

Charities and the Recession: Some Reflections

Gareth G Morgan
Sheffield Hallam University

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In recent weeks and months, there has been huge interest in the sector about how charities are or will be affected by the downturn (now confirmed as a recession).

I offer the following personal comments on the issue - they are addressed to charity staff and trustees and people advising charities. Whilst they are not drawn from primary research, they are based on attempts to apply existing knowledge of how the sector operates to the specific context of the known features of a recession.¹

(1) The impact will vary enormously

There is sometimes a tendency to think of charities or the voluntary sector as an "industry" and for the media, therefore, to assume that the whole sector will experience similar effects in a downturn. This is manifestly nonsense.

- Some charities will see little or no change.
- Some will actually be able to *grow* at a time like this if they are geared up to address the key problems which appear in times of recession (e.g. homelessness, debt counselling). Churches and other faith-based organisations often experience increased demand when people are facing tough times.
- There will, however, be some charities which see reductions in their income, in some cases big enough to force the organisation to close. In other cases, hard decisions may have to be taken to close certain projects or reduce staff.
- On the other hand, when people are going through times of difficulty, new ideas for charitable ventures may emerge, so I expect to see some new charities formed. Many charities emerged in the past in response to particular social problems, and the 2009 recession could provide similar opportunities. But this will not happen by accident: it needs committed individuals to say of a certain issue: "This is completely unacceptable in the 21st century - we will raise funds and build support to get things changed for these people."

(2) Reserves may be a sufficient buffer

It is easy to overdo the gloom. The figures to date show that the economy shrunk by about 2.5% in the second half of 2008 - following many years of growth. If your charity happens to follow the economy exactly, a 2.5% drop in income is hardly a disaster. Most charities which have followed Charity Commission guidance and established sensible reserves policies should be able to cope with this sort of income drop for a year or two without needing to cut their services or activities. For example, if you had 3 months reserves (25% of income) at the end

¹ The author was invited to submit views for the "downturn summit" in autumn 2008, organised by NCVO with Third Sector Minister Kevin Brennan MP - this article draws partly on the comments he submitted for that event.

of last year, and you had to draw on reserves to meet a 2.5% deficit this year, you would still end this year with reserves at 22.5% of income.

(3) Focus on the charity's core work

Sustainability for a charity is all about the ability to continue the core work - the work which is central to the charity's objects. Sometimes hard decisions may have to be made about reducing certain projects or activities. Those charities which have continued in existence for many decades or even centuries have generally done so because of a clear vision for what is central to their mission, and a passion to continue raising funds for that core.

(4) Allow for timelags in terms of impact

Evidence from past recessions tends to suggest that there is a considerable timelag from the start of a recession before charities see much effect. For example, people giving regularly do not suddenly stop their standing orders as soon as they hear of a recession. But over time, you may lose some donors who find themselves out of work, and they may be hard to replace.

Similarly, charities dependent on grants or public sector funding are unlikely to see funding suspended which has already been agreed. But if the funder has more limited resources than in the past, it may be much harder to get new funding in a year or two when the current funding expires.

For the same reason, when we start to come out of the recession, there is usually a time lag before charities start to benefit. For example, people who were out of work for a while and have now found jobs are unlikely to start giving significantly to charity in their first months back in work.

(5) Don't confuse unrelated problems

Of course, many charities have been facing all sorts of challenges for some time, unrelated to the recession - particularly those dependent on particular public sector funding schemes which are no longer available, those facing competitive tendering, those who are losing members/donors, and those experiencing reduced demand for their services. Any issues related to the recession will only add to their woes. But I would suggest that it doesn't help to blame the recession for unrelated problems.

(6) What does it mean for trustees?

One issue which has not received much comment is the pressure on trustees. If people are feeling the pinch and struggling to keep everything together for their families, they may find that the time commitment and ongoing responsibility of serving on a charity board or committee is one thing they cannot keep up. Also, there will clearly be bankruptcies in a recession, some of which will affect charity trustees. A person who is made bankrupt *cannot* continue as a trustee until the bankruptcy is discharged (in England & Wales it is a serious offence under the Charities Act 1993 to act as a charity trustee while disqualified).

It is easy to think that at difficult times all the focus should be on the charity's staff, especially if redundancies are being considered, but don't overlook the need to nurture and encourage trustees at this difficult time. Moreover, if redundancies should be needed, remember that the pressures on trustees may be enormous in telling staff that their posts will be ending: emotional support is vital.

(7) Financial pressure and legal structures

The financial pressures on charities in a downturn seem, in my experience, to be creating increased demand from unincorporated charities to move to an incorporated structure with limited liability as trustees become more concerned about what happens if something goes wrong. In practice this is likely to mean converting to a charitable company (i.e. a company limited by guarantee which is also registered as a charity) or the new Charitable Incorporated Organisation (CIO) structure when it becomes available.

In general I would not suggest changing the legal structure of a charity just because of something like a recession which hopefully will last no more than a year or two, and in any case a change of status cannot be achieved instantly - the various steps will take several months. But where a charity would benefit from corporate status with limited liability *in any case* (e.g. because of staff numbers or significant contracts) the recession may provide the impetus to act. It is slightly easier to manage a change of that kind if work is a little quieter than normal or if staff numbers are temporarily down.

(8) Don't overlook the purchasing opportunities

However, there are some very valuable opportunities for charities at this time. The recession means that many goods and services are considerably cheaper than a year or two ago. For example, if a charity wishes to undertake a major building project, the shortage of work in the construction industry may mean that now is a very good time to go ahead with the work. The vast number of special offers from retailers make this a good time for charities to buy new furnishings, domestic electrical equipment, etc. For charities which need to produce new literature, printers are short of work and are quoting good prices.

(9) The VAT reduction is a real help

The temporary VAT reduction to 15% (instead of 17.5%) until 31 Dec 2009 is also really helpful to charities. Charities suffer huge amounts of irrecoverable VAT. For projects which will have large VAT bills such as building alterations or purchases of vehicles or major items of equipment, it is well worth going ahead this year if possible. (But the whole project must be invoiced by 31.12.09 to benefit from the 15% rate.)

(10) Impact on Investments

For charities dependent on investments, the situation is currently very serious if a large part of the portfolio is in equities (shares) - due to the decline in value of the stockmarket. This will affect many grant-making trusts and hence reduce the funds they have available to pay grants in the next few years. Even for charities which simply have generous cash reserves and depend on interest on deposits, the very low interest rates at present clearly mean a big reduction in income.

However, it is worth bearing in mind that investments are nearly always held on a long term basis, and it is important to take advice from investment advisers on that basis.

(11) Property and House Prices

The reduction in house prices means that charities receiving legacies in the next couple of years will almost certainly receive a good deal less than might have been expected previously.

But conversely, for a charity which may be looking to acquire property needed for their work - whether residential or commercial - now is looking like a very good time to buy.

(12) Possibly a good time to borrow?

However, for charities wishing to engage in capital projects such as new buildings and needing to borrow money, this may be a good time. Although many businesses are finding it hard to get loans, there is some evidence that banks are starting to think of charities as more reliable, and there are now increasing numbers of charity-specialist lenders. The current low level of interest rates (combined with lower property prices, reduced building costs and the VAT reduction for alterations) could make it possible to complete a new building or a major alteration at a considerably lower total cost than a couple of years ago.

In fact, if you are fundraising for a building project and were only planning to proceed once virtually all the funds were in, it could be attractive if (say) 50% of the total has been raised, to get a loan for the remainder and proceed sooner.

(13) Overseas Links

For charities involved in overseas work, the fall in value of sterling is a real blow, and means that proportionally more funds have to be raised in the UK to support a given level of work in a developing country.

However, some charities whose services are sold overseas will benefit - for example universities and independent schools are finding their courses are more affordable for overseas students. For charities who receive funding under EU programmes with amounts set in euro, grants will be worth more than originally anticipated.

(14) For many people life is unchanged

It is, however, vital to avoid recession gloom. Although *some* people are very badly affected, for *most* people life is continuing largely as normal. It may be that the most important thing is to keep focused on the charity's vision and continue as normal! Moreover, one major charity recently reported that donors actually *give less* if you mention the recession: so the best strategy is probably to remain upbeat about your work.

(15) Don't stop fundraising

At all costs don't stop fundraising because of the recession. Provided your fundraising is cost-effective (i.e. bringing in significantly more income than the fundraising costs), fundraising remains vital - even if the actual amount raised is down on the previous year. Moreover, maintaining the support of donors and funders will be absolutely critical as we start to come out of recession and start to need resources for future growth.

Gareth G Morgan is Professor Charity Studies at Sheffield Hallam University and leader of the University's Centre for Voluntary Sector Research. He also undertakes individual work on accounting, fundraising and governance issues with a wide range of small/medium charities through charity consultants The Kubernesis Partnership LLP – this article is adapted from one he wrote for his clients.

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Contact details: Professor Gareth G Morgan
 Sheffield Hallam University
 Stoddart Building, City Campus, Sheffield S1 1WB, UK
 E-mail: gareth.morgan@shu.ac.uk Web: www.shu.ac.uk/cvsr