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HARD TIMES BUT GREAT EXPECTATIONS - the current financial climate and the Third Sector

When I received the invitation to give this lecture in July last year, it seemed a long time ahead to choose a subject, especially when the world economic situation was going into free fall and the daily speculation of how far this would go was endless. Were we heading for a recession, or even worse a depression?

It was agreed that it would be sensible to await developments, and as we now know, the global financial situation worsened, and so did the dire prophecies of further melt down.

So in January, on a dark winter's afternoon, surrounded by various dictionaries and reference books, I found myself choosing the title for this lecture. I hoped that this play on the titles of two of Charles Dickens novels would provide me with sufficient scope to comment on whatever state matters had reached by the time we met today.

I had been collecting all kinds of conflicting press cuttings and felt it was probably not a bad thing that I was going to be away for four weeks travelling in Laos, Vietnam and Cambodia. It was far too soon to begin writing, as the only thing people seemed to agree about was that this was unlike any previous recession, and no one knew what to expect. I made arrangements to have briefing meetings with a number of leaders in the sector when I returned in March and kept up to date with headline news while I was away.

I also read "Hard Times" for the first time, and was amused to learn later from Stuart Etherington that his father had acted the part of Mr Gradgrind, the stern proponent of the "Philosophy of Fact", created by Charles Dickens in this novel.

In Cambodia, the resilience of the people made a particular impression on me - how inventive they are with so little compared to us. How they mend, re-use, recycle and make do, and I pondered what lessons this might have for us in the lean years to come.

We visited the chilling former school in Phnom Penh, which was turned into a detention and torture camp and the moving memorial at the Killing Fields.

An estimated 1.7million people, more than 20% of the population were murdered in those years of genocide and insanity under the Pol Pot regime between 1975 and 1979, with the astonishing result that 46% of the population of Cambodia today is aged 14 and under.

Not long after I returned home in March, it was officially acknowledged that Britain was in recession, and the severity of this recession had been underestimated. The Chancellor of the Exchequer admitted that he did not now think the situation would start improving until the end of the year, and The Institute of Fiscal Studies forecast that the National Debt was expected to reach £180billion in 2010.

Challenging times indeed and one where there will be winners - and losers.

The charitable sector is so large and diverse that the impact of the recession differs in almost every part of the sector making the task of finding ways to help by government, trusts and foundations, umbrella groups, the regulator, etc even more difficult.

Just to remind you, at the end of December 2008, nearly half of all the 170,000 charities on the Charity Commission's register of charities were small charities, with an income of under £10,000.

Medium size charities, those with an income of between £10,000 and £99,999, accounted for the next 29%.

These 128,000 small and medium charities make up three quarters of the total number of the registered charities in England and Wales but their combined annual income was only 4% of the total £48.4billion recorded in 2008.

The next 16,000 charities, about 10% of the total on the register, had incomes up to £500,000; 4.5% of charities had incomes of up to £5million, and fewer than 1% of charities had an annual income of over £5million.

Just in case anyone is adding all this up in your head, let me quickly confirm that the percentages I have quoted do not add up to 100%. There are still just over 8% of registered charities whose annual income is not yet known to the Charity Commission.

I know it is hard to take in so many statistics, so let me recap: in 2008, 75% of registered charities had an income of under £100,000; and 25% of registered charities accounted for 96% of the total £48.4 billion annual income in 2008 recorded by the Charity Commission.

This is twice the charitable sector's income a decade ago. But what is different from previous recessions is that 36% of this income now comes from statutory sources and goes mainly to the larger charities.

The NCVO Civil Society Almanac for 2009 goes into such fascinating detail regarding the range and split between these sources of income from the general public, statutory sources, grant making foundations, the corporate sector and from trading activities, that I have had to restrain myself from quoting too many of them today.

The diversity of our sector is well illustrated by those of you here today. Small and medium sized charities are represented, several of whom have received much valued support from the Allen Lane Foundation, as well as larger charities, grant making trusts, umbrella bodies and regulators of the sector.

Many of us wear a number hats, I am currently a trustee of 5 charities which range from the Hosking Houses Trust which has an income of less than £10,000 run by an unpaid volunteer, to The Foundation for Youth Music with 52 staff and an income of £20million plus. Three of these charities make grants as well as delivering other services.

I have also experienced grant making in other very tough times. In 1993/4, before the merger of Lloyds and TSB, the annual income for the 4 TSB Foundations as we were then called was only £1 million between the 4 Foundations. I think we were only able to support 16% of those who applied to us that year.

One of the things that had struck me when I returned from Cambodia was that there were hardly any of the usual cold mailing shots from charities amongst the pile of mail that accumulates over 4 weeks. There also seemed to be significantly fewer charity salespeople or "chuggers" out on the streets in my particular part of London.

In March this year, the Charity Commission published results of an economic survey carried out over a three week period in January and February through 1003 telephone interviews with charities of all sizes.

I was particularly interested in the response to the question which asked charities whether or not they had put in place any measures as a result of the economic downturn. One third reported that they had put some measures in place, but twice as many reported that they had not. Less surprisingly, when this figure was broken down, it was two thirds of the largest charities with an income of £1million or more that reported that they had put measures in place, while less than a quarter of small charities with income under £10,000, and slightly more than a third of medium charities with income of up to £100,000, had done so.

There will be many different reasons for this, particularly whether or not the charity employs any staff or depends on volunteers: what services are being provided and if any of these are secured through public contracts, etc.

This made me think back to my own career. In 2000, when I completed 10 years at the LloydsTSB Foundation, my Trustees generously offered me the opportunity to attend an intensive week long course at Harvard Business School called "Strategic Perspectives for Non Profit Organisations".

There were some 125 people on this course, mainly chief executives - around 75% from North American charities and NGO's, and the remaining 25% of us were predominantly European. Interestingly although most of us were over 45, there were also some dynamic younger delegates. We were warned that we would be working 16 hour days, and a deliberate ploy was to set us too much work to complete each evening so that we either had to speed read, or decide what to leave out, or both – thus replicating our daily working lives! The course was based on a number of detailed case studies for us to analyse, plus the terrifying prospect of a 3 hour session on Charitable Accounts for which our homework was nearly 80 pages long! If you think I am exaggerating, there is another person here today who survived this particular exhilarating and exhausting time at Harvard with me.

When I reported back on the course to my Trustees, I gave two main reasons above all others for the failure, decline or general muddle of the charities and non-profit making organisations in these fascinating case studies: lack of communication, and Mission creep.

I want to focus on **Mission Creep** today.

What is mission creep? Well, put simply it means getting away from the original purpose for which the charity was established. This can happen in all sorts of ways. The charity possibly over many years may have added extra services to its core mission, or the original founder of the charity just couldn't say no when asked to take something more on. Sometimes, more services have been undertaken initially because it was possible to get funding for these. Staff or volunteers working for the charity are often not consulted about these add- ons, and eventually find both themselves and funds available spread too thinly to do a good job and become demoralised.

The severely constrained financial environment in which we are all going to operate for the foreseeable future makes it essential to apply this “mission creep” test, whatever size of charity we may be.

We need to ask: what is the core mission of our charity - what are we doing now - how does this relate to our mission and to current needs? To use the marketing jargon - what is our unique selling proposition, our USP?

Who is doing similar work – could we deliver some of this together or divide it between us – perhaps an agreement to collaborate now could be a way of testing whether or not a merger might be thinkable in the future?

Are the efforts of our staff and volunteers being used in the best way possible? What do they think and what improvements would they recommend? Are we communicating enough, or too much, having too many meetings, requiring too much or too little reporting from them? What do the people we are helping think of the services we are delivering – what practical improvements would they like to see implemented? What **impact** are we having? Can this impact be measured?

In a recent interview, Andrew Flanagan, the newly appointed Chief Executive of the NSPCC, said, “Difficult times such as these can be good when it comes to consolidation. It can lead to a pausing for breath to see if the direction is the right one. I think we may have tried to advance on too broad a front”.

How often do you find yourself thinking when you hear something on the radio or television “Why on earth don’t they ………….whatever it is?”

There may be a perfectly good reason why not, but after so many years of plenty, we now need to look at every nook and cranny of our particular charitable activity and get rid of the cobwebs that may be obscuring why we are still doing certain things that are not absolutely central to our mission.

Perhaps it may strike a chord with you to think of this as clearing out all the clutter and unnecessary things that most of us have accumulated in our homes over the years.

Charitable activity needs to be de-cluttered.

I am not a legislator but if I were, I would want to look at possibilities for “de-cluttering” the proliferation of national charitable initiatives funded by government. Can we afford so many different pots of money, each with their attendant administration costs? Just one example: what would be gained and what lost by combining initiatives such as Future Builders and Capacity Builders? What scope is there for more collaboration amongst the sector’s many umbrella bodies? We have to become more efficient and to demonstrate measurable impact to all our stakeholders.

If, as is generally assumed, the country votes in a new government at the next election sometime next year, how can the third sector prepare for this? We know from the dreadful figures revealed in last week’s Budget that whichever party finds itself in power in 2010, the task of reducing the enormous public debt over years to come makes severe cuts in public spending programmes inevitable.

I have already drawn attention to the fact that the sector currently receives around 36% of its current funding from government sources at all levels: national, regional and local.

We cannot afford to bury our heads in the sand however busy we are with the day to day work. Time must be set aside by Trustees and staff to consider the various scenarios which will or may have to be faced, and what actions will or could be necessary when these cuts are implemented.

The current administration has traditionally been concerned with the most economically disadvantaged in our society, and programmes and funding streams that have been initiated over the past decade have been an important source of funding for many charities. This may also be a reason why mission statements have been expanded or stretched in order to qualify for funding streams which fit government priorities.

In addition to securing sufficient funds, the demand for services in particular areas provided by the voluntary sector almost always increases when public spending is under such severe restraints. Advice help lines offered by charities such as Samaritans, Citizens Advice, Relate, Mind and MacMillan Cancer Support are already experiencing significant increases in the number of callers.

I am grateful to David Harker, Chief Executive of Citizens Advice for the following key statistics which cover all bureaux in England and Wales comparing Jan 2009 with April 2008:

- Enquiries about redundancy up 153% to 457 a day
- Job Seekers allowance up 138% to 589 a day
- Fuel debt up 37% to 349 a day
- Bankruptcy up 34% to 578 a day
- Council tax arrears up 23% to 566 a day

These are alarming increases. And last week, NACVA (The National Association for Voluntary and Community Action) published headline figures from their second annual members' survey.

Here are a few:

- More than 80% of the 129 councils for voluntary service who responded think that the funding environment for small and medium sized organisations is getting more difficult, in particular for organisations employing up to 10 people.
- Half thought that council grants for local organisations would be sustained beyond 2009/10, but over 30% didn't know what would happen.
- 30% of councils for voluntary service expected their own funding to be subject to competitive tendering in the next two years
- Encouragingly, nearly 80% are planning greater collaboration with other infrastructure bodies

During my research for this lecture, I discovered a significant amount of information available on the web to help the third sector deal with the effects of the recession, on sites such as The Charity Commission, Charities Aid Foundation, NCVO, ACEVO, the Charity Finance Directors Group and the Association of Charitable Foundations to name a few. It is worth spending time looking at these sites and making a note of the points that are relevant for your organisation to consider. I would like to warmly thank all these organisations and several others who have generously taken time to give me their views in preparation for this lecture.

One of the most unusual factors of this recession has been its initial concentration in the collapse of the Financial Sector which made individual high end philanthropy most susceptible. Since then there has been a relentless and alarming increase in the unemployment figures generally, with forecasts taking this figure possibly as high as 3.5million by next year.

If, as has been suggested, one positive effect of the reducing job market over the coming years could be that more people will offer themselves as volunteers, the different ways in which a charity can make its needs for volunteers known requires careful looking at, including using all the various bits of modern technology to attract younger volunteers.

It is very off-putting to discover that a charity's website is not up to date. The information on there about volunteering opportunities needs to be easy to find with a named person to contact by telephone, text or email. It's so easy to frustrate a possible volunteer trying to find simple information on a website or by passing them from pillar to post on the telephone.

YouthNet reports that the number of people applying to its schemes has doubled over the past year. Their website received more than 40,000 applications in February this year, twice as many as February last year, and most volunteer centres also report more enquiries about volunteering during the past six months than the same period last year.

There is encouraging historical evidence that charitable giving from individuals does not fall in economic downturns, and that the general public may even become more generous in times of adversity, so now is the time to put maximum effort into maintaining this all important relationship with existing donors.

Fund raising messages need to be focussed on demonstrating good housekeeping and impact, without spin or hyperbole. Many donors are themselves having to make economies and want to be assured that the charities they are supporting are also taking appropriate measures. Headlines which "cry wolf" run the risk of being ignored. Evidence that Trustees and Management have thought through how the charity is going to be managed and what the future strategy will be in such constrained times needs to be clearly communicated to all stakeholders, especially donors and beneficiaries. Some of your donors may be professional people living in the South East who have been particularly hard hit by redundancy.

Calls to the CAF helpline indicate that some small charities are leaving it too late with insufficient funds to pay the rent. If you are one of the charities that has been able to build up reserves for the proverbial rainy day, now could be the time to think carefully about releasing some of these reserves rather than taking an excessively cautious approach

The speed of decision making needed when operating in hard times needs to be reviewed – are 4 meetings a year of the Board of Trustees really going to be enough to react quickly? By making use of telephone conference calls and regular updates by email, the expense of extra physical meetings can often be avoided.

I do find it frustrating that in such testing times, there is still a huge amount of vital income that could be claimed back under Gift Aid. Recent research from CAF found that only two thirds of donors use tax-effective giving methods such as Gift Aid and they estimate that the charitable sector could be missing out on the tax benefits from about five million regular donors. The Gift Aid scheme brought the sector £900million last year, but over £750 million went unclaimed.

Unprompted, nearly a third of respondents named Gift Aid as an effective way to give and 10% named payroll giving but just 1% of all surveyed listed legacies as tax effective giving

Having spent much time and effort on a legacy raising awareness campaign in the late 80's, when I was running the St John Ambulance Centenary Appeal, I found this last statistic depressing, but also perplexing, as CAF had told me that income from legacies in 2008 was the highest so far, even getting better towards the end of the year, helped perhaps by solicitors processing the work more quickly to avoid further downturns in the housing market.

Grant Making Trusts and Foundations account for about 11% of the Sector's income. Most larger foundations now operate on a total return basis, distributing 4% - 5% of the average values of their assets over the previous 12 quarters. Generally this means that spending lags behind market movements because you need a succession of different values to really impact on the average – so when markets fall, the spending figure takes time to follow it down, and the reverse when markets recover. So even with the dramatic falls in the stock market last year, this averaged approach does not produce a dramatically lower spending figure this year, but does in 2010 and 2011. Some Foundations have anticipated that need will be even greater over the next few years, and have reduced their spending this year to even out the amount available in future years. Others are not reducing their grant making, taking the view that as foundations collectively have one of the largest asset bases, they are able to take a very long term view.

I would certainly expect Foundations to be more sympathetic to awarding core funding as the need for this increases because charities need more flexibility in how they spend their funds. Some Foundations are adopting shorter payment cycles e.g.

six monthly or even quarterly for higher risk charities. All are braced for much higher levels of applications when public spending is cut back to more sustainable levels which will hit some charities very hard indeed and particularly when Lottery–dependant charities come to the end of their current grants.

The Allen Lane Foundation is already seeing more applications coming through which are trying to replace funding from the Big Lottery Fund to provide specific services. Some of these Big Lottery grants have been for 3 to 5 years and can make up to 70% of a charity's income.

The private sector has borne the main brunt of the recession so far and the impact on our sector won't be clear until the public spending cuts have real figures attached to them. One commentator has used the phrase "slash and burn" to describe what lies ahead, and when two of the charts in the NCVO 2009 Almanac are compared, one can see why this may not be an exaggeration.

The first chart explores the Income Sources of general charities within 14 different sub sectors, and the second chart shows the Gross Assets within the same sub sectors.

For example, the Income Chart shows Employment and Training organisations receiving over two thirds of their income from statutory sources, but very near the bottom of the Gross Assets chart. Other vulnerable sub –sectors receiving a high proportion of their income from statutory sources but with relatively low gross assets include law and advocacy charities, and education and housing charities.

The reduction in corporate donations and sponsorship is proving difficult for those charities that rely on such sponsorship to underwrite their events programme. Arts charities are particularly vulnerable as corporate sponsorship drops, and the Arts Council has allocated a fund of £40 million over two years to provide emergency funding for theatres, galleries and orchestras.

When I arrived to run the St John Ambulance Centenary Appeal, I realised that we were badly in need of more staff but hadn't yet raised the funds to pay any additional staff. I decided to contact some of the major companies and could hardly believe my luck when we were fortunate enough to be offered a total of three full time managers for the period of the Appeal. One so enjoyed his new role that at the end of the Appeal, he decided to stay on at St John instead of returning as planned to his company. After this so called "defection" I found myself apologising profusely to the Corporate Social Responsibility manager of his company whenever we met.

I wonder if companies that have had to pull back on their cash support may now be more willing to consider seconding staff to charities or providing services in kind.

The Government's £16.5 million Modernisation Fund is welcome, but the time limits are impracticable. Mergers take time, are challenging and can be costly. They can also uncover all manner of uncomfortable truths, such as ineffective leadership or lack of direction as well as potential savings and economies of scale. The most important reason for considering merging has to be measureable increased benefits for services users or beneficiaries such as the model collaboration recently announced between Action for Blind People and the RNIB.

I am by nature an optimist and believe that there are real opportunities to be gained for those charities which face up to the greater organisational rigour and discipline required to survive the dire state of the nation's finances for the next decade or more. The experience and skill of staff will come under greater scrutiny and painful decisions on redundancies will have to be faced up to.

I believe the best managers are those who manage people as they themselves would like to be managed.

Clear communication to all staff on specified dates can help to reduce general anxiety levels within an organisation when it is known that redundancy is being considered by management, and drawing up a timetable for communicating with the whole organisation not forgetting volunteers is an essential part of any strategic review.

More than ever during hard times charities need Leaders with the skills to communicate clearly what the vision is and how that vision can be translated into an appropriate strategy to deliver this.

Summing up, there are two action points that I would ask you to take away today

The first is to apply the Mission Creep test to your charity.

Having done this, recognise the necessity and the opportunity to take tough decisions that may have been postponed in good times and plan your strategy to Declutter now. This will prepare you not only for the hard times ahead but also the undoubted opportunities that will be there too.

In the words of President Obama's Chief of Staff –
"You never want a serious crisis to go to waste".