By the Waves Charity Consultancy

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Covid-19: What just happened?
Summary Report

The impact of Covid-19 on the UK economy, the charity sector and charity fundraising.

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Contents

Executive Summary

The Perfect Storm

Never in memory have we seen a collective crisis on such a scale, in this country and around the world. In the past 6 months we have witnessed all the underlying issues affecting the UK charity sector exacerbated to the point of breaking.

By the time the scale of the Covid-19 impact became clear in March 2020 the sector already faced some significant challenges. Asking for money in a crowded market was delivering diminishing returns. Fewer donors were giving to charity and individual giving had plateaued. Demand for services showed no sign of letting up whilst securing and retaining talent was challenging. Reputationally, the sector had taken some damaging body-blows. Trust in charities was not easily won and even harder to keep.

In some charities there was a lack of financial resilience and after years of walking a fine line between maintaining enough reserves to mitigate financial risk whilst staying on the right side of tabloid headlines meant that many charities maintained low levels of reserves. Charities had been slow to adopt technology as a critical operational enabler and still saw it as a communication or fundraising channel.

Against this backdrop, in March 2020 lockdown led to a chaotic combination of catastrophic income loss, a significant increase in demand for services, immediate home working for all staff and volunteers, inadequate technology and serious risks to short-term cashflow. This was the perfect storm.

Short-Term Challenges

Whilst Government funding was slow to arrive, other funders stepped up and charities stitched together a patchwork of emergency funding solutions, ran emergency appeals and cut costs. As sector leaders lobbied the Government for financial relief it soon became clear that charities would need to find alternative ways to survive the immediate crisis. Government funding would not plug the estimated £12 billion hole in the sector, although the option to furlough staff proved to be an important, short-term, lifeline.

By 12th May, The Association for Chief Executives of Voluntary Organisations (ACEVO) published a Charity Health Check[1] that painted a bleak picture of the sector. The report publishes a composite score reflecting the health of the charity sector each month. A score above 50 means an improvement, a score of 50 indicates no change and a score of below 50 means a deterioration. The score for May 2020 was 30.8 out of a maximum of 100. This is evidence that charities had an extremely bad April and expected an equally challenging May.

The sector worked flat out to survive the summer and by September it was possible to peer through the dust at the outlook for the rest of 2020 and identify key themes:

- A tough 6 to 12 months is expected, with the possibility of a double-dip recession
- Efforts to mitigate the impact of high unemployment (forecast of 8% by year end) will be key
- Negative GDP growth is almost certain (forecasted between -10% and -13% GDP growth in 2020 by Price Waterhouse Coopers)

Building Back

Whilst there is no doubt that 2020 will be difficult for the charity sector, the charities that survive into and beyond 2021 will see a recovery of sorts. Experts identify three, key factors that will influence the nature and speed of a 3-year recovery:

- Covid-19 resurgence and restrictions
- Levels of unemployment and consumer spending
- The impact of the terms of the Brexit deal at the end of 2020

[1] *ACEVO Charity Health Check*. May 12 2020. https://www.acevo.org.uk/2020/05/new-measure-shows-massive-deterioration-in-the-financial-health-of-charities/

Scenario planning around various combinations of these factors will help charities to understand the challenges and opportunities they will face over the coming months.

As the broader economic scenarios play out there are some difficult sector specific questions to answer too:

- Why, when there was a pandemic boom in trust, have charities not seen the benefit?
- Are we wasting a crisis? Should we address this time with more inward investment and better external collaboration?
- Why do so few charities have early warning systems and resilience plans, and do they have a moral obligation to be more rigorous?
- Are we so old school that we cannot adapt to technology and will leave progressive solutions to organisations outside our sector while we defend the traditional models?

On the subject of not wasting a crisis, it is important to point out that there have been glimmers of light and inspiration across the sector throughout the Covid-19 pandemic. There are positive themes and pockets of good practice to build on as we reset and reinvigorate:

- Volunteering increased
- Collaboration improved. Examples include lobbying on behalf of the sector (e.g. #NeverMoreNeeded), income generation (e.g. 2.6 Challenge) or the sharing of data (360Giving)
- Innovative business models emerged from difficult times, proving that necessity is often the mother of invention (e.g. Crisis Venture Studio).
- We did what we said couldn't be done with technology. From supporting mass home working, to running remote fundraising events.

So, the question for sector leaders now is when do they stop reacting and start rebuilding? Should they aim to replicate or reset? Covid-19 is a crisis that must not be wasted. By stepping back and revisiting how the pandemic played out and what we have learned from it, it is possible to build back with a new vision. But for that leaders will need to acknowledge some significant shortcomings and reframe what the charity sector needs to be and needs to do in the post-pandemic world. The lessons are there for those willing to learn.

Leesa Harwood
October 2020

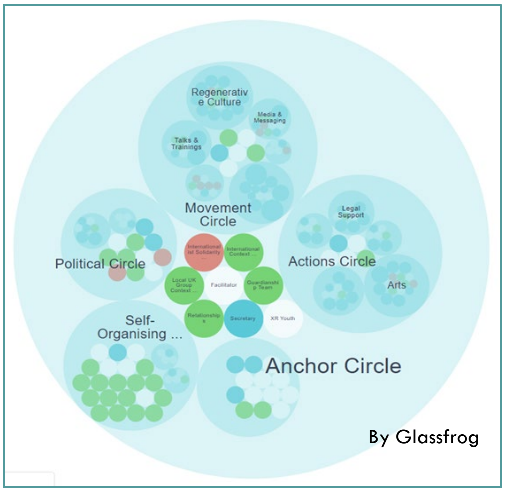
Questions about the viability of the traditional charity funding model

By the end of 2019, doubts about the sustainability of the traditional fundraising model gained traction and support across the sector. As early as January 2019, sector media published opinion pieces reflecting a need for transformation.

> "We need major changes to the fundraising model"
>
> Joe Jenkins, Director of Supporter Impact and Income. The Children's' Society

> "Innovate Your Fundraising Model or Die"
>
> Brian carlin, CEO, Aspire

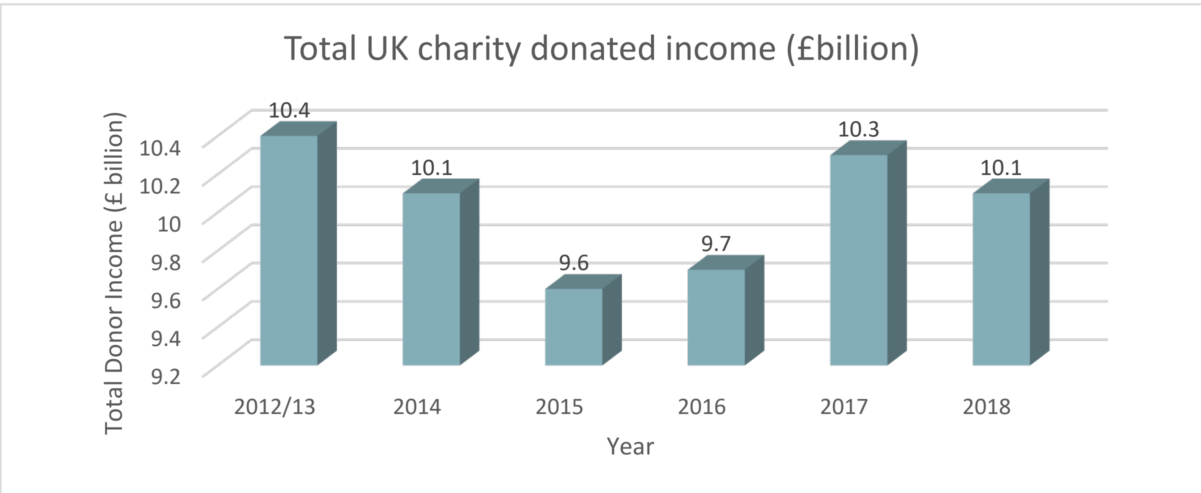
Emerging operating models



Alternative models to mobilise support and act for social and environmental good gained traction. Extinction Rebellion's self-organising system (left) - based on distributed authority, inter-connected self-organising circles, and radical transparency - countered established assumptions about how to organise people and resources to bring about change.
Strike Debt had been distributing versions of the Debt Resisters Operations Manual since they started in New York City in 2012.
BrewDog Equity for Punks Tomorrow proved that charities do not have exclusivity on social and environmental change as their final equity-release-for-good overfunded well within the deadline to secure funding to create a carbon negative operating model for the company.

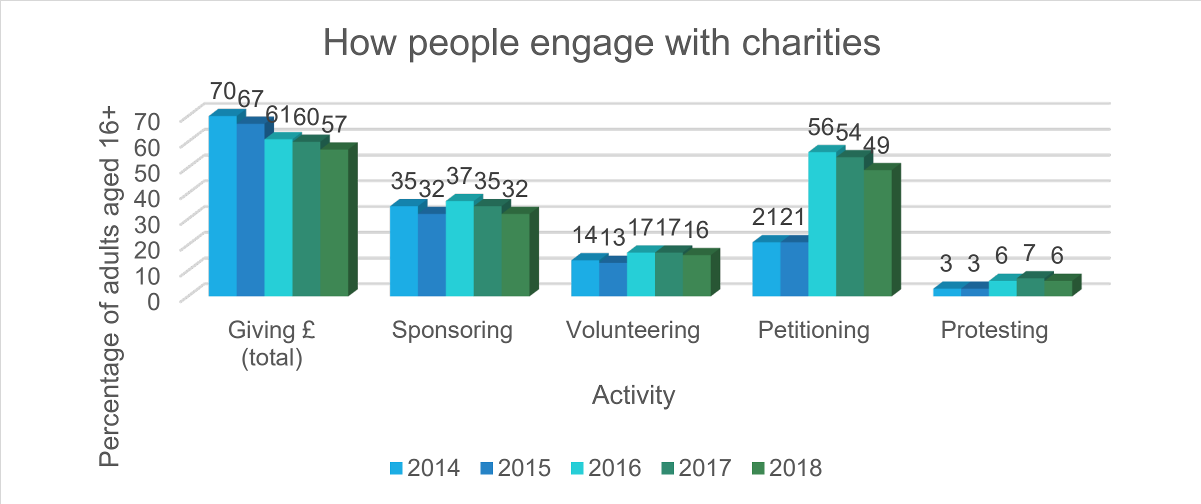
Lack of growth in traditional giving markets

The Charities Aid Foundation Charity Giving trend report published in May 2019 said that key measures of giving were on a downward path. Individual giving had plateaued in value, but with significantly fewer donors giving for the third year in a row. Trust in charities was down from 51% in 2016 to 48% in 2019. In 2012/13 total donor income was £10.4 billion across the charity sector. By 2018 it was £10.1 billion (below).



Charities Aid Foundation Giving Trends Reports 2012 to 2019

Cash Engagement in Decline – Digital Engagement Increases



Charities Aid Foundation Giving Trends Reports 2012 to 2019

Giving through third party sites

58% of those using web or app platforms electing to give via a third-party facility (e.g. Just Giving or Facebook 'donate') compared with 46% giving directly through a charity's own website.

Statista – March 2019

Crowdfunding Explosion

In 4 years, donations to 'good causes' through UK crowdfunding rose from £800,000 in 2013 to £41 million in 2017

Crowdfunding & Good Causes - Nesta

Charities fail to optimise digital and tech

By 2016 only 0.5% of charitable giving came from crowdfunding in the UK
As the Covid-19 pandemic hit (and at the very point that digital capability would prove critical to income generation), confidence amongst charities that they were making best use of digital had declined from 70% in 2017 to 59% in 2020

Crowdfunding & Good Causes - Nesta   The State of the Sector 2020. NPC

It was a mixed bag in terms of the pre-Covid-19 sector diagnostic. Some traditional models and income streams were experiencing a prolonged period of stagnation, decline or loss of momentum. Other traditional areas like Trusts, Foundations and Legacies underpinned losses elsewhere. The Top 100 Fundraisers Spotlight concluded that:

> *'At a time when many donors also see shrinking disposable incomes, charitable donations are taking a toll. The results show how legacy income has come to the rescue for many in 2018/19, but although this is very much welcomed, the findings should also sound a warning bell. Legacies are principally the expression of past goodwill and wealth. Relying on legacies may not be a sustainable strategy in a period of faltering global growth, with the effects of the COVID-19 crisis difficult to predict. Income growth is likely to prove an elusive target for some time.'*

Not only were charities feeling pressures on all fronts before the pandemic, they were ill-equipped to deal with what would happen when it arrived.

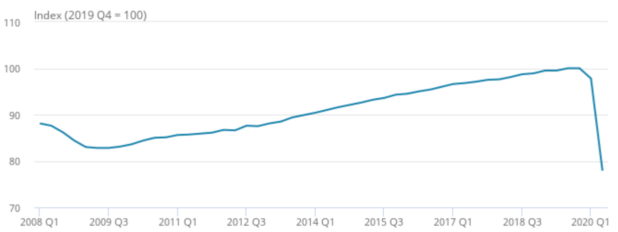
The Impact of Covid-19 on the UK Economy

Within 6 weeks of lockdown, significant economic disruption could be felt. [The IHS Markit UK Composite PMI survey][2] showed the fastest downturn in UK private sector output since the survey began in 1998. Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said,

> *'The services sector reached a stasis in April as the engine of business was put to sleep and the flow of new customers was cut off amidst public health concerns. The PMI graphs visibly show cataclysmically low levels of domestic and export new orders, along with outstanding business as companies simply shut up shop.'*

Figure 1: Real GDP fell by 20.4% in Quarter 2 2020, the largest quarterly contraction on record

UK, Quarter 1 (Jan to Mar) 2008 to Quarter 2 (Apr to June) 2020



World Bank – May 2020

UK domestic poverty is compounded by growing, global poverty

Pandemic could push more than 60 million people into extreme poverty (living on less than $1.90 per day)

"…erasing much of the recent progress made in poverty alleviation." World Bank President, David Malpass

Office for National Statistics – September 2020

84% of Businesses trading

80% trading for the last 2 weeks

Daily voluntary dissolution applications declined from 1008 to 940

"While it has continued steadily on the path towards recovery, the UK economy still has to make up nearly half of the GDP lost since the start of the pandemic.

"Education grew strongly as some children returned to school, while pubs, campsites and hairdressers all saw notable improvements. Car sales exceeded pre-crisis levels for the first time with showrooms having a particularly busy time.

"All areas of manufacturing, particularly distillers and car makers, saw improvements, while housebuilding also continued to recover. However, both production and construction remain well below previous levels."

Price Waterhouse Coopers – September 2020

84% of Businesses trading

80% trading for the last 2 weeks

Daily voluntary dissolution applications declined from 1008 to 940

'Under our 'contained spread' and 'further outbreak' scenarios, the expected contraction in GDP ranges from around -11% to -12% in 2020 before returning to growth of around 10% and 4% in 2021. Our expectation is that the UK economy would recover to the pre-lockdown levels by the end of 2021 under the 'contained spread' scenario, and in the middle of 2023 under the 'further outbreak' scenario.'

It could be a slow, three-year road to economic recovery with high degrees of uncertainty and several conditional solutions in place (including Covid-19 vaccinations and reasonable Brexit negotiations). Navigating these waters will require resilience, agility and effective contingency planning across all sectors.

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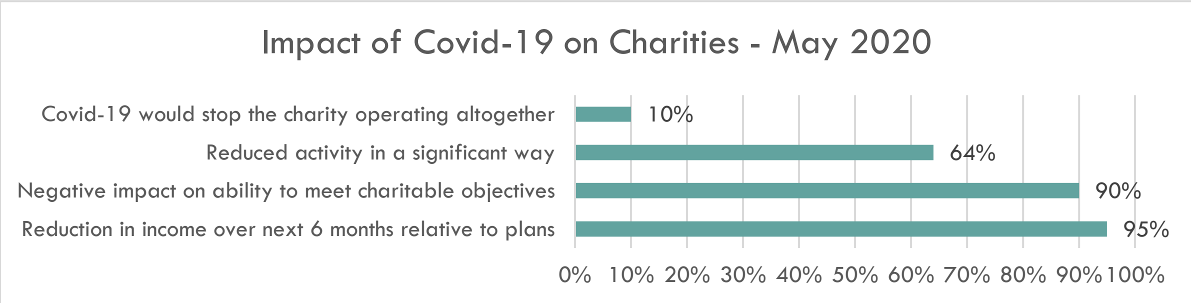
[2] IHS MARKIT / CIPS UK SERVICES PMI® survey 5th May 2020
https://www.markiteconomics.com/Public/Home/PressRelease/429ff7c4e6724cf1a2e354b690c728f0

The Impact of Covid-19 on the UK Charity Sector

A Pro Bono Economics survey at the end of May reflected a challenging 6-month horizon for charities.



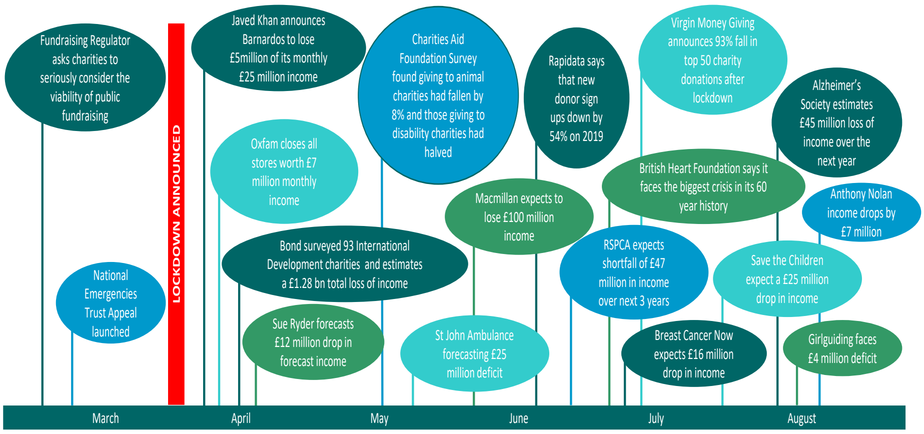
Pro Bono Economics/Civil Society Survey 20th May 2020.

'Income has disappeared overnight. Literally every day counts here'.
Karl Wilding, CEO, NCVO.

Forecasts of 60,000 against a 42% drop in raised voluntary income and a 43% increase in demand for some charitable services.

IoF, NCVO and Charity Finance Group Report. June 2020

As income streams collapsed following lockdown, sector headlines began to reflect fundraising forecasts from charities across the sector (below).



By June, 13% of charities said that their biggest concern was possible closure due to lack of funds. One fifth of small charities expected a 50% loss of income, against a £6.4 billion loss of planned 2020 income across the sector over 6 months.[3]

What did the survivors have in common? Which golden threads ran through the approaches of the charities that weathered the Covid-19 crisis? Some charities had routinely and proactively planned for risk, and already had systems and plans in place and deployed them accordingly. Others did not and struggled to quickly assess the scale and nature of the risks they faced, let alone respond. The difference between proactive and reactive organisational approaches was stark in four, key areas.

Activity	Proactive	Reactive
Crisis Preparation	Crisis scenarios already considered Regular 'table-top' crisis exercises Business continuity plans in place Clear crisis decision-making processes	Create crisis plans in real time Confusion about when to trigger crisis plans CEO becomes bottleneck for decisions No decision auditing or evaluation
Risk Mitigation	Risk registers in place with risk owners Risks regularly reviewed and scored Mitigations in place for risks Robust risk governance at Board level	Risks identified as they play out Impact of risk unclear No time to explore/test all possible mitigations Board micro-manage or abdicate
Financial Modelling	Clear reserves policy Scalability (due to balanced fixed - variable cost ratio) Funding model enables dynamic transfer of income streams in a crisis	Insufficient reserves or lack of clarity about allocation. High fixed costs prevent cost-saving Inability to reallocate income to core activities
Fundraising Risk Planning	Designed for scalability (structure) Strong supporter relationships Robust and accurate pipelines Cross-trained fundraisers	Random cuts to fundraising teams Unable to ask for more support or changes to support Some fundraising stops due to cuts

[3] *Pro Bono Economics weekly analysis* 9th June 2020. https://www.theguardian.com/world/2020/jun/09/coronavirus-leaves-one-in-10-uk-charities-facing-bankruptcy-this-year

Moving Forward

Income Predictions

General Charitable Giving

General charitable giving tends to track economic growth, but we can learn from previous recessions. According to the Institute of Fundraising[4] the recession of 2007/08 led to a 1.1% drop in fundraised income (against a 3.6% drop in GDP) the following year. According to the Institute of Fundraising 'Reframing the Ask' report[5] we could see a 25% drop in fundraised income next year. This means losses of between £6.3 billion and £8.4 billion based on the Treasury's lowest and highest GDP projections.

Individual Giving

54% of respondents to a Management Centre survey of UK fundraising leaders predict a decline in individual giving beyond 2020

What does the Future Hold for Fundraising in the UK? The Management Centre. July 2020.

81% of respondents to a Management Centre survey of UK fundraising leaders predict an increase in major donor giving beyond 2020

Spending is 8 times as high in the top 10% of households by disposable income as in the bottom two bands[6]. However, with household disposable incomes at risk, it may be very specific types of giving that are sustained while others decline. New donor acquisition has been particularly difficult over the last 6 months and, if unemployment levels rise, this trend may continue. So, targeted retention of existing supporters will be critical to avoid high attrition rates.

'Typically, older age groups tend to be the most generous, but over the period of lockdown it's actually the youngest cohort who were most likely to give. As Figure 2 shows 84% of 18-24-year olds have made a donation in the last three months. Even if donations to the NHS are removed because of the exceptional circumstances, the data shows that nearly three quarters (73%) of 18-24 year olds made donations.'

Enthuse – Donor Pulse, Autumn 2020: Impact of Covid-19 on Donor Behaviour.

Trusts and Foundations

Whilst this market has provided a short-term lifeline to charities during the Covid-19 crisis, it is not necessarily sustainable. 50% of respondents to the Management Centre survey thought foundation income would remain the same, with 31% believing it would grow. The balance saw a potential to shrink- though the pace of decline may depend on stock market values. The Institute of Fundraising 'Reframing the Ask' report is inconclusive about Trust and Foundation giving but recognises that it is the most resilient during times of recession, and that this market has been able to respond well to sector needs, so clearly has a will to continue to do so.

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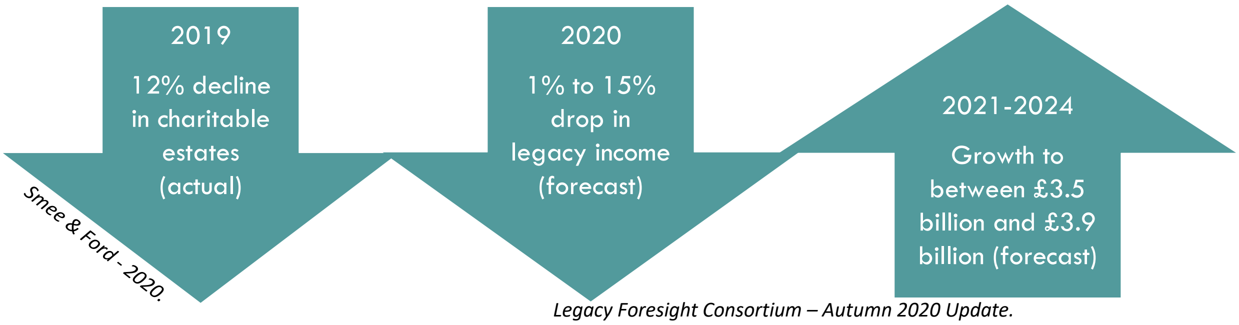
[4] *Reframing the Ask. Trends which will shape giving and fundraising post Covid-19'.* Institute of Fundraising, Cass Business School. University of Dundee. June 2020.
[5] *Reframing the Ask*. Institute of Fundraising, Cass Business School, University of Dundee. June 2020
[6] *Reframing the Ask*. Institute of Fundraising, Cass Business School, University of Dundee. June 2020

Legacies



Legacy Foresight Consortium – Autumn 2020 Update.

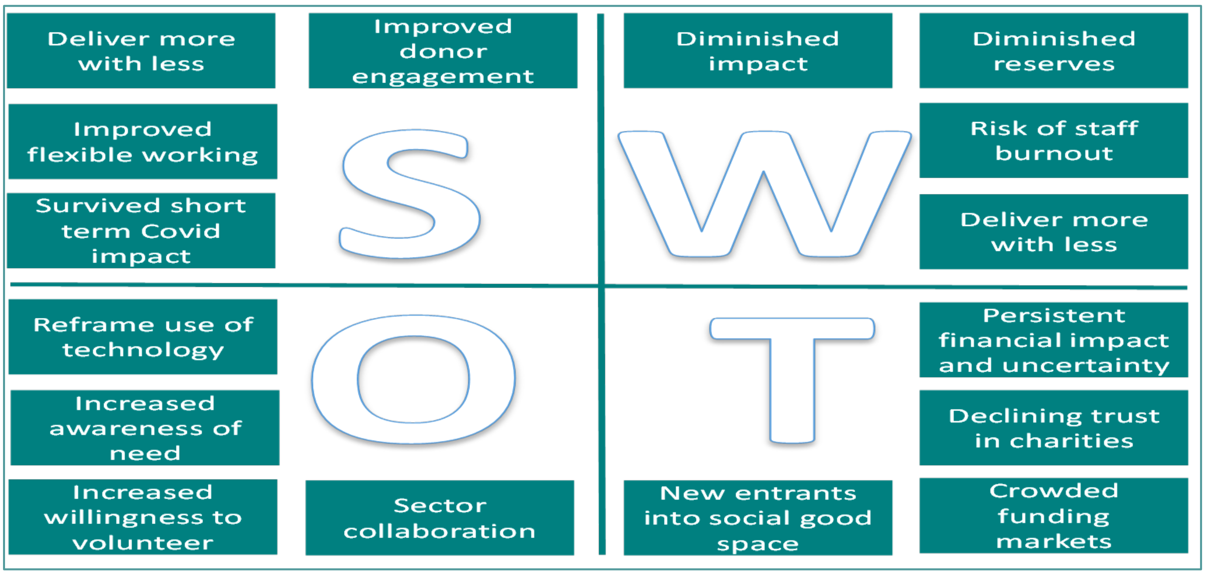
Statutory Income

Statutory funding (non-voluntary income) has been falling since 2014. Whilst committed contracts will be honoured, it is likely that statutory funding will decline over the next 5-years as cash-strapped public sector budgets fail to stretch. We already know that during periods of public sector austerity, grants to charities are usually subject to cuts.

Events and Community

This was one of the most hard-hit income streams during the period immediately after lockdown. Unpredictable restrictions and multiple waves of Covid-19 mean that these income streams will continue to suffer for the next 12 to 18 months. There is some evidence that digital, virtual engagement can replace some activity (e.g. 2.6 challenge, Macmillan's virtual coffee mornings and the virtual Great North Run.) But market saturation is a risk without the face to face engagement from staff and volunteers to convert interest into actions.

Faced with a challenging economic climate compounded by the unpredictability of Brexit, consumer spending and the ongoing impact of the Covid-19 pandemic, charity leaders will need to juggle a portfolio of challenges and solutions in order to navigate beyond 2020.



Recommendations

- ### Prepare for sustained recession

Keep an eye on the economy. Charities do not exist in a bubble. Charitable giving dropped by 11% during the 2008 recession, so prepare to scale down at least 10% less than original 2020-23 budgets. The existential nature of this recession might mean an even higher shortfall as unemployment rates dwarf those in 2008 and significantly affect household income and spending. Watch the three key levers for GDP and financial health;

- Brexit
- Unemployment (linked to consumer spending)
- Covid lockdowns and financial implications

If all three go the wrong way we will know that the recession will be prolonged and can plan accordingly. There is a constant flow of helpful data from a variety of sources (Price Waterhouse Coopers, the Treasury, the Office for National Statistics) to tell us what to expect from the economy. Read it, understand it, interpret it and plan for it. Don't ignore it.

- ### Develop robust plans alongside good financial and risk management

Now is not the time to make it up as you go along. Use risk logs, prospect pipelines with confidence levels, clear funding models and regular monitoring processes. Depending on whether you are still in crisis management or recovery mode, adapt your monitoring processes to weekly or monthly (respectively) against clear, pre-set metrics, including clear plans to scale down (for crisis management) or up (for recovery) for the remainder of the year and into 2021. Do not let up on this discipline. It is intense and requires laser focus, but will enable charity leaders to proactively identify and address risks and opportunities rather than descend into constant firefighting.

- ### Donor Communication & Retention

Continue to communicate with your donors – pull them closer. Your funding model and prospect pipelines should give you a sense of which donors to prioritise and how. Be transparent, let them know how you plan to deliver your mission in the face of the pandemic, let them know how they can get involved or just thank them for sticking with you. Keep it real, maintain momentum and keep talking to them. Resist the temptation to cut costs by re-skinning old campaigns with Covid-19 narratives. Create authentic, new content for unprecedented times. Your donors will already know that the world has changed, they're no fools and will expect your narrative to change with it.

- ### Scalability and Simplicity

The ability to scale up and down across every aspect of your organisation will continue to be important throughout 2021. Unpredictable times require more agility, so recalibrate 2021 budgets to redress the balance between fixed and variable costs to improve scalability. Create expenditure scenarios for financial best, mid and worst cases in advance so that you already have plans in place for fluctuating budgets. There's a difference between making cuts and scaling down – the difference is usually proactive planning.

The enemy of scalability is complexity. It is much easier to scale simple processes with clear outcomes. Invest in some systems thinking and stay simple. When you are running truly lean operation, it suddenly becomes more cost-effective, impactful and scalable. Who wouldn't want that?

- ### Be Creative with Talent

Cross train staff wherever possible to allow flexible resourcing and retain talent. This is a great time to encourage employees to contribute as multi-talented individuals, not human manifestations of job descriptions. Re-think the way to assess talent and apply it to your organisation. Release your people from inflexible ways of working and you'll release their potential too.

- ## Transform with Technology

Transform how you see and use technology. Before Covid-19 charities often saw technology as an additional, less expensive way to talk to supporters. Technology is not a channel. It is a way of life and Covid-19 has taught us that our entire operating models can be transformed by technology. From flexible working to mission delivery we are learning to expand our digital horizons and understand the art of the possible. As we move into 2021 it will be important to move from surviving because of the technology ecosystem to thriving in it.

- ## Innovate and take risks

Why waste a crisis? One of the most disappointing aspects of the charity sector's response to Covid-19 has been the extent of cuts to innovation teams. Innovation is essential during a time of crisis. The new normal will not emerge from the people and mindsets that created the old normal. Invest in innovation, take risks and create solutions. Now is not the time to eliminate ingenuity and originality form your organisational toolkit. You have never needed it more.