COVID-19: Challenges Facing the Charitable and Voluntary Sector

Briefing, 1 Jun 2020

Introduction and context

Charities are established by members of the public who identify a cause or community they care about. They are primarily funded by the public; used by the public who are the ultimate beneficiaries; volunteered for by the public; run by the public in the form of voluntary trustees; and supported by the public.

The importance of charities is not in the existence of the body 'Charity' but as a vehicle to help the public help others that they care about. It's the services charities provide that matter. Not the jobs, not the revenue, but the impact on citizens. The sector has an economy worth £42bn; has access to over 20m volunteers; almost a million trustees; in the UK alone serves 62m people in various ways. Charities are leaders in supporting vulnerable people, communities and causes across the globe. The UK sector is world-renowned for being the most effective, responsive, regulated and supported in the world. UK charities are often world leaders in their fields.

Charities save, protect, support and enhance lives and they are **#NeverMoreNeeded**.

This briefing has been prepared by a coalition of charity infrastructure organisations including the Association of Chief Executives of Voluntary Organisations (ACEVO), Charity Finance Group (CFG), Children England, Directory of Social Change (DSC), Institute of Fundraising (IoF), National Association of Voluntary and Community Action (NAVCA), National Council for Voluntary Organisations (NCVO), and Small Charities Coalition (SCC).

1. The challenge for civil society organisations

1.1 Charities and other civil society organisations are set up to respond to a need that is not being met elsewhere, and should be seen as a partner to the state, working alongside it to make lives better. During this global pandemic when there is varying, and often unprecedented levels of stress on every single person, the need for the services of many civil society groups has significantly increased. As Andy Haldane, Chief Economist of the Bank of England wrote in the Financial Times *"The state is offering large-scale income insurance and investing heavily in health. And the social sector is rising to the challenge of supporting the left-behind and left-alone."*[1]

1 https://www.ft.com/content/fbb1ef1c-7ff8-11ea-b0fb-13524ae1056b

1.2 Research conducted by the Charity Finance Group, Institute of Fundraising and National Council for Voluntary Organisations within the first two weeks of lockdown measures being introduced found that 42% of civil society organisations anticipated an increase in demand, at the same time as a 49% decrease in voluntary income.[2] Another survey conducted by the Directory of Social Change found that half of charities surveyed said they were already in financial difficulties due to the pandemic, with another 42% expecting to be in financial difficulties soon.[3]

1.3 At the start of the lockdown, the calculated loss of income over the first 12 weeks of lockdown was calculated to be £4.3 billion. Even summing the total of financial input to date, including the current financial measures such as the Coronavirus Job Retention Scheme, government grants, philanthropic contributions, sums raised at the Big Night In and the 2.6 Challenge, and grants and foundations stepping up, the gap in meeting lost income for 'business as usual' was still in the region of £1bn for the initial 12 week period to the end of May 2020. Charity income levels are likely to be impacted well beyond this date and into the future. This is having a direct effect on the vital support that charities and not for profit groups are able to give. At a time when demand for services and cost of delivery has increased, even 'business as usual' income is depleted.

1.4 The most important challenge for civil society organisations is not the preservation of the institution of charity itself, but support for the communities it serves. Like most sectors, civil society will see organisations close permanently. Some of those closures have happened already, some will happen in the coming weeks and some will happen later this year. It is likely that it will take some time, if ever, for finances of many charities to return to pre Covid-19 levels, and those using reserves to survive now will be less resilient to withstand future uncertainties, including potentially a second wave this winter. Even if the institutions themselves are able to survive the initial impact, the services on which people rely will be restricted or even stopped, due to financial constraints. Returning to the words of Andy Haldane: "*We need to invest the rich endowment of social capital created by the crisis, by rethinking and rebuilding the institutional immune system that is our social sector*".[4]

2. Our asks

2.1 After 5 weeks of campaigning by the sector, the chancellor announced a £750m relief fund on 8 March. Of this support, £370m is being distributed through the National Lottery Community Fund. The criteria to apply for the a first tranche of £200m from the NLCF were announced on 21 June 2020 with a second tranche of £110m to follow. £60m is being allocated separately for charities in Scotland, Wales and Northern Ireland in accordance with the Barnett Formula. A further £360m is being distributed through government departments. Of this, £200m has been

2 https://www.cfg.org.uk/Covid19survey
3 https://www.dsc.org.uk/content/over-half-of-charities-could-disappear-within-6-months/
4 https://www.ft.com/content/fbb1ef1c-7ff8-11ea-b0fb-13524ae1056b

allocated specifically to hospices, leaving £160m to be distributed directly by all government departments. This is in addition to the Coronavirus Job Retention Scheme (CJRS) and other government grants, for which some charities and not for profit organisations may qualify.

2.2 The £750 million announced by government is welcome, but it does not reflect the lost income to the sector, nor provide sufficient support to enable charities to continue their vital support to people through coronavirus and beyond. We know that some parts of the sector will not benefit from any of the government relief fund. Public fundraising initiatives are taking place but not all charities will be able to apply for funding through those routes. One high profile fundraising effort, by Captain Tom, raised over £40m for NHS charities, but this cannot be distributed to non-NHS charities, even if they work closely with the NHS and provide support to people affected by ill-health or disability. We also know many parts of the sector have not been able to utilise the CJRS as they need their staff to be in work, as their organisations mobilise to meet additional need. Most charities cannot access other government measures aimed at providing financial support to business.

2.3 We urge government to:

- recognise that existing measures, including the £750m fund from government, do not enable charities to continue to deliver essential services that have never been more needed. We ask Treasury officials to work with civil society and DCMS to address the medium and long-term scale of the financial challenge ahead, and to ensure that the critical support civil society provides will continue to be able to meet need both in time of crisis and beyond.
- ensure the distribution of funding available is speedy and efficient, and that equality and human rights are designed in from the outset, so that we meet everyone's needs and that decision making is transparent.
- make necessary regulatory changes to existing schemes to make them fit for purpose for civil society organisations.

3. How income sources have been affected

3.1 Charities do not operate under a single business model. Different operating models may include a blend of income from grants, contracts, fundraising events, investments, retail, service provision and voluntary donations. Charities which contract for services will typically also rely on other income streams, such as trading and fundraising. In many cases charities also subsidise the cost of delivering the contract through other income. 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** three and half percent. This means that charity is subsidising the state, when providing services through national or local government contracts..

3.2 Like many other sectors, income came to an abrupt halt in mid-March for many civil society organisations. For years, not-for-profits have been encouraged by governments to be more 'business-like' in their approach to raising income and to diversify income streams, including by raising funds for charitable work through activities such as charity retail, renting office/ conference space, delivering training or selling products. But while means of generating income stopped overnight, the overheads of many of these activities remained. In many cases, charities' work delivering public benefit meant these costs increased substantially.

3.3 Since then, there have been numerous examples of charities launching emergency appeals to respond to increased requests for their help, combined with the drop in income. This includes charities which operate UK-wide and are household names and also smaller, often local charities which are rarely known outside their immediate circle. Charities are asking the generous public for extra support at a time when people are also experiencing financial distress. The Big Night In appeal raised just over £67m, including government match funding, and the 2.6 Challenge over £10m. Though warmly welcomed and testament to the generosity of the great British public, these sums are still far short of the billions needed to keep charities delivering vital, life-changing services.

3.4 Face to face fundraising has significantly reduced as a number of fundraising events that usually generate substantial sponsorship for charities have been postponed or cancelled. The postponement of the London Marathon from April 2020, which usually generates £66 million, is the largest single event that has been delayed but there were a large number of other marathons, half marathons and fun runs organised for the spring that have also been permanently cancelled and therefore the income is lost, not deferred. There is doubt over whether the London Marathon will now be able to take place in October, as some level of social distancing may well still be in place later this year and events that have been postponed may well be cancelled entirely. There is also no guarantee that when events are rescheduled the public will be financially capable of supporting such events to the same level or at all.

3.5 As many people face financial uncertainty it is understandable there has also been an impact on giving via direct debit. Traditionally, giving via direct debit is one of the most stable income streams for charities, but research by Rapidata found that direct debit cancellation rate for March 2020 was 41% higher than in March 2019.[5] The cancellation rate is higher than levels experienced at the height of the recession in 2008/9.

3.6 Charitable trusts and foundations are playing their part by stepping up but alone they will not be able to make-up the shortfall in other income streams. Foundations distribute in the region of £3bn annually but have limited capacity to increase this total to respond to the crisis, particularly as endowment values have slumped along with the stock market. While some trusts and foundations can draw down or have expendable endowments, many others have permanent endowments. Many foundations are also bringing forward funding that would have been available later in the year and focusing on COVID-19 response, meaning that long-term sustainability has been affected.

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[5] https://rapidataservices.com/direct-debit/direct-debit-charity-donations-cancellations-increase-due-to-covid-19/

3.7 Those charities which hold reserves are rapidly running through them. Reserve levels are based on risk and on average are set at around three months of usual operating costs. We are not in usual times, with major income sources stopped overnight, the value of investments plummeting and demand increasing. Reserves are not all held in liquid assets, as they are held for different purposes by different elements of the sector and cannot be rapidly accessed. Reserves may also include endowments. In these cases, the income from endowments is used to deliver charitable activity, often through making grants. Those with once healthy free reserves are seeing those resources rapidly depleting and their financial resilience eradicated.

4. How charities are responding to the COVID-19 Crisis

4.1 Many charities providing frontline care for at risk groups, including charities providing frontline health and social care services, have experienced challenges obtaining personal protective equipment (PPE). In the early stages of the lockdown Social Enterprise UK received reports from some members that they were excluded from the national supply of PPE.[6] On 1 April 2020, Hospice UK reported that many hospices were running 'dangerously low' on PPE and staff were being left at risk of COVID-19. East Anglian Air Ambulance launched an emergency fundraising appeal to cover the additional cost of PPE to its teams.[7]

4.2 To give a flavour of the impact from a handful of UK-wide charities: CRUK have had to cut their lifesaving cancer research by £44m,[8] domestic abuse charity Refuge have reported a 700% increase in traffic to their helpline website,[9] and housing charity Shelter warn that one in five private renters expect to lose their job in the next three months.[10]

4.3 Delays in announcements, and in distributions of funds have caused unnecessary challenges for those working to coordinate the relief effort. At a time when over 750,000 people signed up to volunteer, in order to survive the crisis, charities were having to furlough experienced volunteer managers and community organisers that could have helped place new volunteers and provide safeguarding training. This means that while the country had a generous supply of volunteers, their deployment was been seriously hampered. Community infrastructure organisations stepped up all around the country to mobilise and support volunteers and remain an integral and vital part of the support being given to our communities. However, there will be many people who registered to volunteer and were then left to 'dangle' which may well deter them from volunteering in future.

4.4 Staff and volunteers working on the frontline will need emotional, and in some cases psychological, support to help them process the trauma they have experienced. That trauma could come from not being with family members that have been sick or passed away, from

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6 https://www.socialenterprise.org.uk/coronavirus-information/health-and-social-care/
7 https://www.eaaa.org.uk/support-us/protective-equipment-appeal
8 https://scienceblog.cancerresearchuk.org/2020/04/16/protecting-our-future-by-taking-action-now-why-were-making-cuts-to-our-research-funding/
9 https://www.refuge.org.uk/refuge-sees-700-increase-in-website-visits/
10 https://www.mirror.co.uk/news/politics/coronavirus-puts-1-5-renters-21874039

unmet support during the crisis while services have been interrupted, and for those who have worked on the health and social care frontline. Secondary or vicarious trauma is a recognised effect on people working to provide charitable support during crisis. Some charitable NHS trusts will be able to access the donations generously given to NHS Charities Together, but many others will not and they should not be left behind when the pandemic passes.

5. Effectiveness of current financial schemes for civil society organisations

5.1 The value of the government schemes to covil society has been limited. The schemes were not designed with the understanding that charity and not for profit business models delivering public benefit are inherently different from those of profit-making business.

5.2 These schemes were based on two assumptions: first, that demand has reduced and, second, that income levels have halted temporarily. For vast parts of the charity sector, neither assumption is true, as demand in many areas has increased and income levels will not return. The government support measures do not help the long-term sustainability of the sector to continue to be able to play their essential role as partners to government in meeting need, and do not go far enough to ensure even survival of the immediate crisis. Where activity has been stopped, such as charity retail operations, it is not just the staff costs that have been lost, but primarily the income generated from those services. In this example, not only does the CJRS not cover the entire staff wages cost, but it also does not cover the gap arising from the loss of income generated through retail, which would have enabled the charity to deliver its charitable purpose. Annex A details the schemes announced to date and some recommendations for how they could be amended to be fit for purpose for charities and voluntary organisations.

ANNEX A

Government financial schemes and recommendations for amendments to support charities and voluntary organisations

Coronavirus Job Retention Scheme (CJRS)

The CJRS (furlough), while of good intent and helpful to many businesses and charity retail operations that have to mothball, is not helpful for those civil society groups that need to mobilise or scale up activity in response to increased demand. The CJRS scheme is being used extensively by charities operating in all sectors, including health and social care, where demand for the value that charities bring to society has increased.

A recent CFG survey has found that amongst charities using the scheme, the median percentage of staff furloughed is 50%, resulting in a significant contraction of service delivery and function for their beneficiaries. Of these staff, half could have been redeployed in other roles in the charity, had this been permissible, and could therefore have continued to deliver benefit and support for their beneficiaries.

While the CJRS is still in place, we recommend government:

- relaxes the volunteering rules to enable charity workers with specific skills, or employed in certain functions that support wider society, to be redeployed within their charity as a volunteer without undermining eligibility.
- allows furloughed employees to check in one day a week so organisations can be prepared for when operations restart. This will also be helpful where there is a need to maintain properties and do securing checks.
- enables not-for-profit groups that cannot furlough staff, but which have suffered a reduction greater than 30% of income, to qualify for payment under the scheme. This could be done through a mechanism akin to those claiming under self-employment (loss of income based on last three years' accounts - and budget for current financial year) or through paying 80% of staff salaries - based on the model adopted in Canada.
- works with the sector to refine the scheme to ensure it meets policy objectives and minimises any unintended consequences.
- works with the sector to ensure that the changes made to the scheme as it is gradually removed do not have further unintended damaging consequences for the sector.

Coronavirus Business Interruption Loan Scheme (CBILS)

The Coronavirus Business Interruption Loan Scheme (CBILS) is not available for most charities because of the uncertainty regarding trading. It also leads to debt that charities may not be able to afford if income levels do not return. CFG research found that amongst respondents, 92% of charities that applied for the CBILS had been rejected.

In addition, the CBILS interest rates after the initial 12-month interest free period are not capped and therefore could place charities in further debt, as income is unlikely to resume at the level of the previous year in 12 months.

We recommend government:

- change the scheme in two notable ways:
    - Clarify that in a charity context trading will include fundraising and other income sources for charities.
    - Require Banks to cap the interest rate after the initial 12-month interest free period.
- underwrite the full 100% of loans. A number of other countries, including Switzerland and Germany, have pursued this option and it has proved far more successful in encouraging financial institutions to lend money.

Retail, Hospitality and Leisure Grant Fund (RHLG)

Although it has been of benefit to certain types of charity income-generating activity, such as charity shops, art galleries, theatres, museums, sports clubs and several others, this is a relatively small part of the overall charity sector.

We recommend government:

- expands the RHLG definition to include other charity buildings such as community centres, village halls, and charity libraries, in order to help more charities.
- allows retrospective claims for charities with buildings in this expanded category.

Small Business Grant Scheme

The small business grant scheme is not eligible to charities in receipt of charitable rate relief.

We recommend government:

- makes small charities in receipt of charitable rate relief eligible for the scheme.

Deferred PAYE and NICs

As with VAT, PAYE and NICs deferment should have been be granted automatically to all charities, especially at a time when many are experiencing difficulties with cash flow. Interest is currently payable at a rate of 2.5% on each month’s claims for deferred PAYE, and this is cumulative. This is at considerably higher rates than commercial loans.

We recommend government:

- removes or significantly reduces the interest payable to at least the Bank of England base rate.

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