Managing in the new normal 2015

The latest instalment in the series of 'Managing in a Downturn' surveys

March 2015

Institute of Fundraising

CFG INSPIRING FINANCIAL LEADERSHIP

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Foreword

This series of research reports started in 2008 to look at the immediate impact on charities of the 'credit crunch'. Each year the research has painted a slightly different picture as we've seen the outlook change from a general pessimism to a more cautious optimism over the last seven years. What has been common throughout is a sense of resilience and determination from the sector to remain sustainable, adapt to changing circumstances, and meet the challenge of rising demand for services.

With the Fixed-term Parliaments Act in place, we know that this year's research is released with the next UK General Election fast approaching – an election which, whatever the outcome, will have a significant impact on the voluntary sector.

The findings on the top priority policy areas demonstrate the importance of the role of government in creating the right conditions for sustainability of the sector and promoting and encouraging charitable giving. When we look at the scale of what the sector can achieve, it is clear that the only thing that can deliver the resources needed is more and better fundraising and we welcome the announcement in the recent Budget that Government will procure a partner to deliver subsidised fundraising training to small charities. Social investment and better commissioning of public services can deliver resources for some, but nowhere near the scale of what's needed. The time is right for us to focus now on the wider strategic approach that government needs to play in creating the right conditions for the sector to grow, and a pragmatic and sensible debate about how charities will be able to do more in the next five years. One of the key things the next government should review, as respondents have said in this report, is how to improve the forms of tax-effective giving.

I'm pleased that we've been able to work with PwC and CFG since 2008, establishing a longstanding and positive partnership which produces valuable insight into what is happening in the sector. I hope that you enjoy this year's report and look forward to seeing what the next year brings.

Peter Lewis
Chief Executive,
Institute of Fundraising

Managing in the new normal 2015

As the charity sector continues to show signs that it may be recovering from the downturn and adjusting to the “new normal”, PwC is once again excited by the insights in this the 8th report in the ‘Managing in a Downturn’ series, in collaboration with CFG and Institute of Fundraising.

Current perceptions within the sector show further signs of resilience this year as those within the sector have dusted themselves off, learned from the lessons from downturn and are now looking more outwardly with a sense of optimism. This resilience, developed in recent years, means that charities are now in a stronger position to shape their own future.

With the inherent uncertainty of the next UK General Election only months away, charities and the voluntary sector as a whole will need to embrace this opportunity with a renewed vigour and demonstrate that the resilience forged during the downturn enables them to address whatever fresh challenges it will face.

This reality is reflected in the questions in this year’s survey, which include a more detailed section on the political and economic theme.

In addition, as in previous years, we’ve retained many of the ‘core’ elements throughout the series of questionnaires, which allow us to compare trends over time. We have prepared what we hope is a useful summary of the current environment but what will be different from previous years is that we will seek to build and reflect on this report after the election results once there is more certainty in the political sphere, rather than wait until a further year has passed.

We welcome the increased sense of improved optimism but accept there are still pressing challenges right on the doorstep, particularly for those charities heavily reliant on public sector income and/or under ever increasing public and media scrutiny.

A strategic outlook appears to be crucial in working towards a positive future in the new normal, with continued targeted fundraising and increased efforts to collaborate. We hope that you find this report an interesting read and we are grateful to every respondent who took the time to contribute to this survey.

Ian Oakley Smith
PwC Director and Head of Charities

Managing in the new normal 2015

The operating environment for charities continues to be a tough one. Economic growth has been strong, unemployment has fallen and giving from the public appears to have held up. But charities have had to stretch their resources to the limit in order to meet rising demand and cope with public spending cuts.

However, this year's survey shows that the sector has responded to these challenges with its traditional resilience and innovation. Charities have been trying to diversify their income streams, to find ways to be more efficient and improve the structure of their organisations. They've had to do this in the face of growing scrutiny; although this survey indicates that many charities are putting in place changes to adapt to this trend.

Inspiring financial leadership that effectively manages the finances is at the heart of this. Finance teams work hard to ensure that charities resources are used to generate maximum impact. Great financial management and planning is central to responding to the challenges facing the sector. Charities will continue to need support over the coming years to improve these skills.

In some areas, for example pensions, it is clear that more work needs to be done to raise awareness of the issues we're facing. The latest financial data indicates that pension deficits in the sector have grown, but the number of organisations identifying this threat to their sustainability continues to be low.

Despite popular misconceptions amongst policy makers, our survey is clear that charities are not looking for government hand outs. They simply want the government to nurture and support the right environment so that charities can generate the necessary resources to deliver social change.

This means addressing issues around public service reform, improving the tax regime around charitable giving and making sure that regulation on the sector is proportionate. Charity Finance Group has been working hard with the Institute of Fundraising and a number of other organisations on these issues.

In the run up to the General Election, I hope that policy makers will look carefully at the findings of this survey and consider the changes we need in tax, regulation and commissioning to ensure that barriers to the financial sustainability of the sector are removed.

Whilst there's been progress over the past years, there is still much more to do. Building a sustainable, resilient and independent charity sector, the kind which this survey indicates charities want to see, is our main challenge for the next five years.

Caron Bradshaw
CEO of Charity Finance Group

Managing in the new normal 2015

Key findings

Political and economic backdrop

- The sector's top priorities for government are to ensure the sustainability of the sector and promote and engage charitable giving.
- A majority of respondents identified public funding cuts as the most important challenge facing the sector.
- A significant number of organisations, particularly small organisations, responded that protecting the independence of the sector was the most important priority for the next government.

Response to the current environment

- 70% of respondents have said that their charity has experienced an increase in demand for their services in the last 12 months, and the same number said that they expected an increase in demand for the next 12 months.
- 28% of charities say that they are not sufficiently resourced to meet rising demand for their services, up from 16% in 2014.
- The main reason for respondents taking steps to be more transparent was to adhere to best practice.

Income

- The Anxiety Index suggests that most categories of income have continued to improve.
- Public sector income remains the main area of concern.
- Respondents are optimistic that the apparent improvement will continue in the next 12 months.

Strategy

- Charities are seeking to diversify their income streams with 54% responding that they planned to seek different sources of income.
- Collaboration between charities appears to focus on two main areas: service delivery (34%) and fundraising or bidding (24%). Collaboration on back office services and sharing staff has remained low.
- Appetite for repayable finance has showed no significant change from last year's report. 83% of respondents stated that their appetite had not increased.
- The survey also found a strong level of consensus across charities that impact measurement is crucial to the future success of their organisation but that it was a struggle to find the resources to measure it adequately.

People

- Fewer charities have taken steps to reduce staff costs than in the previous year; however redundancy and restructuring have been necessary for a significant minority.
- Some 57% of charities reported an increase in staff levels in the past 12 months, an increase from last year.
- Over 60% of charities reported the mood and morale of their staff to be either 'optimistic' or 'energised', again up from last year.

Fundraising

- 75% of respondents plan to explore new fundraising options in the next twelve months – slightly lower than the 80% from the previous year.
- Investing in fundraising remains a popular strategy with 49% intending to increase fundraising in current areas of focus and 41% of respondents planning to start fundraising in new areas over the next 12 months.
- Donor attrition has improved since last year and respondents reported a small but steady increase in acquisition rates from 33% to 36.5%.

Political and economic backdrop

Key findings:

- The sector's top priorities for government are to ensure the sustainability of the sector and promote and engage charitable giving.
- A majority of respondents identified public funding cuts as the most important challenge facing the sector.
- A significant number of organisations, particularly small organisations, responded that protecting the independence of the sector was the most important priority for the next government.

In the build up to one of the most uncertain General Elections in the post-war period, charities are in a resilient mood.

Our survey indicates that charities recognise that the political and economic environment makes it hard for governments to support the sector financially. When asked about their priorities for the next government, the top priority was promoting and engaging charitable giving (29%). Nearly 20% wanted the next government to improve tax-effective forms of giving such as Gift Aid and Payroll Giving.

Given that 33% of respondents believe that the most important challenge facing the sector is the increased demand for services, our survey points to a growing belief that the sector needs to look to the public through fundraising to generate the income to meet demand.

This links closely with the respondents' second most important policy priority – ensuring the sustainability of the sector (27%).

Although respondents stated that public funding cuts to services was the most important challenge facing the sector, only 11% believed that improving access of contacts as the most important priority for the next government.

This may indicate that charities do not believe that any new government will change the course of significant public spending cuts or that the next government does not have any levers to improve the implementation of the cuts to reduce the impact on charities.

However, when put alongside the 16% of respondents who believe that the next government's top priority should be to improve relationships with commissioners, there is still appetite from some in the sector for the government to improve the commissioning environment. This finding reflects the fact the commissioning of public sector contracts is a priority for those organisations that want to play a role in service delivery, but that not all organisations in the sector will be looking to bid for contracts.

Despite significant interest from ministers, only 6% believed that supporting social finance should be a top priority for the next government. Pension deficits and encouraging bank finance also ranked poorly in terms of respondents top priorities.

A significant number of charities noted that competition between charities was the most important challenge facing the sector post-2015 (22%). As the financial environment continues to be tough over the coming years, it is likely that more charities will find themselves in competition for funding sources.

There were some interesting variations between different sizes of organisations and what they believe the next government should prioritise.

Whilst all organisations believe that protecting the independence of the sector is important, small organisations in particular were concerned about this issue. Although ensuring the sustainability of the voluntary sector was the most important priority for 47% of small charity respondents, nearly 37% believed that protecting the independence of the sector was the most important priority. By contrast only 25% of large charities responded that protecting the independence of the sector was the most important issue.

This may appear counter-intuitive as opposition to measures such as the Lobbying Act has been driven by large charities that tend to have the most resources to devote to campaigning. Small charities, by contrast, are frequently portrayed as being 'uninterested' in these issues and more focused on service delivery. However, our survey indicates that issues of independence and voice are considered important across the charity sector.

Unsurprisingly given the operating environment for the sector, small charities were much more concerned about the sustainability of the sector than medium and large charities (47% compared with 39% and 39% for medium and large sized charities respectively). This may reflect that spending cuts and the challenging financial environment have particularly impacted small charities, which may lack the resilience of larger organisations.

Although social investment was not generally considered a top priority, large organisations were the most positive about its importance with 18% stating that supporting social finance should be a top priority for the next government. Yet 37% of large charities also responded that it was the least important priority for the next government. This demonstrates the fact that social investment continues to be relevant only to a small part of the charity sector.

Large charities were also more likely to want the government to address the pension challenges of the sector. 16% of large charity respondents stated that this should be one of the most important priorities for the next government compared with 9% for medium sized charities and 10 % for small charities. This may be due to large charities having experienced the challenges of auto-enrolment, which small and medium sized charities will not experience until April 2016. Pension deficits are also concentrated in large charities which may also explain their greater concern.

Figure 1: What are your five priorities for the next government?

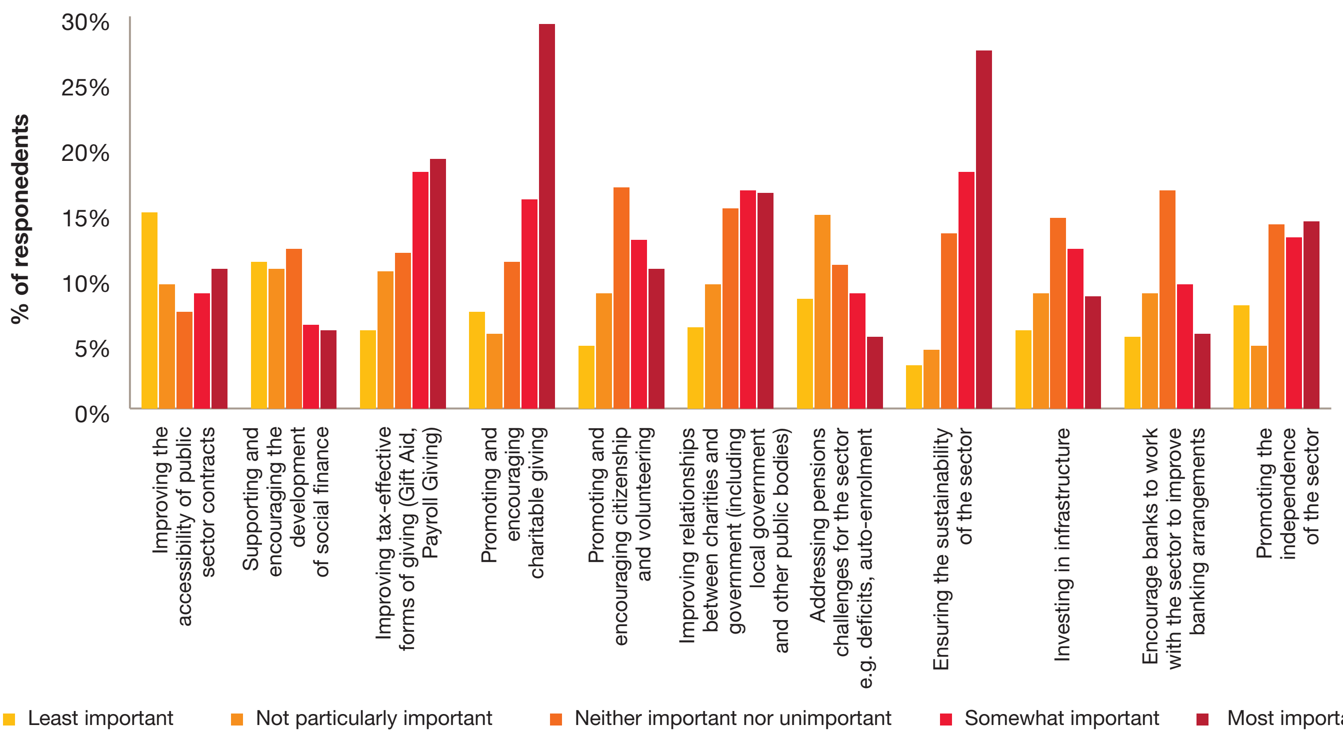
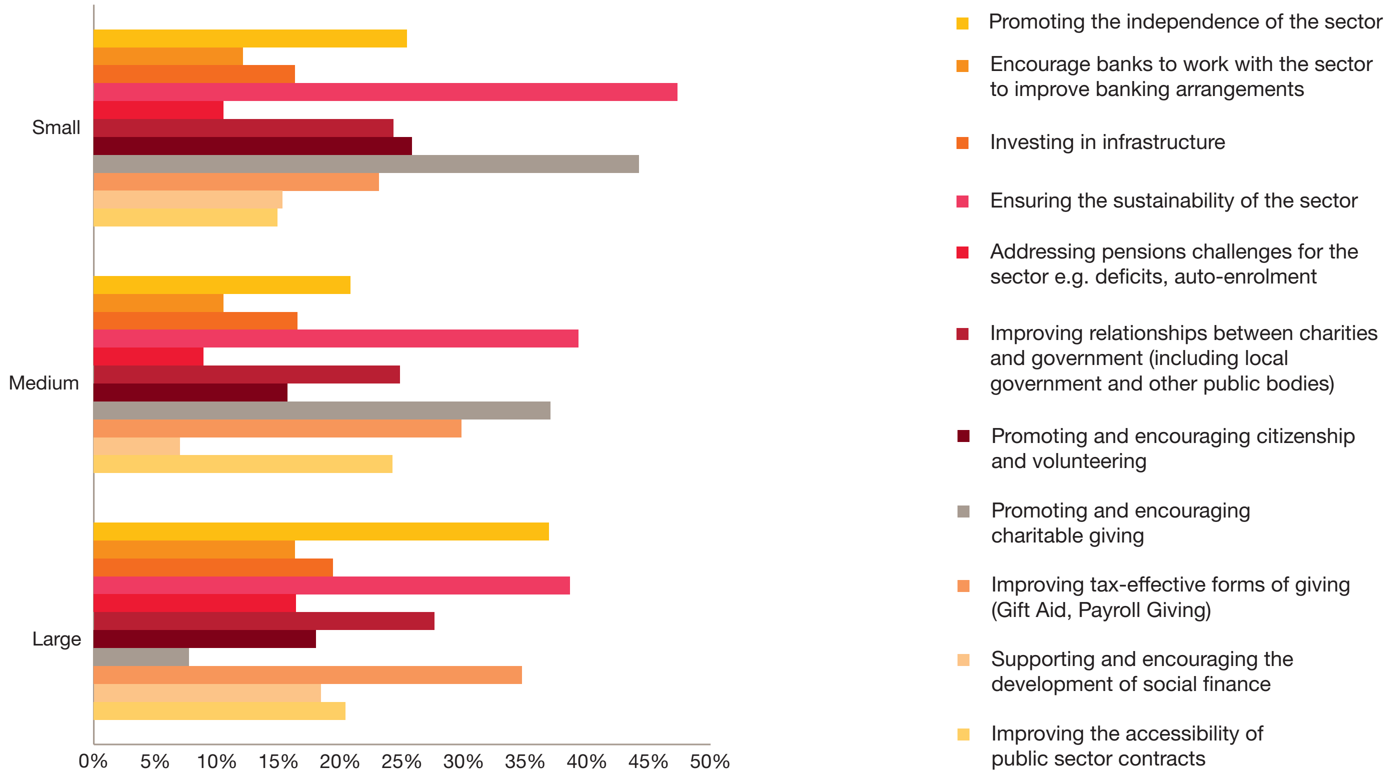


Figure 2: Most important priorities for the next sector



Response to the current environment

Key findings:

- 70% of respondents have said that their charity has experienced an increase in demand for their services in the last 12 months, and the same number said that they expected an increase in demand for the next 12 months.
- 28% of charities say that they are not sufficiently resourced to meet rising demand for their services, up from 16% for 2014.
- The main reason for respondents taking steps to be more transparent was to adhere to best practice.

The most important thing for the voluntary sector in general, and for each charity in particular, is the ability to meet the needs of the beneficiaries and causes that they are set up to serve. Whatever the context of the current environment, the priority for the sector and the challenges or opportunities they face, must be seen through this lens.

As seen in the previous section, ensuring the sustainability of the sector was seen by respondents as being the second highest priority for the next government. However, it's worth pointing out that when the sector talks about 'sustainability' it's not done as a goal in itself. It's understood that sustainability is understood as an organisation's ability to plan appropriately and put in place long term strategies to best meet their objectives.

As well as being a top priority for the next government, it is unsurprising that respondents saw 'ensuring sustainability' as being one of the main challenges to the charity sector in the future. The two areas representing what respondents thought were the most important challenges were 'Public funding cuts to services' and 'Reduced grant funding from public bodies'. These were the two most important challenges for small, medium and large charities alike. Again, while this should be thought of in the wider context of the outcome of funding cuts to services and reduced grant funding might have on charities who are funded through these channels, the more long-term impact is the effect that the funding cuts would have on the demand for charities' services.

Figure 3: Most important challenges to the charity sector

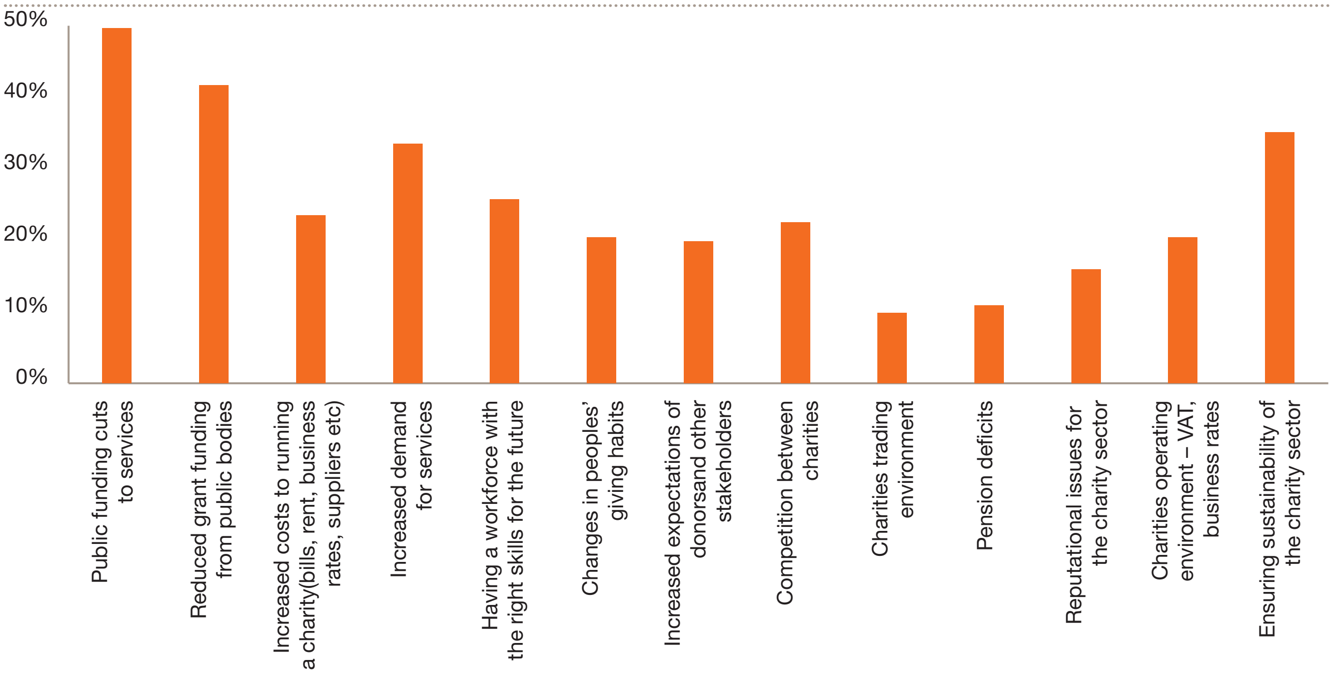
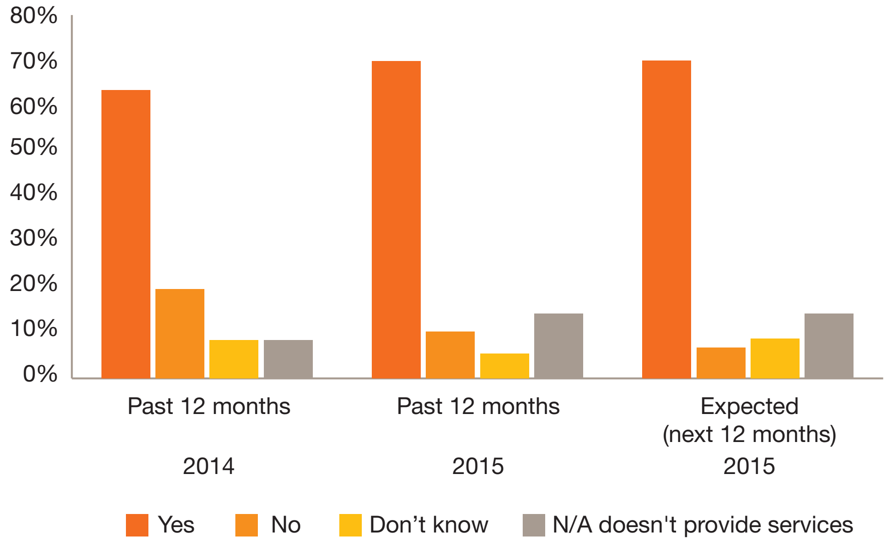


Figure 4: Has there been an increase in demand for your services?

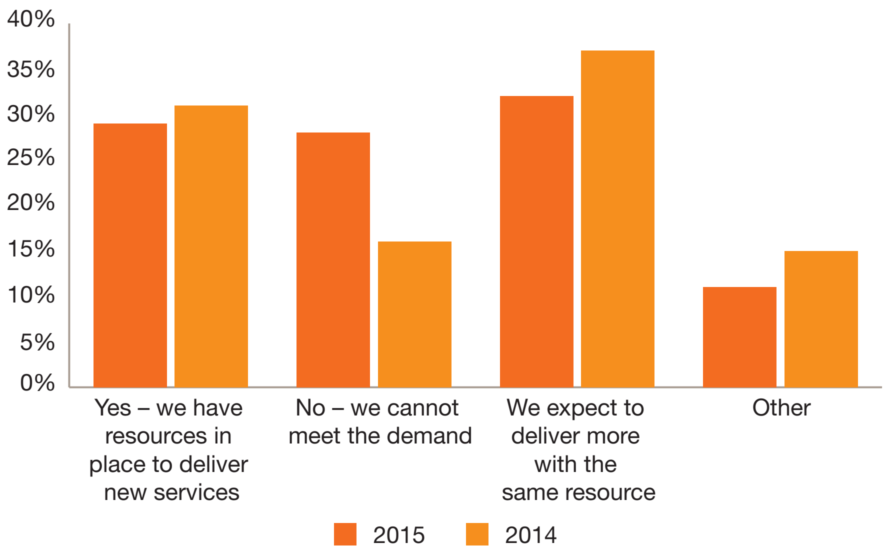
70% of respondents have said that their charity has experienced an increase in demand for their services in the last 12 months, and the same number said that they expected an increase in demand for the next 12 months too. The increase in demand for services seems most keenly felt by smaller charities – with 78% of respondents from smaller charities saying that they had experienced an increase in demand in the past year and 80% expecting an increase in the coming year. Larger charities responded 65% and 64% respectively for these questions.

When asked whether organisations are sufficiently resourced to meet the demand 28% of charities say that they are not sufficiently resourced to meet rising demand for their services, up from 16% for 2014.



Smaller charities reported that they were less able to meet the increased demand on their services – with over a third of respondents saying they weren't sufficiently resourced (compared to 28% for large, and 23% for medium size charities).

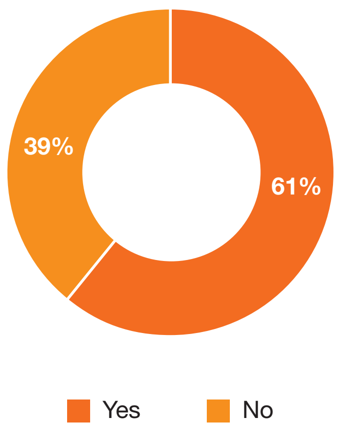
Figure 5: Are you resourced to meet demand for your services?



Last year's report, looking back on the trends observed over the lifetime of this survey, referenced what we saw as a 'normalised expectation for increases in demand for charities' services' – meaning that charities were preparing for a year on year increase and looking to see how they could put strategies in place to manage this. This normalised expectation seems set to continue for the year ahead. It is worth reflecting on what this may mean for charities in terms of their strategy and ability to plan for the future – with 32% of respondents commenting that they are expected to deliver more with the same resource.

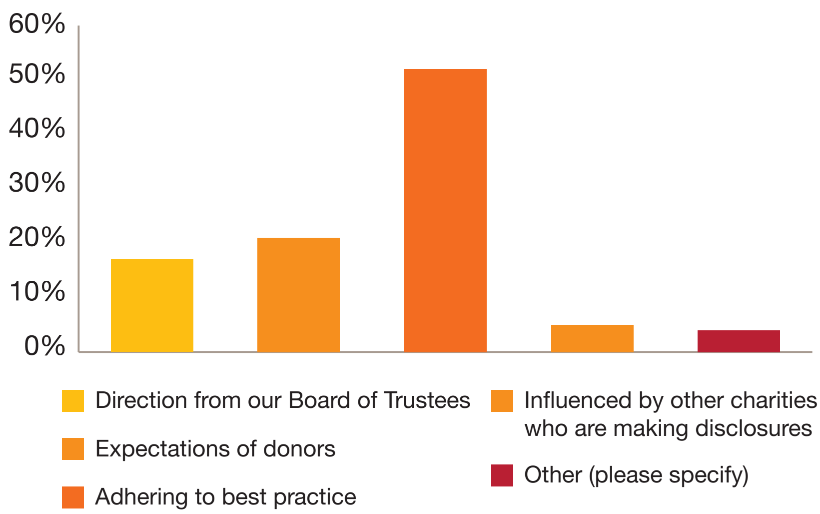
Transparency

Figure 6: Has your charity taken steps to increase transparency levels?



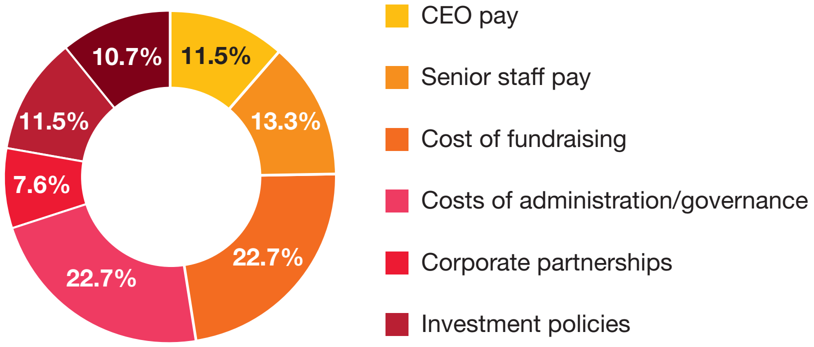
The term 'current environment' refers to more than just the challenges of financial situations. It also incorporates the wider public arena within which charities operate. Last year respondents said overwhelmingly (by over 80%) that they felt that the sector had been subject to more scrutiny and media interest, and half of charities said they had taken steps to enhance levels of transparency and disclosure of financial information in the last 12 months. This year, a higher proportion (61%) of charities are reporting that they are taking steps to enhance levels of transparency. Considering that some of the steps charities take will take a little time to plan and put in place, this increase is likely to be a reaction to that perceived increase of scrutiny that respondents reported last year.

Figure 7: Motivations for increasing transparency levels



For this year's survey we wanted to dig a little deeper into the area of transparency and find out why charities were taking these steps. The most popular reason by far was charities reporting that they were motivated to take these steps to adhere to best practice, with over a third saying that they were doing so due to the expectations of their donors. Charities are thinking about the information that they publish and this demonstrates the sector's commitment and desire to work to a high standard. While charities are planning the steps that they can take to be more transparent, it should be noted that there is a difference between the publishing of information and data (transparency), and the communication programmes and campaigns that tell the story of the impact those charities are achieving.

Figure 8: Enhancing transparency (next 12 months)



With this in mind, it is also worth noting the two areas in which respondents say that they are planning to do more around transparency are on the 'costs of fundraising' and 'costs of administration/governance'. As charities are required to publish their accounts detailing the amounts that have been spent in generating voluntary income and governance it may be that the intention from respondents is less about making more information available, but reviewing how they communicate and explain that information that is already publicly available in new and different ways.

Income

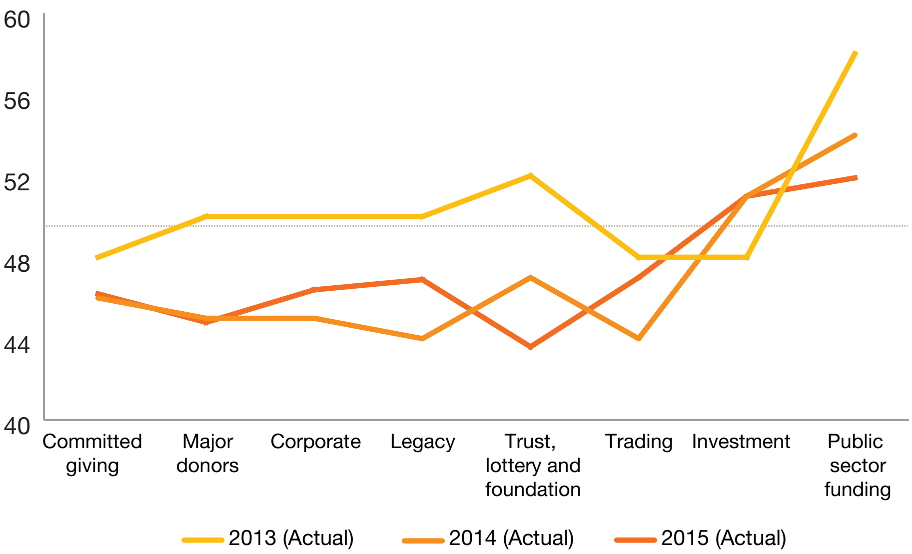
Key findings:

- The Anxiety Index suggests that most streams of income have continued to improve.
- Public sector income remains the main area of concern.
- Respondents are optimistic that the apparent improvement will continue in the next 12 months.

As we have done for the last five years, we asked charities to state whether they had experienced reductions or increases in relevant income streams in the last 12 months. We also asked them to estimate the extent of reductions/increases, and to predict how those income sources would fare in the 12 months ahead. The findings from this year's survey, presented in the latest instalment of our 'Anxiety Index', seem to reiterate the notion of 'cautious optimism'.

In order to present the findings we have applied an 'Anxiety Index' to the answers, which is a weighted average of responses designed to allow for clearer comparison over time and between income categories. It should be noted that an index of in excess of 50 indicates that charities on balance are pessimistic.

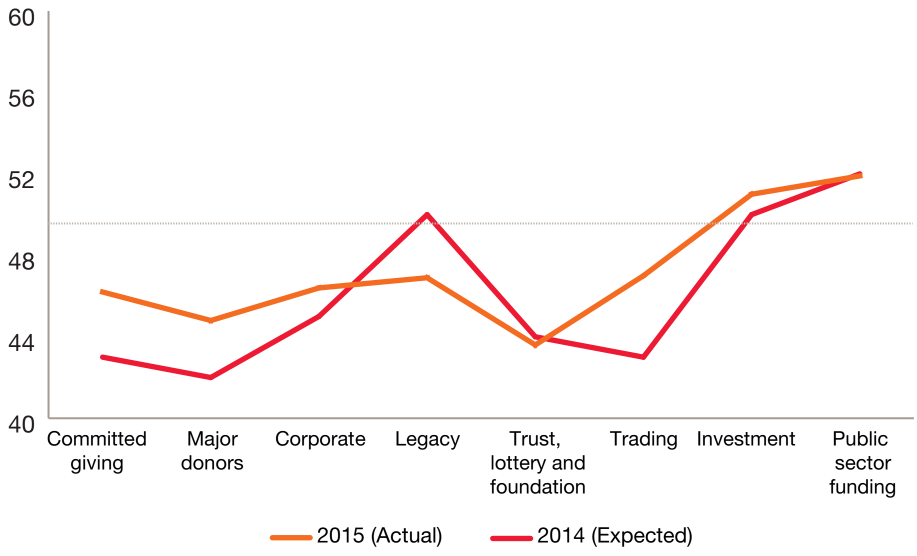
Figure 9: Anxiety Index – 2013 vs 2014 vs 2015



Anxiety Index scores for last year's survey (2014) were lower than in any previous year across most of income categories. The latest scores for 2015 suggest a very similar position to 2014, with the only income categories scoring over 50 (i.e. therefore having worsened year on year) being investment income and public sector income, both of which seem in line with anecdotal experience.

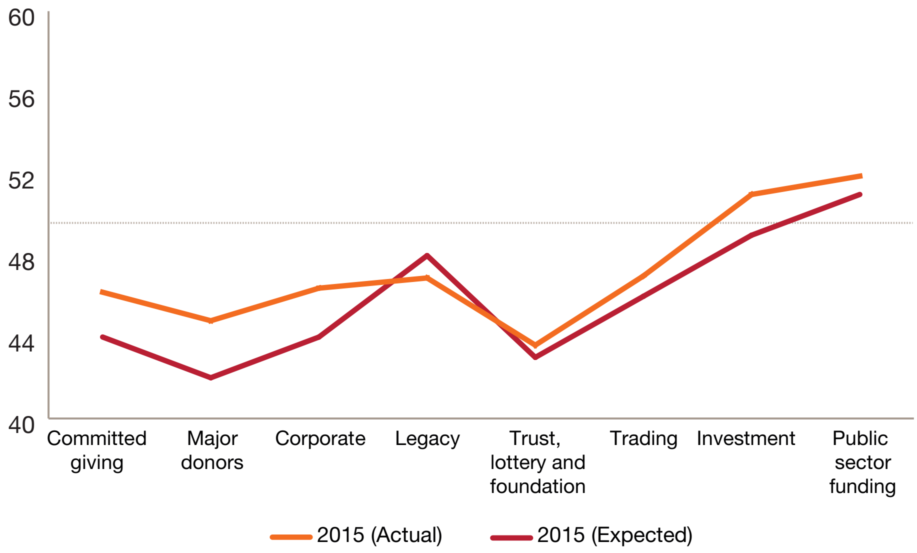
Last year, we described how a note of 'cautious optimism' had become apparent and it would seem that this year's results would indicate a continued sense of optimism that income is again on the increase in most categories.

Figure 10: Anxiety Index – Expected 2014 vs Actual 2015



The ability of respondents to predict the likely outcomes for the following year has improved in recent years and again the results would suggest that the predictions last year have been broadly accurate, with the index for the predicted income in most cases being within two percentage points of the actual experience.

Figure 11: Anxiety Index – Actual 2015 vs Expected 2015



Looking forward to next year, respondents predict that the position will improve further in all categories with the exception of legacy income. As with last year, it seems that predicting legacy income comes with some degree of caution, which makes sense given the inherent uncertainties as to timing and amounts in that type of income.

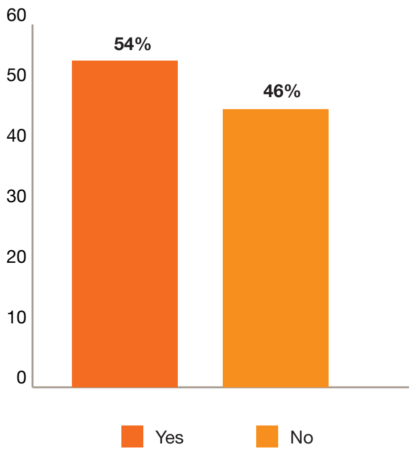
Strategy

Key findings:

- Charities are seeking to diversify their income streams with 54% responding that they planned to seek different sources of income.
- Collaboration between charities appears to focus on two main areas: service delivery (34%) and fundraising or bidding (24%). Collaboration on back office services and sharing staff has remained low.
- Appetite for repayable finance has showed no significant change from last year's report. 83% of respondents stated that their appetite had not increased.
- The survey also found a strong level of consensus across charities that impact measurement is crucial to the future success of their organisation but that it was a struggle to find the resources to measure it adequately.

Figure 12: Do you plan on diversifying your income (in the next 12 months)?

Respondents were split between those that were likely to seek to diversify their income streams over the next 12 months, with a narrow majority (54%) stating that they would seek to diversify.



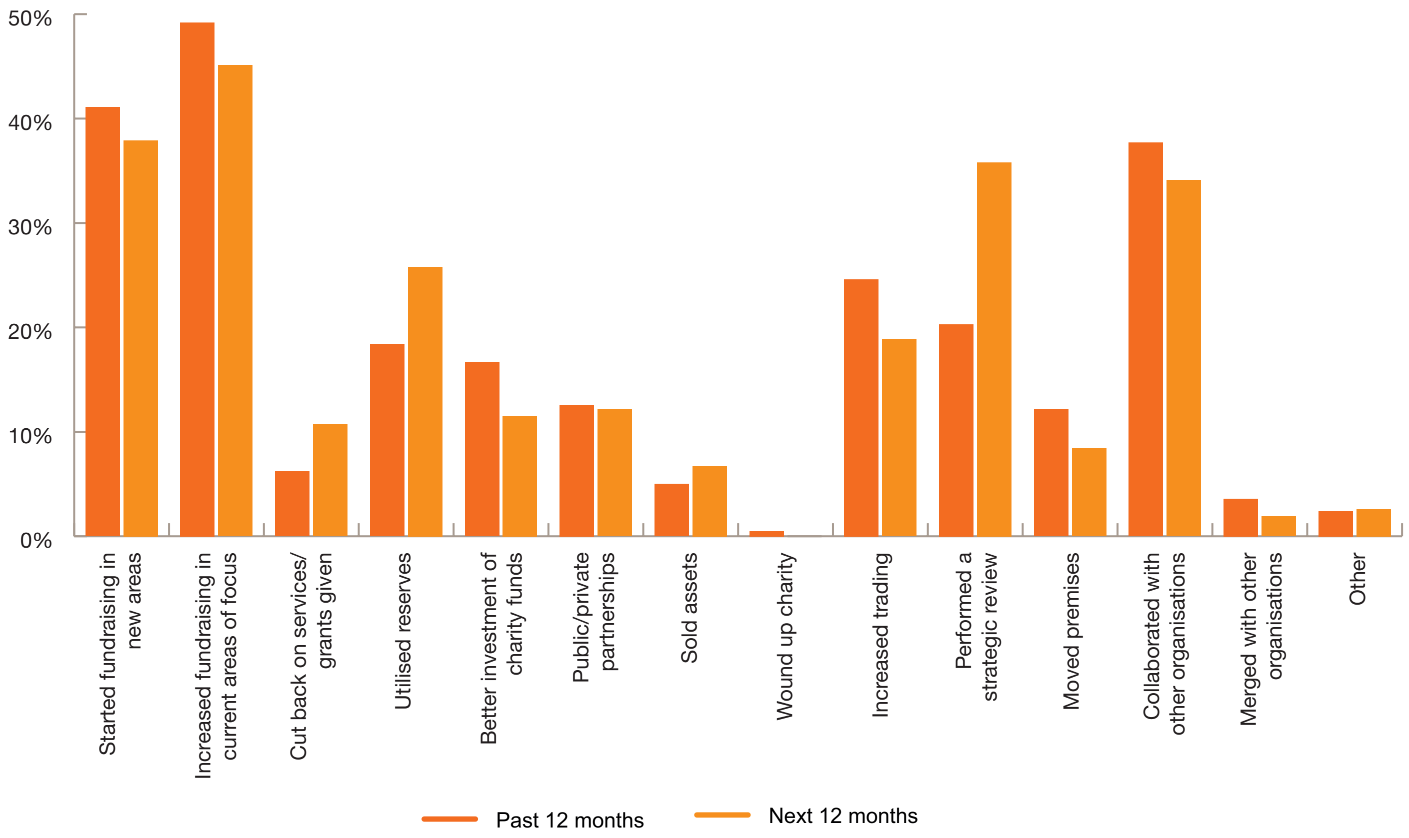
Those that did say that they were going to diversify outlined a number of different areas that they would be considering. A theme throughout was the focus on fundraising (whether through individuals or corporates) and trading. Very few noted that they would be seeking to diversify into public service markets given the level of public spending cuts to come.

Charities outlined a number of actions that they had taken over the past 12 months and that they were considering taking over the next twelve months. Nearly 50% of respondents stated that they were going to start fundraising in new areas (with 45% stating that they had already started fundraising in new areas in the past 12 months). Over 25% of respondents stated that they had utilised reserves over the last 12 months, which could either indicate growing sector confidence to invest or the need for organisations to access additional resources in order to fund day-to-day activity. Around 20% of respondents stated that they were going to utilise their reserves in the next 12 months.

A significant number of respondents (38%) stated that they were going to collaborate with other organisations. A similar number stated that they had collaborated with other organisations over the past 12 months, indicating that charities are seeking to pool resources to meet growing demand.

Interestingly, 36% of respondents stated that they had carried out a strategic review in the past twelve months but only 20% stated that they were going to do so in the next 12 months. This may indicate either that most charities have taken the time to get to grips with operating in the 'new normal' or alternatively, that capacity constraints due to rising demand are diverting charities away from long term thinking.

Figure 13: Charity actions (past 12 months vs next 12 months)



A small minority of respondents reported that their organisation would be scaling back its services or cutting grants over the next 12 months (6%), although 11% had to do so in the past 12 months. This may indicate that the operating environment for charities is improving or that charities are overestimating how much of their services they can preserve in the current climate.

Some notable differences between different sizes of charities were that small and medium sized charities were more likely to have utilised their reserves over the past twelve months (14% and 10% respectively) than larger charities (9%). Small and medium sized charities were also more likely to be collaborating with other organisations over the next twelve months (17% and 15% respectively) than larger charities (13%).

Collaboration appeared to focus on two main areas: service delivery (34%) and fundraising or bidding (24%). Collaboration on back office services and sharing staff remained low, 5% and 6% respectively. There was some difference between different sizes of respondents with small organisations more likely to be collaborating on service delivery (41%) than large and medium sized organisations (32% and 36% respectively). Small organisations were also more likely to be sharing back office services and staff. Medium sized organisations were more likely to be collaborating on fundraising and bidding. Large organisations were more likely to collaborate on policy, research and campaigning.

Figure 14: Main areas of collaboration

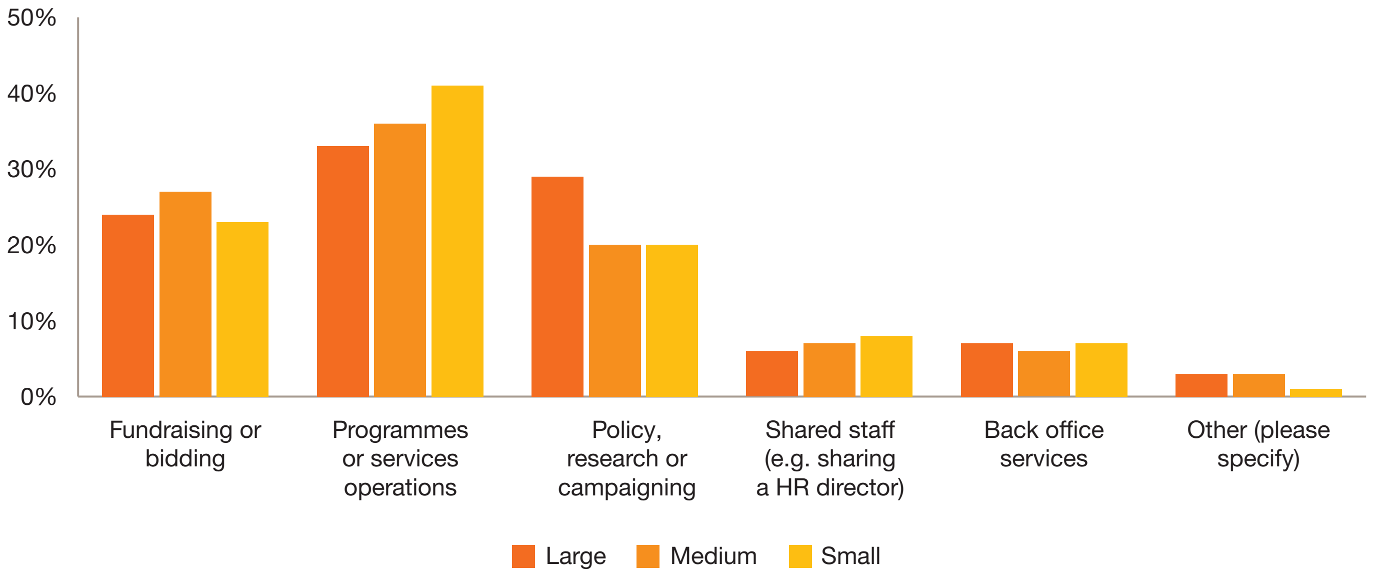
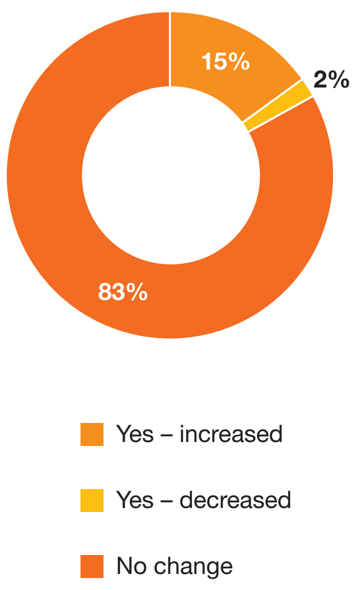


Figure 15: Has your appetite for repayable finance changed (past year)?

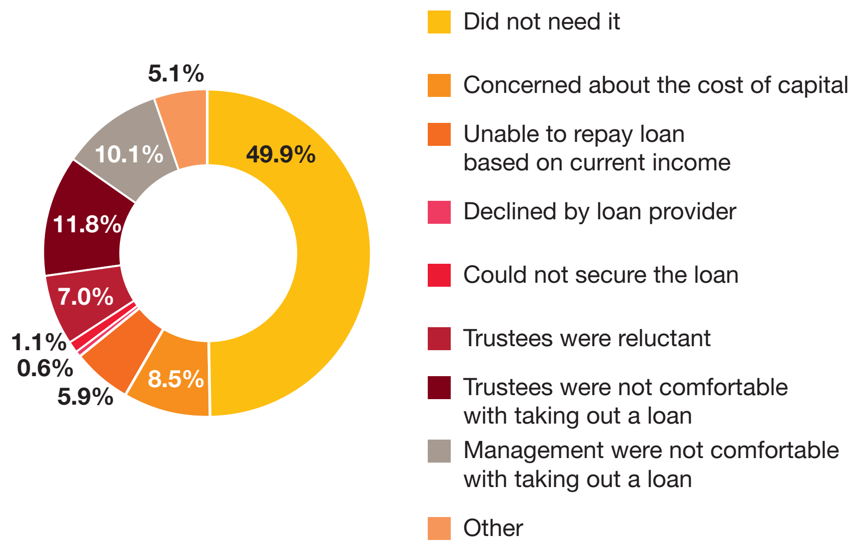


Appetite for repayable finance has shown no significant change from last year's report. 83% of respondents stated that their appetite had not changed, while 15% had stated that their appetite had increased (up from 13% in last year's survey). There was relatively little difference between different sizes of organisations, although small charities seemed the most sceptical.

For half of organisations, this was simply due to not needing repayable finance. For the rest of the respondents, the main factors involved were the reluctance and caution of trustees and management. The cost of capital was a lesser concern for those not using social investment as was the inability of respondents to repay the loan based on current income. However, given that many organisations have not yet got over the first hurdle of being comfortable with social investment. This may explain why the cost of capital and ability to repay did not rank highly.

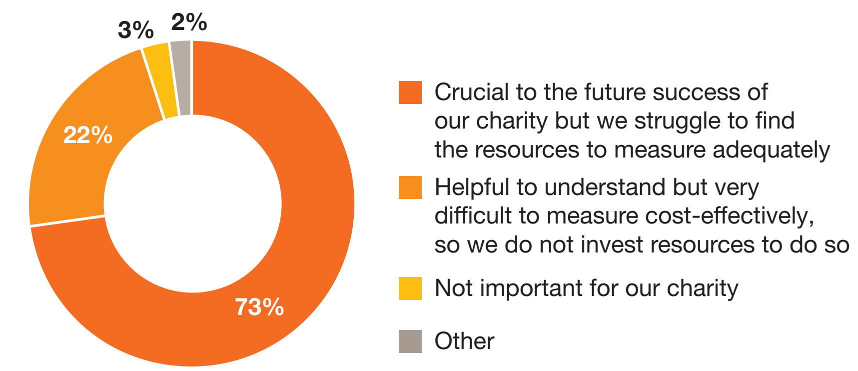
There were some notable differences between different sizes of respondents. Larger organisations were less likely to need social investment, but their reasons for not taking social investment were reasonably split between the factors noted above. The same is true for medium sized organisations. Smaller organisations were less likely to report that they did not need social investment but significantly, the proportion that said that they could not afford to repay loans and had concerns about the cost of capital were higher. Across all sizes of organisations, concerns from trustees were a significant factor.

Figure 16: Reasons for not using social investment products



The arrival of the social investment tax relief and the new Access Foundation may change the appetite of organisations for social investment, but three years on from the beginning of Big Society Capital's operations, the overall interest in social investment does not appear to have changed significantly in the charity sector.

Figure 17: How important is measuring outcomes and assessing social impact to your charity?



The survey also found a strong level of consensus (73%) across respondents that impact measurement is crucial to the future success of their charity but that it was a struggle to find the resources to measure it adequately. This was similar across all sizes of charity, although smaller organisations were more likely to respond that outcome measurement was not important to their charity (7%).

People

Key findings:

- Fewer charities have taken steps to reduce staff costs than in the previous year; however redundancy and restructuring have been necessary for a significant minority.
- Some 57% of charities reported an increase in staff level in the past 12 months, an increase from last year.
- Over 60% of charities reported the mood and morale of their staff to be either 'optimistic' or 'energised', again up from last year.

There has been a noticeable increase (13%) in the number of charities reporting an increase in the number of staff they employed. Equally, there has been a marginal decrease in the number of organisations that have seen a decrease in staff numbers over the past 12 months.

We see this as a positive indication that increasing numbers of charities will feel confident enough in the future to invest in additional resource.

Figure 18: How has the number of staff employed by your organisation changed in the last 12 months?

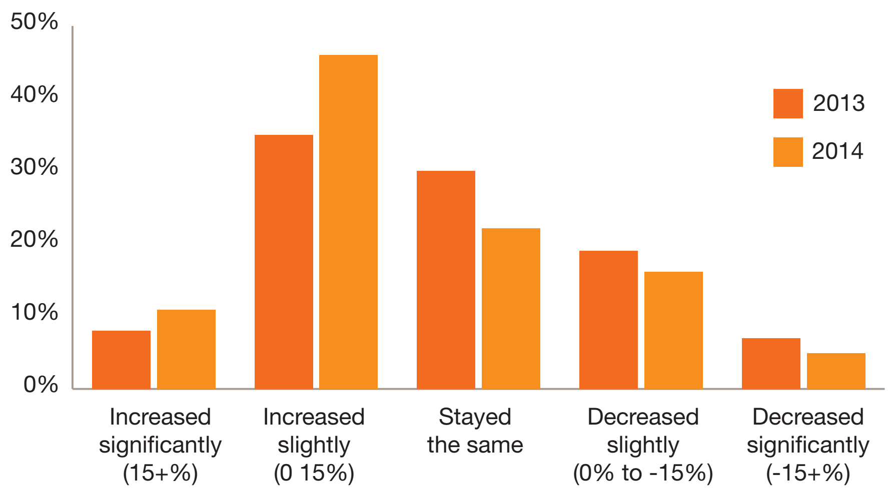
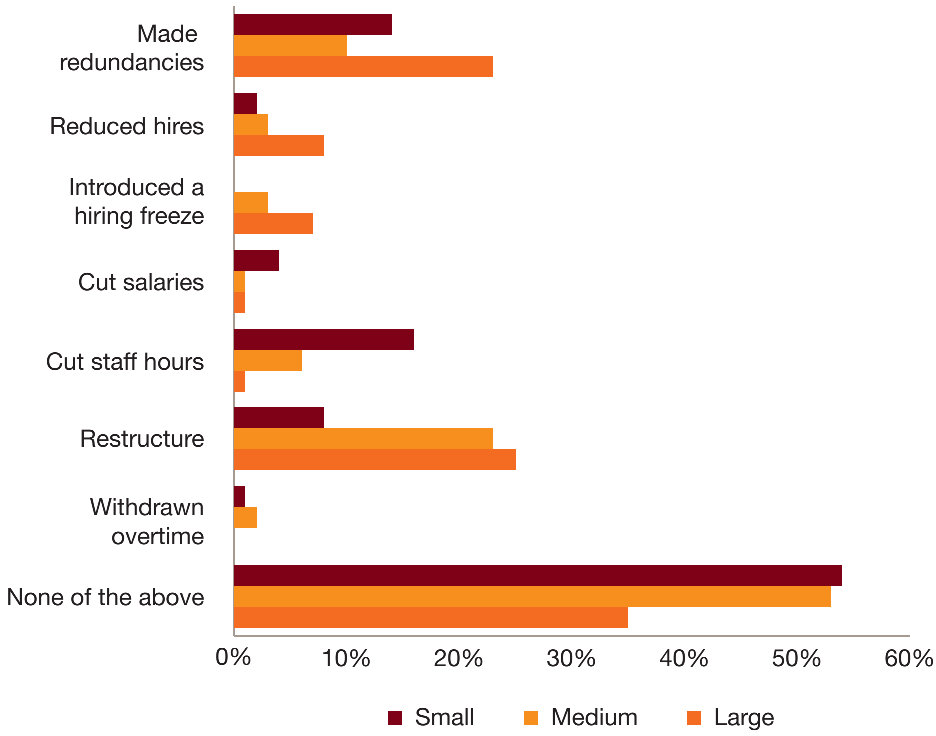


Figure 19: Has your organisation taken any of the following steps in the past 12 months to reduce wage/salary costs?



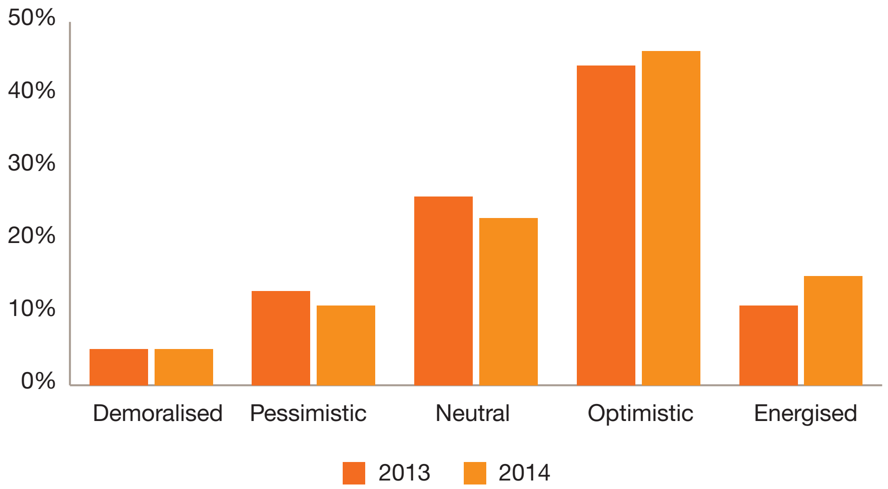
Similar to last year, a significant number of organisations continue to report they have not taken any actions to reduce wages/salary costs in the past 12 months. This is particularly noticeable amongst small and medium sized charities, where 53% and 54% respectively have confirmed not having taken any actions to reduce staffing costs.

Overall, the numbers of charities having taken steps to reduce staffing costs has decreased from last year; however, a significant minority of charities (in particular, large and medium sized charities) have continued to make staff redundant and/or restructured their workforce.

Figure 20: How do you perceive the mood and morale of your team to be?

The morale of charities is reported to have improved, with around 61% of respondents reporting that staff mood and morale is optimistic or energised. This is a slight increase on last year's results where 55% of respondents reported the same, demonstrating a continued general lift in confidence for the sector. Taken together with the findings that the vast majority of organisations are not having to take actions to reduce wages and salary costs, and an increase in staff numbers for the sector, positive signs for the charity sector workforce should be welcomed.

There is a corresponding slight decrease in the number of respondents who felt neutral or pessimistic during the year. However, 5% of charities continue to report feeling demoralised, reinforcing the fact that some charities continue to find the current climate extremely challenging.



We have commented in previous reports that the sector is often very resilient in its outlook and ambition to work through challenging times. While it is possible that this feeds into a more positive overall feeling in morale, put together with the findings from this survey we find a relative improvement in recent years reflecting the fact that the environment has seemed less volatile in that period than previously, allowing decisions to be taken (even very difficult decisions) against a more predictable backdrop.

Fundraising

Key findings:

- 75% of respondents plan to explore new fundraising options in the next twelve months – slightly lower than the 80% from the previous year.
- Investing in fundraising remains a popular strategy with 49% intending to increase fundraising in current areas of focus and 41% of respondents planning to start fundraising in new areas over the next 12 months.
- Donor attrition has improved since last year and respondents reported a small but steady increase in acquisition rates from 33% to 36.5%.

Ongoing challenges in fundraising

Charities continue to face similar challenges and concerns as they have reported in previous years. Competition from other organisations remains the most reported challenge, most likely due to the fact that year on year organisations report that they will be investing in fundraising and fundraising in new areas. Since last year there has been a further reduction in the number of respondents who attribute these challenges to the economic anxieties of the public; the fundraising challenges of 'donors having less disposable income', and 'donors uncertainty about economic security' are reported as being less of a challenge than last year, showing a year on year trend of this reducing.

Internal challenges such as higher targets were much more likely to be identified as problems than those caused by having fewer resources. 50% of respondents said that higher targets were a challenge for their organisation, compared with less than a third (22%) reporting fewer resources as a challenge.

Interestingly, increased press and public scrutiny was less of a concern this year compared to the previous report. This is surprising given that, over the last 12 months, the sector seems to have been subject to more concerted media interest – the result of which has probably contributed to the almost 60% of respondents who report that they have taken steps to enhance transparency and disclosure of financial statements in the last 12 months.

Overall, the main anxieties for fundraisers centre on there being a limited pool of potential donors and changes in donor behaviour. Other challenges included an ageing donor base, barriers to recruiting and retaining talent and a reluctance to embed fundraising into all roles.

Figure 21: What do you think are the key fundraising challenges? (Please tick all that apply)

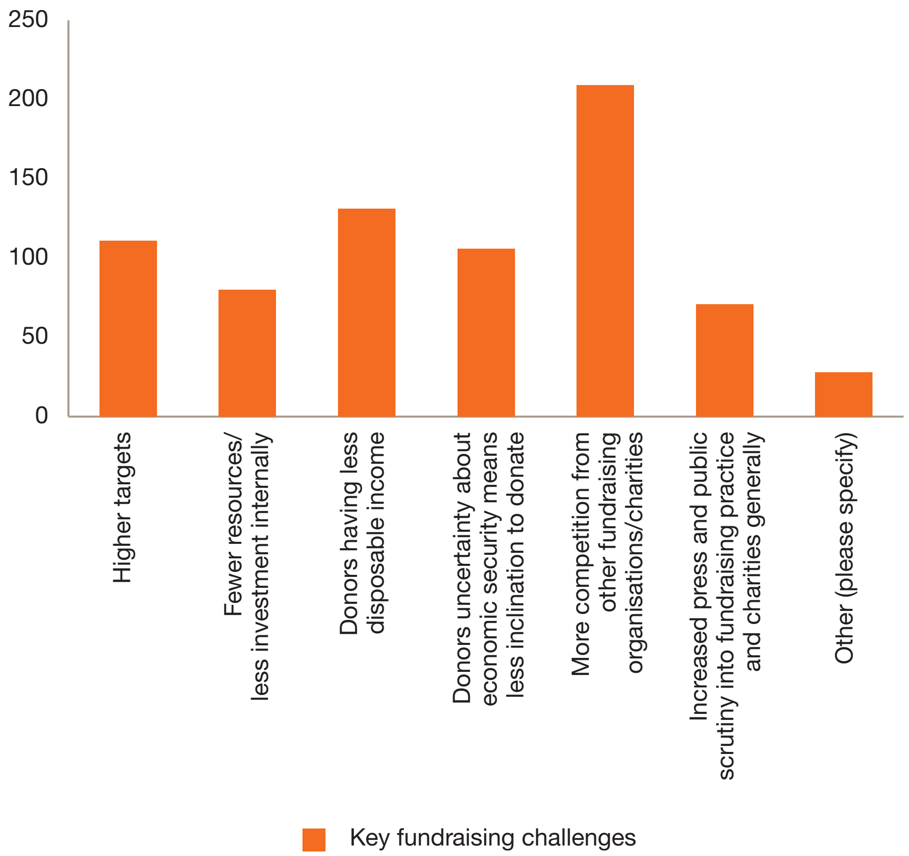
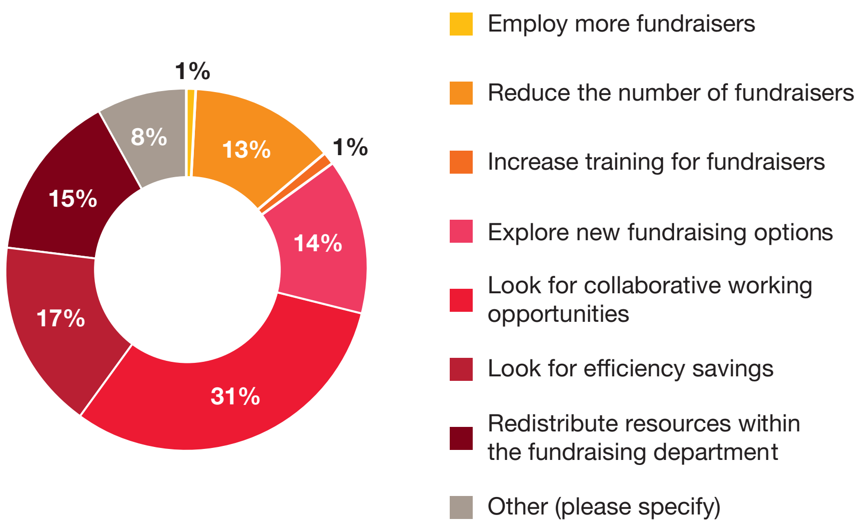


Figure 22: In relation to your charity's fundraising, do you plan to take any of the following actions? (Please tick all that apply)



It is clear that charities place significant value in looking to new and innovative solutions in the face of fundraising challenges, with 75% of respondents planning to explore new fundraising options in the next twelve months – slightly lower than the 80% from the previous year. Notably, small organisations are twice as likely to consider collaborative working opportunities than large organisations.

The proportion of charities displaying readiness to employ more fundraisers and planning to increase their training has also remained at a high after almost doubling last year. In addition to this, when asked what would be most valuable for the year ahead, 35% reported that skills training for fundraising in new areas would be the most important – this was, by far, the most popular option. We see this as a positive indication that there is an increased understanding across the sector that a better equipped and supported fundraising team is more likely to drive up the necessary income, reinforced by the fact that only 3% planned to reduce the number of fundraising staff.

As with last year, over half plan to diversify their income, indicating that although the signs of a more positive environment are apparent, there is still more to be done before this is realised. From the open comments it seems that respondents are moving away from individual committed giving programmes towards major donor, trust, legacy and corporate fundraising as well as investing in trading.

Attrition and acquisition

We asked respondents to report on the levels of loss of donors (attrition) and number of new donors (acquisition) for committed individual giving. A 17% fall was reported in attrition levels, suggesting that donors are continuing to adjust to the new economic environment and feel more confident in committing to support their favourite charities. A slight increase in acquisition rates was reported, up almost 37% from 33%, pointing to a much more positive outlook considering that it can be hard to secure new donors.

Figure 23: Attrition rate over past 12 months (committed giving)

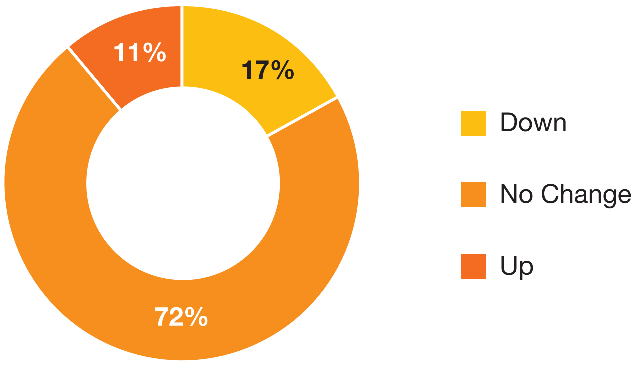
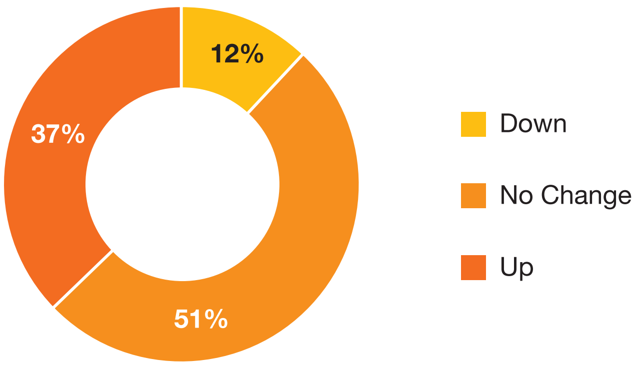


Figure 24: Change in average acquisition rate over past 12 months (committed giving)



Conclusions

This eighth survey suggests a modest continued alleviation in some of the challenges faced by the sector and general sense of a corner being turned. Last year, we reported an improvement in the overall financial environment, and suggested that this was perhaps because many charities have now adapted to the challenges facing their organisations. The results this time around would support that hypothesis, with income and optimism continuing to increase. In addition, there is a sense that, with a more confident and stable base, some charities are now starting to look forward with more of a desire to grow and develop, rather than simply to survive.

Of course, we welcome this apparent increase in optimism and for many it does appear that there is some sunshine emerging now from the clouds. However, in some respects there are now new challenges which are harder to address, as charities seek to grow and to become more and more effective in what they do.

It is crucial, therefore, that the increased overall optimism does not lead to complacency. The challenges of the past few years have been a wake-up call for some charities that had previously not put in place structures to produce the most effective outcome for their beneficiaries. As a result, making necessary changes over the last few years to cope and adapt to a new environment has been hard, but the silver lining is that some charities have benefited from improved leadership and management.

With the General Election around the corner at the time of writing, there is likely to be a substantial role to be played by the charity sector in the next term of Parliament and beyond. Some charities are taking this opportunity to be as efficient and effective as they can be in order to take advantage of the opportunities that are likely to be available as they seek to meet the increasing demands placed upon them.

However, it is important that this does not lead to a 'business as usual' attitude from policy makers or charities. Charities need support to be independent, resilient and sustainable in the years ahead so that they can generate the biggest possible impact for their beneficiaries. Our survey has highlighted a shift in attitudes in the charity sector, and it is important that policy makers recognise this. Government has an enabling role in supporting the sector. The next Government must work with charities to create an environment in which the sector can thrive and grow over the coming years.

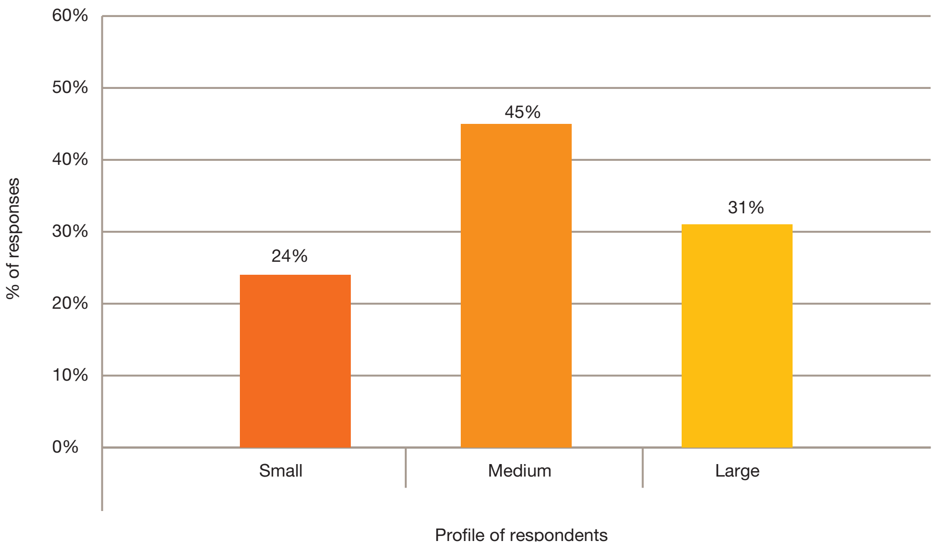
Appendix 1: Background and approach

The Managing in a Downturn series has surveyed senior fundraising and finance professionals in the charity sector periodically since 2008 to chart the impact of the recession and the resulting economic downturn on UK charities. Each year an on-line survey of IoF and CFG members forms the basis of findings. This year the survey was administered between December 2014 and January 2015 and returned a total of over 400 responses. To provide further insight in some cases responses have been cross-tabulated according to charity size as follows:

- Small (total income of less than £1m);
- Medium (total income of between £1m-£10m); and
- Large (total income of more than £10m).

Findings are based on the combined analyses of CFG, IoF and PwC, covering both finance and fundraising professionals' perspectives.

Size of respondent organisations



About the authors

PwC

We deliver exceptional value to our clients with integrity and confidence. We have the charity understanding, experience and expertise ready and available to support you in these challenging times, ensuring your charity is in the best possible position for the upturn and can deal with change – we're committed to the sector and to our clients for the long term. We understand the issues facing the sector and have solutions to help you.

For more information please go to

www.pwc.co.uk

Or contact:
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Charity Finance Group

Charity Finance Group's (CFG) vision is to inspire the development of a financially confident, dynamic and trustworthy charity sector. CFG works with finance managers to enable them to give the essential leadership on finance strategy and management that their charities need; promoting best practice in charity finance, driving up standards, campaigning for a better operating environment and ensuring every pound given to charity works harder. Charity Finance Group has more than 2,300 member, and collectively our members are responsible for the management of over £20bn in charitable funds.

For more information, please see

www.cfg.org.uk

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Institute of Fundraising

The Institute of Fundraising is the professional membership body for UK fundraising. Our mission is to support fundraisers, through leadership, representation, standards-setting and education, and we champion and promote fundraising as a career choice. We have over 400 Organisational members who bring in more than £9 billion in income, and over 5,500 Individual members.

For more information please visit

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