

ELGC COV VS 26

Ymchwiliad i COVID-19 a'i effaith ar y sector gwirfoddol

Inquiry into COVID-19 and its impact on the voluntary sector

Ymateb gan: Prifysgol Birmingham a Phrifysgol Southampton

Response from: University of Birmingham and University of Southampton

Senedd Inquiry: Impact of COVID-19 on the charity sector

Written evidence submitted by John Mohan, Director of the Third Sector Research Centre, University of Birmingham, and David Clifford, University of Southampton

The Third Sector Research Centre (TSRC; see www.tsrc.ac.uk) is based in the University of Birmingham. We draw funding from a range of sources, including the Economic and Social Research Council, the Barrow Cadbury Trust, the Leverhulme Trust, Big Local, the European Union FP7 programme, and NIHR. We are an independent research centre, although we engage closely with a range of external agencies in the course of our work, including statutory bodies, funders and individual third sector organisations. In particular we have worked very closely with NCVO on developing and analysing the evidence base for the voluntary sector, but the evidence given here reflects our own assessment of extant research.

Introduction

It is clear that the Covid crisis is posing an almost unprecedented challenge to the finances of voluntary organisations. There is an estimate that a significant reduction (£4.3Bn) in charity incomes is likely, according to calculations by NCVO. This is a sector-wide aggregate based on assumptions that key funding streams (e.g. individual donations and trading activities) will in effect cease.

At the same time, social needs are rising leading to greater demands for support from charities and social enterprises.

However, there is little hard evidence yet as to the economic impacts of the current crisis on charities.

There are various surveys of organisations, some of which have been undertaken regularly since the onset of the pandemic. Typically these report perceptions of what might happen; widespread significant difficulties are anticipated. While some of these surveys are large scale, we do not know how representative the respondents are. Other evidence has been gathered from qualitative studies of small numbers of organisations, from which it is difficult to generalise.

An alternative is to use data supplied by organisations to regulators such as the Charity Commission for England and Wales. That data is not up-to-date – even now, in December 2020, we are only just beginning to gather financial returns for the first half of 2020. On the other hand the data are high-quality and, in the case of larger organisations (those with incomes greater than £500,000) prepared using strict accounting guidelines. Therefore, such data are robust.

We focus on one indicator: the extent of reserves held by charities on the eve of the Covid pandemic. Guidance issued by the Charity Commission suggests that organisations should take decisions on the level of reserves to hold against the background of their own assessment of likely future trends in income and expenditure, including judgements as to the likelihood of shortfalls in funding arising. While charities might wish to consider a range of potential factors that could be expected to influence trends in income and expenditure, it seems fairly safe to suggest that none of the evidence available to them would have encompassed the circumstances

of a global virus pandemic or the associated public health measures designed to mitigate its impact. The scale, pervasive impacts and rapid onset of the Covid crisis are beyond the scope of many charities' assessment of risk.

However, given that discussion has emphasised that some organisations will run through their reserves very quickly, it is worth examining where charities were before the onset of Covid. Put rather bluntly, how long could they survive, based on their reserves alone?

Data and Method

We use data from the Charity Commission to describe patterns in the level of charities' reserves. The level of charitable reserves is defined in accordance with the Statement of Recommended Practice, which provides guidance on the preparation of charitable accounts. Charitable reserves relate to the amount of 'unrestricted funds' that are freely available for use in furtherance of the charity's objectives. They therefore exclude 'restricted funds' that can only be used for particular purposes which may have been specified by a donor. They normally exclude endowments held for the benefit of the charity with an aim to provide a longer-term income. They also exclude fixed assets, including property, that cannot be easily sold without affecting the operation of the charities' activities. They may also exclude 'designated funds' set aside for a particular use.

For each charity, we consider the ratio of reserves to their headline expenditure, and we examine how many months of expenditure their level of reserves represents. In this initial analysis, we consider how the distribution of this ratio varies according to the size of the organisation, its main income stream, the age of the organisation, and the subsector of charitable activity in which it operates (health, social care etc). The distribution of the reserves/expenditure ratio is highly positively skewed. Substantively, this means that a small number of charities have very high levels of reserves in the context of their annual expenditure although we try to adjust for this to a degree by leaving out large grant-making trusts which, by definition, will tend to have large endowments on which they draw in order to be able to make grants. Therefore, as a measure of the average reserves/expenditure ratio, we use the median, since the mean is sensitive to the small number of large outlying values. The median figure better represents the reserve levels of the 'typical' charity.

We have data from the most recent financial returns for 402 charities based in Wales with incomes greater than £500 000; most of these concern financial years ending in 2019. Comparing their unrestricted reserves with levels of expenditure, we find (comparisons with England in brackets) that 22% (21%) of these organisations have reserves which would cover one month or less of expenditure, 33% (33%) have reserves of two months expenditure or less, and 46% (43%) have reserves equivalent to 3 months or less expenditure.

We find variations by size of organisation. The median length of time for which an organisation can cover its expenditure solely by using its resources varies from 4.8 months for very large (over £100 million) organisations (though there are only seven of these in Wales) and 4.4 months for organisations with expenditures of between £500,000 and £1 million pounds, to 3.3 and 2.9 months for organisations with expenditures of £1-10Mn and £10 – 100Mn respectively.

As can be seen in the table, looking at the 10th percentile of the distribution, there are significant numbers of organisations which have next to no reserves at all. That is the meaning of the zeros in the cells that relate to the smallest and largest size band respectively.

There are also variations by subsector, but these need interpreting with caution because in some fields of activity there are very small numbers of organisations. However, for organisations working in the cultural and recreational field, and in employment and training,

a typical organisation (that is, at the median of the reserves distribution) can cover barely 2 months, or less, of expenditure from its reserves.

Finally it is worth noting that, in terms of reserves, the financial position of charities has been improving until recently. Over the past decade, the proportion of organisations which can cover at least three months of expenditure from their unrestricted reserves has increased from 50% to nearly 55%. (This is a figure for England and Wales combined).

Summary

The position of charities in Wales is very similar to that in England. A significant minority of organisations have levels of reserves which would enable them to survive for only three months or less. There is some evidence particular types and sizes of organisations are more vulnerable than others, but the relatively small numbers of organisations who are reporting the data which we use mean that caution should be exercised in identifying subsets of the charity population as being particularly vulnerable.

This work is analysing only one dimension of the challenges faced by charities. In other work we are looking at patterns of financial vulnerability (e.g. are some organisations more likely than others experience fluctuations in their incomes, or significant excesses of expenditure over income) and also exposure to particular funding streams. During the Covid pandemic particular concerns have been expressed about the effects on income from individuals – whether that be donations, purchases, or fees for services. Any analysis of the exposure of charities to an upcoming recession needs to take account of these differences in reliance on particular funding sources, as well as of their financial vulnerability. Finally, we are also exploring patterns of organisational dissolution and closure. For example, are we witnessing heightened levels of closures of organisations compared to previous years?

15 December 2020

Headline figures: proportion of charities with reserves

<1 month	0.22
<2 months	0.33
<3 months	0.46

By size

	Tenth percentile	25th percentile	Median	75th Percentile	90th percentile
500k-1m	0.0	1.2	4.4	8.8	25.4
1m-10m	0.2	1.2	3.3	6.7	15.9
10m-100m	0.5	1.0	2.9	5.3	14.7
100m+	0.0	4.0	4.8	6.4	15.3
Total	0.1	1.2	3.5	7.7	18.2

By ICNPO

	p10	p25	p50	p75	p90
Culture and recreat	0.0	0.3	1.7	5.9	11.1
Development	0.0	1.5	3.1	4.9	13.6
Education	0.0	1.0	4.1	6.4	13.4
Employment and trai	0.1	0.8	2.2	4.3	6.4
Environment	0.6	2.1	3.9	6.2	18.9
Health	0.6	1.9	5.4	11.0	24.1
Housing	0.4	2.1	3.4	10.8	15.5
International	0.3	1.7	5.3	9.7	11.7
Law and advocacy	2.2	2.9	4.1	6.3	8.8
Other	0.0	0.2	1.6	6.3	14.1
Religion	0.1	2.5	10.3	20.9	74.2
Research	0.0	1.2	3.5	7.4	21.6
Social Services	0.0	1.1	2.7	6.0	16.6
Umbrella bodies	1.0	2.2	3.0	4.1	9.7
Total	0.1	1.2	3.5	7.7	18.2

To help in interpreting the tables, note that the columns present the figure for the total number of months expenditure covered by reserves for an organisation at that point in the distribution of reserve levels. Thus the figure of 0.2 for organisations which have incomes between £1Mn and £10 Mn, an organisation at the 10th percentile of the distribution has enough reserves to cover only 20% (0.2) of one month of expenditure, and as it's the 10th percentile it means that 10% of organisations have lower reserve levels than that.