

The Charity and not for profit sector and impact of COVID-19

The financial impact of COVID-19 on charities to date

Charities have already seen their main income sources plummet: income from fundraising and trading has stopped to protect the public; simultaneously charity investments have been negatively affected by the wider economic impacts of COVID-19. This means that charities are having to make use of their reserves, so and what were once healthy free reserves are rapidly depleting.

A survey by the Institute of Fundraising, NCVO and Charity Finance Group has shown that:

Financial Impact

- For those that had reforecast their voluntary income as a result of COVID-19, charities are expecting, on average, a decline in voluntary income of 48%
- On average, they expect a decrease of 32% against their total income from the previous year

Impact on charitable services

- 432% predicted an increase in demand for their services
- 91% have or expect to have their cash flow disrupted, with 621% indicating that these would result in reduced charitable activity, and 42% saying it would leave them with a reduced ability/inability to cover payroll and 34% with a reduced ability/inability to cover utility bills/mortgage payments.

Actions charities are taking/intending to take:

- 52% of charities have reduced existing/previous levels of service, with a further 12% intending to in the future
- ~~92% of charities have already, or intend to reduce existing/previous levels of service~~
- 654% have already taken action to reduce all costs, with 62% continuing to do this in the future alongside 62% who feel they need to use reserves to keep going
- 59% have already cut back on implementing new plans/initiatives/programmes/policies

Moreover, of those charities who are engaged in delivering public sector contracts using payment-by-results, an inability to deliver against contracted outcomes has the potential to have disastrous results. A recent CFG survey found that the median surplus (income less total costs) on service agreements or contracts as a percentage of income from these is minus 3.5%.

Charities and volunteers are stepping up to help communities deal with the devastating impact of the coronavirus. Given the scale of the challenge facing the country and the widespread social and economic impact, the help they can provide at this time is invaluable. Their specialist knowledge and expertise will help people in need to respond and adapt to the impact of coronavirus.

A small sample of charities we have spoken to shows that a proportion of charities have already closed down, others are considering liquidation, reducing services, and making staff redundant. **Time is of the essence for charities.**

Why existing measures are not sufficient

- **The government's pledge to pay up to 80% of salary of furloughed workers is not going to help the majority of charities.** The majority of charities and voluntary organisations deliver services and offer

support which cannot cease for three months in the way that a bar or cinema can. They must remain open to support the public, and therefore expenditure associated with them will continue.

- **Based on the latest data from the UK Civil Society Almanac, only a proportion of a maximum 34% of charities might be in a position to make use of the scheme** (culture and recreation, playgroups and nurseries, village halls, scout groups and youth clubs, Parent Teacher Associations)
- Even for those organisations that may make use of the scheme, it is likely to be **only for a proportion of their staff**, since most will have a mixed portfolio of services and activities and the time elapsed from claim to settlement may be too long to avert insolvency.
- Concerns have also been raised that the scheme could create a **perverse incentive** for some charities, leading them to lay off staff and reduce the services they deliver in order to stay afloat at a time when their services are needed more than ever.
- **Other financial measures announced by government as also going to be of limited – if any – benefit to charities.** The ‘Coronavirus Business Interruption Loan Scheme’ will only be available to charities that receive over 50% of the income from trading meaning the vast majority of voluntary organisations would be excluded from the scheme. The deferment of VAT assumes that income will rapidly resume, whereas most are expecting permanent change to business models.

What the sector asks of Government

With many charities facing significant financial pressure and in some cases imminent closure, **the voluntary sector urgently requires support from government that is substantial, simple and swift:**

1. Additional funding should be allocated to bolster and mobilise organisations that are working on the front line and directly contributing to tackle the impact of the coronavirus.
2. Government should provide a ‘Stabilisation Fund’ to enable charities to stay afloat and continue operating during the course of the pandemic.
3. As employers and service delivery organisations facing business interruption, charities should be eligible to benefit from the other measures announced by the Chancellor for businesses. The British Business Bank has confirmed that the one of the eligibility criteria for the Coronavirus Business Interruptions Loans announced by the Chancellor is to generate more than 50% of turnover from trading activity. Based on our research, this would mean the majority of voluntary organisations would be excluded from the scheme. We would ask that an exemption to this requirement is made available for voluntary organisations so they can benefit from the scheme.

Stabilization Fund

- We propose the amount available for a stabilisation fund should be based on reduction in income for three months. Our survey suggests the average decline in voluntary income is 48%.
- Based on the income categories highlighted below:
 Total annual income: £29.5bn
 3 months income: £7.38bn
 50% of 3 mths income: **£3.69bn loss**

22.9 bn (0.5bn loss F2F loF)	Public
15.8 bn	government
4.8 bn	Trust and grant making
2.5 bn	Private sector
0.5 bn	National lottery

4.1 bn	Investment
50.6 bn	TOTAL year

- Money should be distributed in the form of grants and based on the running costs as recorded in the organisation's annual accounts going back 3 years. This information is accessible from the Charity Commission register.
- The grants should be distributed through a combination of national grant-makers, local community foundations and the application process be as light touch as possible to ensure that funds can be distributed rapidly.

What more does Government expect charities and the not for profit sector do?

The sector is facing the same challenges of cash flow, reserves depletion and impact on delivery as the business and airline sector. Yet we are different in that we are being asked by government to support the national response, and yet without any support to keep delivering.

What more does Government expect charities and the not for profit sector do to

- ensure their financial sustainability in the immediate term and longer term
- to help the Coronavirus response effort