Charities under pressure

Charity Chairs of Audit Committee
virtual roundtable

Introduction

Over the summer, Grant Thornton held a virtual discussion for Chairs of Audit Committee (or equivalent), focussing on the charity sector and how the economic environment has affected the financial stability of charities. The longer-term effects of Covid-19, rising energy costs and the cost-of-living crisis have increased the demand for charitable services, but without any increase in resources. The discussion goes hand-in-hand with a recent report by Grant Thornton concerning the health, social, and financial challenges caused by the pandemic and subsequent geopolitical turmoil which has led to global cost-of-living challenges. The report considers the impact of macro-economic issues across the UK, USA and Australia. Speaking to charity leaders, the roundtable highlighted the current concerns and issues that charities are continuing to face.

Held under Chatham House Rule, the discussion raised a number of themes and questions which we outline in this report.

Impact on key funding streams

We kicked off the session asking contributors to comment on the impact of the current economic climate on main funding streams. A number of Chairs explained that they are in receipt of significant annual grant funding which has not increased in line with inflation, meaning that funding is essentially frozen whilst costs increase. One explained that they are solely in receipt of government commissioning contracts and that, as they had not increased with inflation for some years, the charity had been forced to strive for significant efficiencies, with success. Another Chair noted that their charity had missed out on tender contracts as customers had chosen alternative, cheaper service delivery options:

"A cheaper option does not necessarily mean better quality… [people get] a reduced or slimmed down service from the one that we had been delivering."

Fundraising was also cited as being an area of increased pressure, particularly for individual donors. One member observed that individual giving was "flatlining" and that it is increasingly difficult to retain frequent donors. They commented that the Office for National Statistics (ONS) figures show that growth in average earnings is similar to the growth in CPI, meaning that the gap between wages and costs is much smaller. They further explained that the cost-of-living crisis was being used as "the next excuse" after Brexit, after Covid, to justify a decline in donations, without really getting to the crux of the issue. There is a sense that there is some complacency in charity strategy that means the giving patterns of Generation X, Gen Z and millennials are not known or understood, and that traditional methods of giving are starting to decline. Contrastingly, another member suggested that the increase in costs had been a particular issue for them as it was not easy to pass on the increased costs to their end-consumers, because of the nature of the charity.

Another member offered that for their charity, commercial activities and investments had performed well over the last year, compared to prior periods, which had helped them to counter the higher costs. Across the group, legacies were seen to be bound by hard-to-predict timing issues and one Chair observed that legacies are thought to be "worth more" because of the stability of asset values, particularly property, and as the "baby boomers" generation begins to decline, legacy income is starting to uplift again.

Overall, the group seemed to agree that reserves had been robust for a number of years so at present there is no "crisis" because the reserves can be used to counter some of the increase in costs in the short-term. In the longer-term however, strategies for efficiencies including restructures, are options which are being pursued.

Increase in service demand

Next, we asked the roundtable to discuss the effects of the current economic climate on service demand. The roundtable observed that detailed analysis had not been performed to specifically relate increased service demand with the economic environment, but that there was some correlation. For instance, one member noted that those who had financial worries may choose to engage with a mental health charity to gain support. Another Chair observed that Covid-19 was a far more impactful time on their charity:

"People search for comradeship, so it's really countering loneliness… particularly after the loss of a partner [which] is a driver [for higher service demand] much more than an economic situation."

One member commented that charities have been affected in different ways. Citing an example of a charity that supports people with physical disabilities, they observed that energy costs were a concern for those who literally need to plug in their equipment in order to survive, whereas service users of other charities might not be affected in the same way (for example animal charities). Another contributor offered that users may be more likely to use charitable services as a more affordable option for things such as training or outdoor activities.

A trustee for an organisation that supports families and children living in poverty highlighted that the cost-of-living crisis meant that parents had to choose between heating, paying rent, or eating. For these families the "pressure is immense" and as a result, the charity saw an increase in demand for support from these families.

The conversation then turned to the impact that the cost-of-living crisis was having on staff at charities. One member observed that their charity is "currently going through a massive pay and grading review" and that they will be "pinching" to make the salary increases happen. Other members agreed that wage increases were required but some were looking at methods such as restructuring or streamlining the senior leadership team in order to release funding for staff wage increases. Others have put a freeze on recruitment to understand if current staff levels are enough to deliver current service levels, or not, and force teams to be more creative in how they deliver their objectives.

Economic conditions

The roundtable then discussed other economic conditions that are having an impact on the charity. One member began with commenting on the impact of their estate,

"We are blessed to have a lot of buildings, but not all of them are economically viable, or utilised, and [we're] trying to work out what's the best way in which to address that."

They continued that it wasn't just about trying to "sell off" parts of the estate, but to engage with as many stakeholders as possible to understand how property can be best used to fulfil charitable objectives. Another Chair identified that estates posed a slightly different challenge for their charity, highlighting that they were currently progressing with building projects which had faced delays due to supply chain issues and "extreme volatility" of building costs. One member commented that they had to cancel a number of planned projects to improve the estate, especially for older buildings, and have instead reviewed their overall operating model, instead favouring the newer buildings which have a lower cost base. Some charities are looking to use building space of other charities or partner organisations to reduce the financial burden of running a large estate.

Another member then suggested that employment was a problem, particularly in respect of attracting and retaining staff and ensuring key roles are filled. In the absence of permanent staff, charities are turning more to agency staff who are increasingly expensive and can only temporarily solve a staffing problem. One Chair noted that they are looking to bring in a resourcing model that works for them, based predominantly on permanent and "bank" staff.

Charities which provided care services found that they had been most impacted by the cost of food increases as this is a staple part of their day-to-day activities. The Roundtable commented that the overall increases in utility and energy costs had impacted on the sector and that cost-cutting exercises in other areas of the charity somewhat mitigated the effects of this.

Economic mitigations

Whilst some mitigating options have already been highlighted (such as restructuring, cost cutting and estate management), we asked the Roundtable if their charities considered other actions to mitigate economic threats. One Chair began the discussion by asking if mergers or rationalisation of services had been considered, through joint ventures or acquisitions.

"[It's] not huddling together for warmth, but actually just delivering better quality services as well... Even better-quality services."

One member suggested that they were looking at changing the nature of delivery at a "high-level" – not strictly through formal mergers but rather through working with partners who have similar aims and operate in a familiar way, too. The Chair suggested they have a more collaborative and "friendly" approach to working with organisations to make service delivery better for the end users.

Another Chair observed that volunteering is another area where better cooperation would be beneficial. They commented that national, well-known charities often have many volunteers, but they are "in the wrong place." It's time-consuming to merge charities formally, but some kind of national partnering role which would allow volunteers to be deployed to local charities and help to deliver services at a local level could be very beneficial. One Chair added that where there are a number of national charities that compete in a similar space there is an opportunity for them to collaborate, rather than compete or merge. Competition is considered to be a very "corporate type of behaviour" which arguably is inappropriate for the charity sector and should be avoided. Another member added to this, explaining their experience as a trustee of a charity that worked in a very specific area which was complemented by the work of another charity. Although the organisations did "bump shoulders" historically, they learned to work together and have a cooperative approach to assisting the charity beneficiaries.

Charities that support children have been particularly forthright in working together. Ultimately, they all want to keep children safe and protected so they have developed a "more modern business" approach to collaborative working, identifying who is best placed to deliver which kind of services, to best look after the children who need support.

"What we've seen as a result, is a unified voice."

Other trustees commented that they have considered sharing back-office functions with other organisations, but finding the right partner can prove difficult. Successful sharing of services comes when organisations are closely aligned in terms of purpose, but also structure and service delivery. Merging with organisations that are very different is thought to be unlikely to bring clear benefits.

Successful charities

Finally, looking to positive future developments, we asked the Roundtable to identify the key characteristics of a successful charity and what that might look like in the future.

Environment, Social and Governance (ESG) was a main focus for this part of the discussion. This is an area that is expected to be a high priority area for a number of organisations over the next 5 years and may feature as a success indicator going forward. One Chair commented that investors in the commercial sector are more "hard-nosed" about ESG credentials but actually, they are now looking for good financial returns as a higher priority. ESG are three very distinct words which don't necessarily fit together helpfully:

"[If you are] an environmental charity, then clearly, you're going to be putting 99.9% of effort into that objective. If [your] scope is more about social change, you're going to be putting 99.9% [effort into social]. We're going to support environmental objectives, but the main one is the social change… Governance is a dry topic which may be [considered] another time."

Another Chair observed frustration with ESG overall as "E" seems to be front and centre and the main focus, whereas "S and G" are less prominent.

Next, another Chair commented that "psychological safety" of an organisation was a key characteristic of success. It allows colleagues to take initiative and try new things and "speaks to the heart of the culture of an organisation."

Moving onto income, one Chair offered an insight:

"Diversified income streams - work out what the products are to get Gen X and Gen Z to [give]. What are they going to donate and how in the over the next 20 years? I think unless the sector starts innovating and stops being complacent about kind of the streams that have existed for the last 20 years, that that will determine winners and losers in the sector."

Tied to this, the Roundtable observed that little was known about how younger generations like to give their time to volunteer. There was some agreement that a lot of volunteers tend to be mature, and they then move into trustee roles. One Chair commented that the work ethic is very different in the current economy in that people move jobs and move companies more regularly, whereas company loyalty used to be much higher and colleagues would work for a company for several years before they even considered moving on. Whilst some bigger firms are able to offer their staff time to volunteer (for example a couple of days per year), a more holistic approach might be required. Allowing employees in any sector to volunteer as a more structured part of their role would support the charity sector who are struggling to keep up with wage increases every year.

Lastly, the Roundtable looked to the contributions that technology and AI can make to the sector. One Chair observed that for people with disabilities or those who are neurodiverse, the AI movement could "provide huge new opportunities for people who will thrive." Another member noted that AI could be used by charities, but trustees would have to be very clear about what they are trying to achieve and identifying if AI is a suitable tool that can be used. Overall, the thoughts on AI were positive and the discussions ended with this cautiously optimistic view,

"There is the kind of Ex Machina type worry that [there] will be, you know, humanoid robots floating around… And maybe there will be, but in my view, like most technical innovations over the last 200 years, [overall], it's been a good thing, and we ought to embrace it as a sector."

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