found that the value of legacies has decreased, while the time it is taking to settle estates has increased.
- Trading:* A number of charities that run charity shops told us that they had seen increased profits over recent months. Furthermore, while noting that during the last recession the arts sector was the last to succumb and the first to emerge from it, one arts charity told us that they had seen ticket income reach higher levels than ever before.
- Corporate donations:* One charity reported that, although corporate partners are saying they are still committed to Corporate Social Responsibility (CSR), in reality they are donating less. Conversely, others said that while financial donations from corporate partners are down, some are still committed to giving gifts in kind. We also heard that, whereas previously corporate partners were committing to large donations spread over three or four years, they are now only committing to one year. Some charities we spoke to stressed the importance of maintaining these relationships so that, once the financial climate improves, these arrangements can be taken up again.
- Charities operating internationally:* Charities which operate internationally told us that they have their own specific problems caused by the recession, which are compounded by the other issues we have discussed above. The decrease in the value of the pound was noted by many international charities as having a particularly significant impact. Many of these charities have also felt the impact of rising inflation rates in the countries in which they operate, which has caused an increase in operating costs, staffing costs, fuel and food costs.

Case study: Action with Communities in Rural England (ACRE)

ACRE is the national umbrella body of the Rural Community Action Network, which operates at national, regional and local level in support of rural communities across the country.

ACRE has found that local authorities are increasingly taking in-house certain support services for communities that previously contracted with their local third sector members to deliver. They anticipate this having ramifications with a loss of trust, expertise and experience built up by practitioners who offered independent support to local groups and communities. This will also clearly impact on the local member organisations themselves through loss of jobs, but also through a weakening of the connections with community groups that are crucial to generating wider grass roots community action.

B3. The impact on charity services/activity

As well as the impact on charities' income, many of the charities we met with are also having to deal with a rise in demand for their services from beneficiaries who are themselves affected by the downturn.

- *Increase in demand for services:* Our latest survey found that nearly a fifth of charities reported an increase in demand for services over the last 12 months. A number of charities we have met with are working in areas where an increase in demand for their services might be expected during a recession, and this reflected their experiences. We heard from one charity which reported a 17% increase in demand for services since last year, which they felt was directly linked to the recession, and others had seen a huge increase in calls to their advice lines.
- *Impact on beneficiaries:* Several of the charities we met with talked about the impact the recession is having on their beneficiaries, which in turn is having an impact on the charities' work. This might be through providing advice on unemployment or financial matters to groups of beneficiaries who may have been in difficult financial circumstances to being with.
- *Impact on volunteering:* A number of charities had seen a rise in applications from volunteers, with one charity noting that they do not have the resources to accommodate the number of people who are approaching them. One volunteer-led charity noted that more younger people are coming forward. They were aware that this may be a means for people to enhance their CVs, but noted that people have many different motives for volunteering and, provided they pass the selection process and prove to be committed to the work, motivation is not a factor in the charity's decision-making.

Case study: Samaritans

Samaritans provides confidential non-judgemental emotional support, 24 hours a day for people who are experiencing feelings of distress or despair, including those which could lead to suicide.

Although Samaritans do not yet have firm figures, anecdotally they have seen demand for services rising, with an increased number of calls to their helpline. Although national figures for suicides show the rate is currently dropping, they expect certain areas, particularly those that experience high unemployment, to see an increase. Whilst they have not yet experienced a fall in donor income because of the recession, they are planning on the assumption that their income is likely to decrease.

Case study: OLMEC

OLMEC aims to facilitate stronger and empowered communities through the provision of training, support and networking and by bringing opportunities and investment to local people.

OLMEC provides employment support to under-served communities, facilitating employment opportunities to groups such as refugees. It has close links with the construction industry and the impact of the economic downturn on this sector has inevitably been felt by the charity. OLMEC has found that companies have been less able to provide employment opportunities for these groups as they are laying off the staff they already have on their books.

B4. How charities are responding

With charities' income being affected in many ways, it is encouraging that a number of the charities we met with have already taken steps to counteract the impact of the recession. This might be to make them leaner and more efficient, to take advantage of more diverse funding opportunities, to deliver more services to beneficiaries affected by the recession, or change the way those services are provided. Our latest survey found that 52% of charities surveyed this time reported that they have taken action to counteract the effects of the economic downturn.

- *Using reserves:* Some charities we met with told us that they would consider using their reserves to help them through the downturn, although some noted that some of their reserves are restricted. Our survey found that the larger charities in particular had drawn on their reserves. However, many of the smaller charities we met with noted that, as public sector contracts and grants in particular are often restricted, they have not been able to build up reserves, and therefore are not able to call on them.
- *Working collaboratively:* Many charities we met with recognised that working jointly with other organisations can be helpful and some noted that the financial climate has acted as a positive catalyst in improving the level and quality of partnerships and joint-working initiatives. This contrasts with our latest survey which found that only 9% of charities had considered merging, collaborating or forming consortia with other charities. Of the charities we spoke to, sharing back-office functions was the most frequently cited form of joint-working, particularly as it can be difficult to get funding for these core costs. Linking with other organisations also provides opportunities to share best practice and improve networking opportunities.
- *Diversifying income streams:* With a variety of income streams being affected by the downturn, many charities told us they are looking afresh at where their money comes from. One charity told us how their core government funding had come to an end, so they were now fundraising for the first time. They spoke of how in many ways this has been a positive step as it has pushed them to become more accountable. Reflecting the survey's findings that a growing number of charities are increasing their fundraising activities, one charity we met with, who explained that as yet they have not particularly been affected by the recession, told us that they had nonetheless decided to think more about fundraising as something they may have to rely on in the future. We heard from another charity that, because of concerns about the reliability of their main source of income, they have now diversified their funding streams and as a result are in a far less vulnerable position.
- *Making efficiency savings:* Several of the charities we spoke to told us how they are looking at efficiency savings right across their work. One in particular highlighted that public sector contracts are now demanding more services for less, which is driving them to become leaner and more efficient. An increasing number of charities had looked to reduce administration costs, many of the charities we met with told us that cutting costs on things such as travel, energy or stationary has been an effective way to cut costs.
- *Impact on staff:* One of the charities we met with had taken active steps to ensure good staff morale through this difficult economic situation by ensuring they are kept informed through staff meetings and conferences where staff are taken through the management accounts.

Case study: Christians Against Poverty (CAP)

CAP is a national debt counselling charity with a network of 102 centres based in local churches.

CAP has seen a huge increase in the number of calls they receive asking for debt counselling advice, with calls doubling in the period December 2008 to April 2009. They are finding that redundancy is increasingly the major cause behind debt issues.

CAP is part way through a restructuring plan to expand its services. Whilst this restructuring has been primarily motivated by operational needs, the financial benefits have been a particularly helpful bonus in the current economic climate, meaning CAP is in a much stronger position, both financially and structurally, to weather the current conditions. In the past, CAP employed each of its Centre Managers to work in local churches across the country, but is now moving to a structure where churches themselves pay for these staff or, if the church cannot afford the salary, volunteers act as Centre Managers. The role of Centre Manager has also changed; they now act as CAP's face to face contact with the client who offers advice, explains what services CAP offers and finds out all the information the debt counsellor at Head office would need to come up with a debt plan. The debt counsellors are employed centrally by CAP at their head office.

Although this has increased the costs for the head office, the costs for each local centre has reduced. Centre Managers no longer provide detailed technical advice, so training costs have also gone down.

Case study: Care International

Care International is an aid agency creating lasting change in poor communities in over 70 countries around the world and helping 65 million people each year to find routes out of poverty.

In late 2008 Care International UK undertook research into the impact of the turbulence in the world financial markets on the charity. It considered the implications of the recession and prepared a plan to deal with the impact of what it had identified. This paper set out strategies for coping with 10%, 20% and 30% decreases in income. They also took measures to make savings in IT, recruitment, office space and travel. The chief executive and board are keeping a close eye on the situation and are keeping in touch with other aid charities to keep on top of what the impact might be.

B5. The outlook for the future

Our survey found that 71% of charities are optimistic about the coming 6-12 months, with many taking proactive measures to address the challenges and make the most of any opportunities.

Yet, many charities we spoke with who have not yet been significantly affected by the recession are planning on the assumption that, as their contracts and grants come to an end over the next year and beyond, income will reduce and they may have to adapt the way they work. It may be that the full impact and recovery will not be felt by charities for some time yet.

As the challenges the sector is facing from the economic downturn evolve (including as we eventually emerge from the recession), the Charity Commission will continue to engage with charities to learn how they are managing as the economic situation changes and what we, as the regulator, can do to support them through the period.

PART C: FURTHER INFORMATION

C1. Big Board Talk: The conversations all charities need to have

www.charitycommission.gov.uk/enhancingcharities/economic.asp#a

C2. Previous Charity Commission economic surveys of charities

March 2009: www.charitycommission.gov.uk/Library/common/downturn.pdf

September 2008: www.charitycommission.gov.uk/news/crunch.asp

C3. Summary of regional focus group discussions - May 2009

www.charitycommission.gov.uk/Library/enhancingcharities/pdfs/focusgroup.pdf

C4. Charity Commission guidance

The Essential Trustee (CC3)

<http://www.charitycommission.gov.uk/publications/cc3.asp>

Internal Financial Controls (CC8)

<http://www.charitycommission.gov.uk/publications/cc8.asp>

Hallmarks of an Effective Charity

(CC10) <http://www.charitycommission.gov.uk/publications/cc10.asp>

Managing financial difficulties and insolvency in charities (CC12)

<http://www.charitycommission.gov.uk/publications/cc12.asp>

Sales, leases, transfers or mortgages: What trustees need to know about disposing of charity land (CC28)

<http://www.charitycommission.gov.uk/publications/cc28.asp>

Collaborative Working and Mergers: An introduction (CC34)

<http://www.charitycommission.gov.uk/publications/cc34.asp>

Trustees, trading and tax (CC35)

<http://www.charitycommission.gov.uk/publications/cc35.asp>

Collaborative working and merger resources

www.charity-commission.gov.uk/enhancingcharities/cwmresources.asp

Permanent Endowment (OG44)

www.charity-commission.gov.uk/supportingcharities/ogs/index044.asp

C5. Other useful sources of information

Association of Chief Executives of Voluntary Organisations (ACEVO)
www.recessionsupport.org.uk/

Charity Finance Directors' Group (CFDG)
www.cfdg.org/cfdg/influencing_recession_watch.asp

National Association for Voluntary and Community Action (NAVCA)
www.navca.org.uk/localvs/recession/

National Council for Voluntary Organisations (NCVO)
www.ncvo-vol.org.uk/recessionresources/

Office of the Third Sector
www.cabinetoffice.gov.uk/third_sector/real_help_for_communities.aspx

County Voluntary Councils in Wales
www.sustainablefundingcymru.org.uk/help/cvcs

Wales Council for Voluntary Action (WCVA)
www.wcva.org.uk/

This publication can also be accessed at the Charity Commission's website: www.charitycommission.gov.uk

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