

Recession Challenges

Cathy Pharoah

Professor Cathy Pharoah talked to the trustees of the Centre for Charity Effectiveness Trust early in June 2009. She has kindly made her notes available to us.

Much of the research used in these notes was from work carried out in conjunction with Professor Jenny Harrow. Cathy and Jenny are co-directors of the Centre for Charitable Giving and Philanthropy.

Two aspects:

- assessing impact on sector finances
- the demands and choices facing fundraising charities in a recessionary environment

Impact on finance

Predicting the full economic impact of recession on the voluntary sector's resources is fraught with the uncertainties –

For example, one set of issues is around the recession itself – its length, depth and particular characteristics;

A second set of issues is around the problems of measurement:

- the picture emerging to date presents some conflicting evidence, and it is very difficult to tell with any certainty yet what is happening
 - several surveys have reported wide anxieties across the sector about falling income
 - and there are individual charity reports of increasing difficulty in getting income from certain sources such as companies badly affected by the recession, particularly the financial services sector, and of the negative impact this is having on services
 - more direct impact has been felt by charities with investments in Icelandic banks
 - there are some reports of individual major donor reining in – ARK, Cross-pollination, Hunter etc
 - BUT, there is little empirical research on statistical trends in the charity sector's income through the recession, and rather a confused picture has been emerging
 - the available research is still mainly perceptual and attitudinal, recording charities' anxieties and impressions

Rapidata has recently reported (March 2009) that the rate of attrition in direct debits had increased compared with the previous year. But there is also other evidence of income holding up: Comic Relief had its best year ever, beating all previous fundraising targets with a £57 million figure. And many charities have reported that Christmas donating was very healthy and that their donations are holding up.

You will have seen the same headlines as I have: it really has been the 'silly season', and I think you could be quite forgiven for feeling confused, uncertain,

For example, a national daily newspaper said on 1 December 2008. 'Charities lose faith and hope as funding crises leaves them with £2.3 billion black hole'

But this was a very rough estimate by PWC, for the paper, and did not emerge from the research itself – simply projecting a figure for general economic decline onto the sector's overall income.

Apart from being somewhat flimsy, however, this was potentially dangerous – does the public want to invest in a 'black hole'?

I turn to another national newspaper, 20 December 2008:

'Charities fight for survival as donations dry up because of economic crisis.'

And the same paper in print:

'Children, elderly and poor suffer as flow of donations slows to a trickle.'

More scary stuff. So it was bit of a relief to read in Third Sector on 19 December that in spite of all this, actually by contrast

'(News) papers were hopeful for (their) Christmas appeals.'

Followed on 12 January by a report that

'Kind-hearted Britons put charity ahead of financial woes – nearly a third of charity Xmas appeals saw donations rise!'

There is also, for example, the Charity Commission 's 'Economic Survey of Charities', March 2009 ; it collects interesting 'reporting- on- practice' factual data, from a survey of over a thousand registered charities across a range of small, medium, large and largest charities on the Commission's database. Results pointed to:

- a fifth of responding charities experiencing increased demand for services;
- just over half reporting that they had been affected by the recession;
- far smaller numbers considering structural change such as merger or consortia membership;
- the fall in investment income being the most prominent resource shortfall.

However, weaknesses of methodology were respondents self-identifying that they were the 'best person to talk about the charity's finances', and a telephone survey instrument designed to take 'about five minutes', precluding the opportunity to explore the charity's experience in any depth.

Valuable as these snapshot studies are for gauging the experience of the moment, they are so general that the core uncertainties of the recession impact on charities remain unclear and are perhaps even magnified.

Across any period, charities are experiencing both falls and increases in resources. To attribute all change to the recession per se is complex, as some is due to events already in train, for example redundancies as the result of a stream of work/funding coming to an end, or to pre-recession structural reorganisation.

The recession may be an all too-easy explanation, or even alibi in some situations, whether for donors justifying lower giving, or organisations finding budgetary holes.

Few annual accounts covering the period since last Autumn have been published yet. The picture should become clearer over the next months, as more annual reports for 2008 and the early part of 2009, become available. I will shortly be publishing the new Charity Market Monitor, which updates trends in the finances of the major charities, trusts and corporate donors

First large-scale piece of evidence, but will only go up to Autumn 08, and in fact the major contraction in the economy took place in the final quarter of the year

Moreover there is limited evidence in the UK of what has happened in previous recessions.

Recent research on giving for development has tracked long-term trends in the voluntary donated income of the UK's top fundraising charities including the period covering the recession of the early '90s. Its findings indicate that while total household income began to fall in real terms in 1990, charity income still grew in 1991, subsequently showing falls in 1992 and 1993, and then rising fairly strongly again. Over the period of the early '90s as a whole, donations rose. The research indicates that changes in donations move in line with changes in income. So if the IMF prediction of 3-4% downturn this year is correct, this is likely to mean a fall in income of the same

If we pull out of recession quickly, it is likely that falls will quickly be compensated by new rises.

This picture is confirmed by the more comprehensive data available from the US. Evidence from the authoritative work carried out by the American Association of Fundraising Counsel, and by the Center on Philanthropy at Indiana University suggests that economic downturns mainly tend to slow down the longer-run growth which has occurred in charitable giving, concluding that 'philanthropy was resilient'. A 2008 report from the latter argues that giving has increased at an average real 2.8% per annum for the last forty years, but fell in each of the recessions during this period .

However, factors which hold up levels of giving in the US relate to planned giving, including legacy income. Such giving is related more to deferred than current income, so there is a time-lag in its impact. Giving by the wealthy is particularly affected by longer-term investment values, while

spontaneous one-off giving by the general public is particularly affected by the employment rate. Both of these factors are likely to mean a drop in giving as a result of the current recession, but there is still considerable uncertainty as to how much and when this will impact on donations.

Corporate giving

Corporate giving has already been undermined by some of the collapses in the financial services industries, and in a recent survey 30% of companies said they thought their corporate giving would fall. The figures in this survey were also wrong – predicted – 500m fall – because it didn't understand the £1.4 billion figure from my Charity Market Monitor last year – includes in-kind.

Some companies, however, are already giving more because they see the need. Generally the overall level of company giving tends to rise or fall with the level of company profit.

Statutory grants and contracts, and other earned income

The Audit Commission has warned of likely public funding cuts, though it is impossible to predict at this stage what this might mean for the charitable youth sector. Also largely absent from the speedy but big-picture research is much sense of localised recession effects. Yet recession geography is a critical element for the third sector, especially for sub-sectors such as youth, where statutory funding has a predominantly local base, and local fluctuations in funding will occur.

Challenges for fundseeking charities in the recession include

- Continuing to support and to invest in fundraising;
- Avoiding the 'blame game' if unrealistic targets for fundraising have been set; and reaching agreement on appropriate future levels;
- Reviewing the organisational (often hidden costs) of seeking particular grants and contracts (where costs may be higher than the grant value);
- Concentrating on income generation from more likely major sources, e.g. known donors, or legacy development;
- Revisiting reserves policies in line with specific service pressure points;
- Promoting the positive presentation of the charity cause;
- Carefully managing any reputational risk and unexpected outcomes arising from 'shock' appeals for funds, service closure etc;
- Ensuring that the charity is increasingly known not only as 'experts' but for its general expertise in the field, adding to the charity's overall recognition and value;

- Consider opportunities to enhance expert reputation – such as through research, evaluation reporting –against service provision needs;
- Highlighting services users and beneficiaries as active civil society members as well as recipients of supports, so that users become part of the charity’s story of achievements, as well as their effective programmes and projects;
- Approaching ideas for organisational reconfiguration with care, including exploration of collaboration with others or ‘sharing without merging’ as well for full merger.

Those present at the meeting, who are involved with boards in other charities, offered some examples of how Trustees are experiencing and dealing with these uncertainties and anxieties:

- The Trust whose income was largely from investments had seen their earnings halved
- The small service delivery project where the board was divided between those who wanted a balanced budget at all costs and those who wanted some targeted investment to increase income generating capacity
- The medium sized charity who had resolved to use its reserves to fund businesses as usual rather than cut back services with a review fixed for six months time.

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