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Managing in a Downturn:

Responding to life after the Comprehensive Spending Review

Charity Sector
August 2010
Survey results

CFDG PROMOTING BEST PRACTICE IN CHARITY FINANCE

Institute of Fundraising

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Introduction and respondents

Ian Oakley-Smith
(Director, PricewaterhouseCoopers LLP)

We are pleased to have collaborated for a fourth time with CFDG and the Institute of Fundraising to provide an insight into the expectations of charity finance professionals and fundraisers as to the impact of the current economic climate on their charities.

Since our first survey report in December 2008, we have seen significant changes – political, economic and legal – and charities have had to work hard to remain up to date. With this series of reports, we aim to assist charities with understanding how their peers feel about the current environment and to provide some commentary to help fundraisers and charity finance professionals alike to navigate through what remain very choppy waters.

Caron Bradshaw
(Chief Executive, Charity Finance Directors' Group)

This fourth instalment of Managing in a Downturn comes at a time of unprecedented change for the sector. Back at the start of the recession, we highlighted that it was likely that the downturn would have a delayed impact on charities, with the full effects only being felt much later. With the cuts set out in the October Spending Review, pressure on all income sources and the ongoing drive for cost cutting from public funding bodies, it now appears that we are starting to fully face these effects. All of this comes at a time when the new Government, through its Big Society agenda, is looking to the sector to play an expanded role, and beneficiaries' demands for charities support and services are on the increase.

The Managing in a Downturn series has proved invaluable in providing up to date information on the impact of the recession on charities and how they are coping. We are delighted to have again joined up with the Institute of Fundraising and PricewaterhouseCoopers to produce this latest report. As we've highlighted throughout, it is now more important than ever for charities to review all their processes and ensure that their organisation is equipped with the necessary skills, resources and staff to weather the storm. In many cases, this will require tough measures and difficult decisions, as well as dedication, innovative thinking and simple hard work. I have absolutely no doubt in the sector's potential to meet this challenge.

Amanda McLean
(Chief Executive, Institute of Fundraising)

Since we began this project in December 2008, there have been a lot of changes – a new Government, public spending cuts, an incoming rise in VAT, and the Big Society, to name just a few. Although there are some indications that the green shoots of recovery are starting to show, fundraisers are feeling under huge pressure as they seek to make up for lost statutory income.

The implications of all these changes in the midst of a recession have been massive for the charity sector. This report looks at the potential impact of the changes on charities, and suggests ways in which organisations can work with the changes or act to mitigate any damage.

One thing that has been clear from all the reports is that the recession is producing mixed results for charities – opportunities for new relationships and expansion of fundraising on one hand and concerns around staffing cuts and the use of reserves on the other.

Whatever position you find yourselves in, there are hard decisions to be made and difficult questions to ask – is now the time for investing in staff and fundraising; should your organisation be considering collaborating and merging? What is the role of your trustees?

This report will look to raise some of these pertinent questions and provide fundraisers and finance teams with some of the tools they need to answer them.

Survey Respondents

PricewaterhouseCoopers LLP (PwC), the Charity Finance Directors' Group (CFDG) and the Institute of Fundraising (IoF) have again collaborated in the development, issue and analysis of a comprehensive survey on the ongoing impact of the economic downturn on the charity sector.

This survey was conducted among the members of both CFDG and IoF. The types and sizes of charities are broadly comparable to the respondents of the previous two surveys. We issued two surveys in this instance, one for fundraisers and one for charity finance professionals and comment has been made in this report where their differing opinion was of interest. The Charity Commission guidance has been used to classify the charities into small (total income less than £1m), medium (total income of between £1m and £10m) and large (total income above £10m).

Introduction

Since our last survey the economic climate has remained uncertain. Whilst there are suggestions that the economy as a whole may be recovering, it is clear that the impact of the downturn on the charity sector is likely to continue for some time. This is compounded by the likely effect of the Comprehensive Spending Review (CSR) and continued pressure on other sources of income.

From these latest survey results we have identified a need for management and trustees to revisit a number of issues we have raised in our previous surveys. Insight continues to be a key area charities should seek to develop. What information is management producing to inform operational decisions when they are being made? What information is management providing trustees to understand, assess and set the strategic direction of the charity? Those charities with the highest quality information embedded in all decision making processes will be better placed throughout the downturn to take advantage of the opportunities that arise and to make the most appropriate decisions when necessary.

We also consider how charities are currently feeling about their likely future income, particularly statutory income, and how their expectations in the previous survey were borne out in practice. We then consider how charities plan to respond to expected changes in income, focussing on planned investment in fundraising, together with the use of reserves and mergers and joint working.

A total of £81bn is to be cut from public spending in the Spending Review period

The Comprehensive Spending Review

This survey was conducted prior to the Comprehensive Spending Review and as such represents the views of charities leading up to the Review. In October 2010 the CSR set out the Coalition Government's spending plans for the coming four years. A total of £81bn is to be cut from public spending in the Spending Review period (four years) and is expected to have an impact on all sectors of society in some way.

While it is not possible to quantify in total when, where and how much the cuts will impact the not for profit sector, it is clear from early commentary that the cuts will have a significant impact on charities. It is fully expected that not only will the sector be hit by departmental spending cuts, but also by decreases in other sources of income. This is largely due to market forces and decreases in the general public's disposable income.

We expect that the cuts, particularly those to welfare, will increase demand for services, causing further pressure for charities to meet beneficiaries' needs.

Set out below are some of the budget cuts outlined in the Comprehensive Spending Review that we expect will exacerbate the pressures charities have been experiencing since we commenced issuing these reports in December 2008:

- £7bn of welfare cuts, in addition to the £14bn announced in the July 2010 Emergency Budget
- Up to 330,000 public sector job cuts (this has recently been revised downwards from a figure of 490,000).
- A 28% cut in Local Government budgets over the Spending Review period, £28.5bn to £22.9bn
- Average 19% four-year cut in other departmental budgets

Charities were indirectly referred to many times during the Chancellor's CSR speech, specifically mentioning the impact of the cuts on service delivery across Government departments. Given the diversity of charities there will be different impacts on each – this will depend on what they do, how they are funded and how dependent they are on specific funding sources.

Key funders have been affected by the Review in different ways. The Department for Culture, Media and Sports is to have its budget cut by 24% to £1.1bn by 2014/15 and Communities and Local Government cut by 36% to £13.7bn. Decisions as to where cuts will be made locally are now being made. Early reports support our expectations that the cuts will be significant. For example, Sheffield City Council has announced cuts of 15% to its voluntary sector spending. This represents a reduction of £11m in the annual funding to some 1,200 organisations.

The outcome of the Comprehensive Spending Review did, however, contain some good news. The Coalition Government announced that community groups and charities are to receive £470m over the next four years to help deliver the "Big Society". £100m of this fund has been allocated to a Transition Fund. This Fund aims to support charities with an income of £50k to £10m through the challenging times ahead. Details of this fund and how to apply can be found at *www.biglotteryfund.org.uk/transitionfund*.

In light of all of this, it is key that charities maintain close relations with funders. Charities need to have open and honest discussions to understand what the likely impact of the cuts may be. This information should then be used to plan ahead and prepare for the likely resulting scenarios.

Part 1: *Impact of the Spending Review and charities' expectations*

Charities' expectations prior to the Comprehensive Spending Review

Prior to the announcement of public sector spending cuts on 20 October 2010, this survey sought to understand charities' perspectives on whether the change in government presented a threat or an opportunity to the sector. It also hoped to establish what the cuts in public spending and their impact on charities was expected to be in the coming 12 months.

When asked how much charities receiving statutory income believed would be cut, the weighted average expectation was 8% over the next 12 months. While we expect many charities to experience much greater cuts, using this figure suggests that the sector is a whole is anticipating a reduction of approximately £1.2bn in statutory income (based on a £15bn total).

With regard to change of Government, some 47% of charities surveyed saw the change of Government as a threat, with 55% of small charities and 44% of large charities of that view. On average, 25% of all respondents saw the change in Government as having no impact on the sector.

Some 78% charities have indicated to us that they expect to be impacted by the Comprehensive Spending Review, with a further 11% unsure of the impact. It is important to note that those charities with smaller resources are expected to be the worst hit. Of those small charity respondents, nearly half have income from statutory sources of 30% or more, and 14% have statutory income representing greater than 50% of their total.

Income from statutory sources

Understanding the movement on income in the past 12 months provides insight as to why many respondents may perceive the change in Government as a threat.

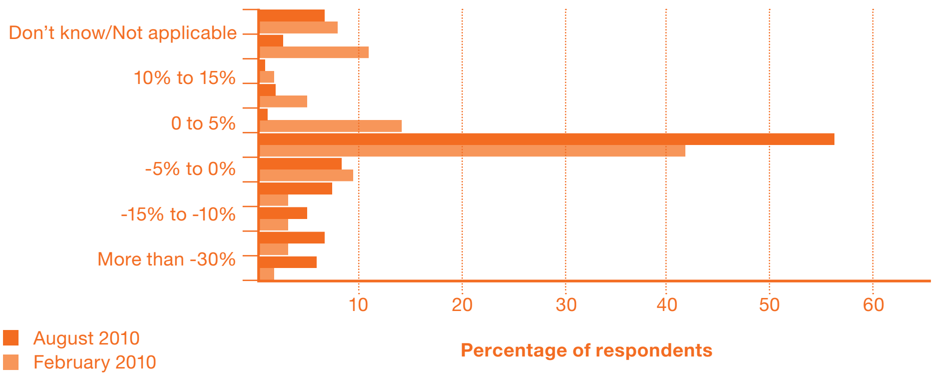
Some 51% of respondents to the survey received income from statutory sources.

We found that in the 12 month period ending August 2010, nearly all charities with statutory income (93%) had experienced a real term reduction in income levels from statutory sources, a 13% increase from the findings of our February 2010 report. This includes charities reporting an absolute standstill, where income has fallen in real terms.

The table below sets out respondents' experiences of the actual change in statutory income in the period February 2010 to August 2010. It is evident that not only are more charities experiencing income reductions, but these reductions are increasing in value:

- In February 2010 only 1.5% of respondents were experiencing reductions of greater than 30%; this has since increased to 5.6%.
- The number of charities experiencing declines of between 10 and 30% has doubled to 18.4%, supported by a slight reduction in those experiencing decreases of up to 5%.

Actual changes in statutory income over the previous 12 months



Anxiety over income what about other sources of income?

In a time of public sector spending cuts it is natural to look for funding elsewhere. Our survey sought to understand the changes in various income streams over the past 12 months and what respondents' expectations are for the next 12 months. As with the last survey report, we have measured charities' anxiety over income sources using an "Anxiety Index". This is a weighted average of the responses in each category, designed to aid comparison with prior periods and between income sources.

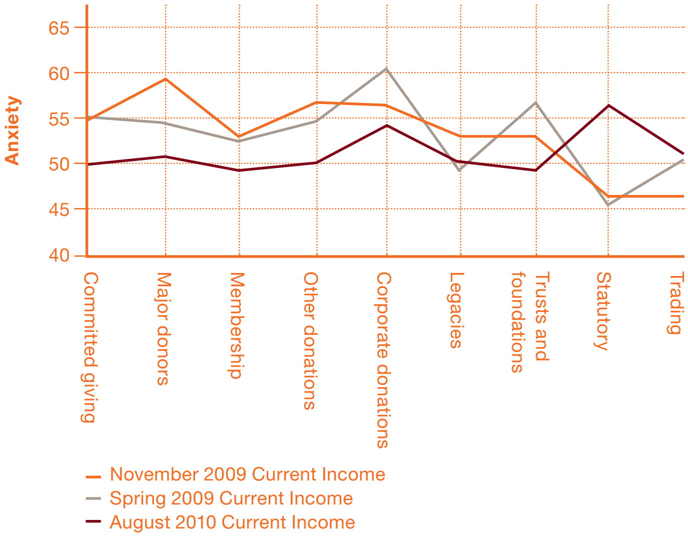
Actual experience compared to previous surveys

Applying the anxiety index to respondents' actual experience gives us an ability to compare experience over time. The first graph opposite compares the actual experience in the last three surveys and indicates that respondents have experienced lower levels of income reduction this time than the previous two surveys. This reflects in part the upturn in the private sector, which has been reporting green shoots for many months as the economy has begun to grow again. The difference in statutory income supports the discussion in the previous section. The experience in trading income has not changed materially since spring 2009, but is higher than November 2009. This perhaps reflects the balance between an upturn in the economy and increases in VAT rates.

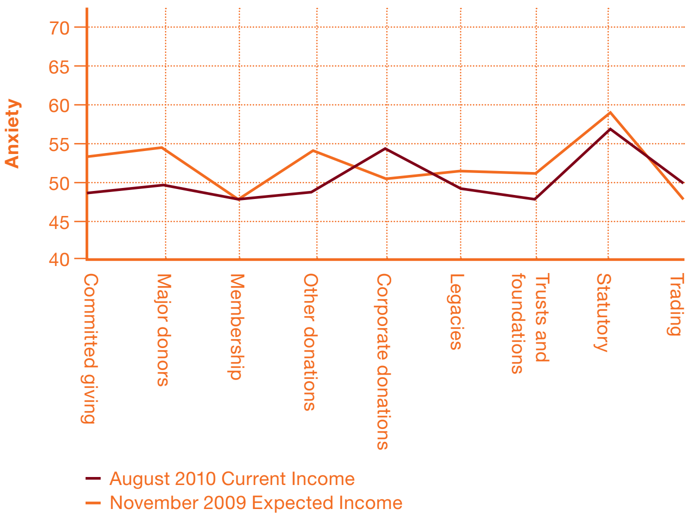
Actual experience compared to that predicted last time

If we then compare the predictions in the last survey to the reality since then, the experience of respondents was generally worse than predicted, apart from the areas of corporate donations and trading. This indicates that although there was an upturn in the economy, consumers are still cautious with their money. This graph also supports responses in other parts of the survey, that charities are worried about the individual and corporate purse being squeezed by cuts in public sector spending.

Anxiety Index: Historic trends



Anxiety Index: Actual experience versus expectation



Predicted anxiety this time

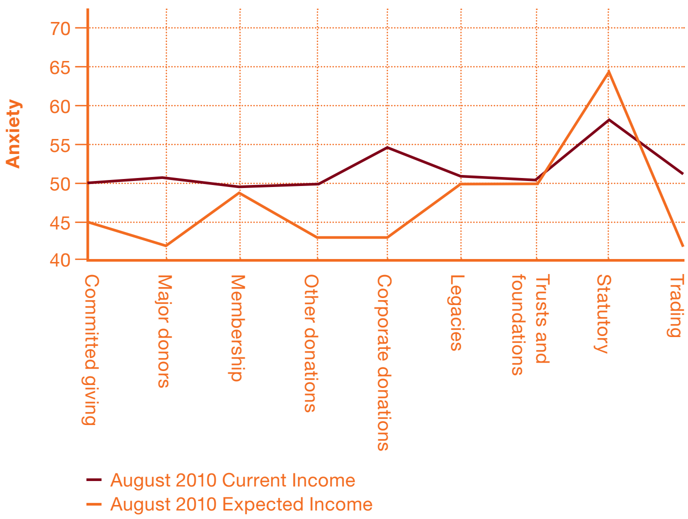
Overall anxiety going forward has reduced, the obvious exception to this being statutory income. For most income sources, the anxiety index is below 50 for the coming 12 months, suggesting an overall expected increase in those income streams.

We are of course encouraged by the fact that charities appear less anxious about all of their non-statutory income sources. These results support what we are hearing anecdotally. For example, we understand that a number of corporate organisations are now looking at more innovative methods of supporting charities, e.g. by offering staff time and their services for free. The right partnerships can offer some very exciting opportunities for charities, as well as some specific skills and services they may not have previously been able to reach.

Our previous reports and other commentators have long outlined the need to develop deep and lasting relationships with other organisations that will provide long term benefit to the charity. We encourage charities to continue to develop such relationships, such as the innovative collaboration we have seen between charities and companies. For example, the Oxfam and Marks and Spencer clothes exchange scheme and the work of Breakthrough and Social Enterprise. It seems that such innovation is producing some very positive results.

The largest reduction in income from major donors was experienced between November last year and August this year, with 70% of respondents stating that they had a decline in income compared to 53% in the previous survey. Anecdotally, we understand that some major donors are now being more selective about the charities they fund and the amounts they give. Charities do anticipate an increase in the availability of this income source in the future with 57% of respondents predicting a continuation or an increase in funding. It may be that we are beginning to see a turning point in this area and encourage charities to continue to build strong and lasting relationships with major donors.

Anxiety Index: Current anxiety



Respondents' views appear to be mixed about the future of income from trusts and foundations compared with experiences in the last 12 months, with 48% predicting a decline, 26% predicting flat growth and 26% predicting an increase. As with major donors above, the period between November last year and August has shown the highest decrease in the level of income, but this also appears to be turning a corner. Likewise, income from committed giving is showing a slight improvement, with 49% predicting a decline, compared to 81% in the previous survey.

Overall, there are grounds for optimism across non-statutory income sources, which, if borne out in practice, would provide welcome compensation for the anticipated cuts in statutory income.

> ***The right partnerships can offer some very exciting opportunities for charities, as well as some specific skills and services they may not have previously been able to reach***

Demand for services

39% of charities have seen an increase in demand for their services as a result of the recession (62% of small charities, 22% of medium and 27% of large charities). Some of the anecdotal observations made include the following:

'Increased joblessness has an impact on depression, and reduced public sector services will lead to more people looking for alternatives'

'Our advice service expects to be even busier due to the proposed cuts in services and benefits for disabled people'

'The greater pressures expected on personal finances will have an adverse effect on people's ability to care for their animals and they will look to charities to provide a home for the animals.'

'We are already experiencing greater demands for legal advice, mental health support and requests from our older service users for more one to one support and advice.'

'Increase in bankruptcy support and advice as a trend is likely to continue with spin off to homelessness, mental health etc.'

Impact of VAT

We asked respondents what they felt the impact of the increase in VAT from 17.5% to 20% in January 2011 would be on their charity. Only 2% of charities felt it would have no impact, whilst 53% felt it would be marginal. 28% felt the impact would be considerable and 6% felt it would be major. A further 12% of respondents have yet to assess the impact. Considering the impact by size of charity, we noted that only medium sized charities with income of £1m to £10m reported a possible major impact (14% of respondents). Interestingly they were the only charities to report no impact (5% of respondents). However the results of our survey identified that no one part of the sector that was largely expecting a major impact from the change.

While the expected impact varies considerably between respondents, the VAT increase is likely to have an effect on the sector as a whole. In total, commentators have suggested that the change in rate might cost the sector some £145 million per annum in terms of irrecoverable VAT.

We are aware that there is a consultation paper expected from Government in 2011 in relation to VAT on shared services. At present, any charities wishing to share, for example, back office services, may incur VAT on some or all of the shared costs. Understandably, this acts as a material deterrent for many charities. With some 14.2% of respondents indicating that they would consider public or private partnerships, for example, we encourage charities considering collaboration or partnership working to keep up to date with developments in this area.

Respondents believe that the VAT increase will only have a marginal impact

Part 2: *Planned action in light of the Comprehensive Spending Review and the continued economic downturn*

The Comprehensive Spending Review is the biggest single event this year to impact on the funding environment of the charitable sector. However, it is important to keep sight of other factors that are affecting other income streams, such as the levels of the general public's disposable income, levels of attrition, relationships with corporate funders and legacy pipelines. Where possible, we recommend charities keep in mind these factors and continue to be proactive in planning for future decisions and strategic direction. Quality management information, engagement with all stakeholders, trustees and senior management will all be required. Those responsive charities simply reacting to the market place will not be as well placed as their peers with a deeper insight into their own future and who have undertaken appropriate scenario planning.

This section of the report sets out possible actions or scenarios that charities may consider in response to the current economic environment. Whilst it is important that charities develop plans that suit their needs, we would expect strong performing charities to have discussed and considered some of these, if not all, in determining their strategy.

33% of respondents receiving income from public sector contracts have indicated they have already felt the impact of Government cuts, whilst a further 29% expect to be impacted in the coming 6 months. What is clear is that those charities who receive statutory funding will understand more fully the impact of the cuts by the time they next negotiate their funding, be that now or at some point in the next 12 months.

This table opposite sets out the actions that respondents plan to take in light of the impact of spending cuts.

How do you think your organisation will address the shortfall in public spending?

	Statutory income respondents (51% of total)	All respondents*
Increase fundraising in current areas of focus	63.2%	
Start fundraising in new areas	58.5%	
Increased fundraising activity		83.0%
Collaborative working	33.0%	
Cut back on services	31.1%	40.4%
Redundancies	27.4%	38.3%
Utilise reserves	23.6%	
Public/Private partnerships	14.2%	
Sharing back office services	10.4%	
Flexible working	9.4%	
Better investment of charity funds	9.4%	
Merger	6.6%	2.1%
Greater borrowing		19.1%
Increase charges for services		
Other	21.7%	8.5%

**Some questions were only asked of respondents receiving statutory income*

It is evident that fundraising is the preferred method of most charities to fill the funding gap as a result of the Comprehensive Spending Review and reductions in other income sources. 59% of respondents are proposing to start fundraising in new areas and 63% plan to increase fundraising in current areas. It is likely that fundraising will become more competitive and challenging in the future which means some charities may not gain the outcome they anticipated with further funding gaps to fill.

Trustees may have to challenge their senior management team and accepted wisdom within their charity

It is key that charities make informed decisions and are proactive, not reactive, wherever possible. We expect all charities to develop insight in their decision making processes, and for trustees and senior management teams to engage and analyse the available management information to determine future strategy.

While expanding fundraising will assist charities to meet the growing demand for services and their increased role within the Big Society, this will need to be supported by considered investment, risk assessments and planning.

The role of trustees

To cope with the reduction in funding, there are a number of options open to all charities. However each individual charity needs to identify which courses of action are the most appropriate for them in order to provide the best return for beneficiaries. Charities must identify options that provide the best possible long term outcomes in relation to their strategic aims and objectives. It is the responsibility of management and trustees to identify opportunities and reject those options that are not in the best interest of the charity.

In our experience, the best performing charity management teams provide their trustees with a number of proposed actions for consideration, with details as to why they feel others are not worth pursuing. Strong performing trustee boards provide rigorous challenge of the plans proposed and identify new options to be considered. There should be a degree of challenge and debate over the future strategy of a charity and the plans put in place to achieve this . It is often better to ask difficult questions and put action plans in place that may not be popular, rather than being forced to implement worse measures at a later date.

The theme of insight is important and one that a strong trustee board will look to instil in an organisation. Trustees may have to challenge received wisdom and their senior management team. They may feel the need to become more involved personally to satisfy themselves that all reasonable options are at least being considered. None of this is easy, however we find ourselves in unprecedented times and it is the needs of the beneficiaries – not the trustees or staff – which should be the primary motivation. In some cases, the senior management team may be unused to this level of hands on involvement from the trustees. However, they will need to be sympathetic to the fact that trustees may be feeling more uncomfortable. It is, after all, the trustees who have the legal responsibility to guide the charity's affairs.

One key challenge for charities in the coming months will be ensuring that their boards have the appropriate mix of skills to address some of the challenging decisions that will need to be made. There are a finite number of trustees and the skills, expertise and even quality of these differs. If your board lacks an area of expertise or skill, you may need to take advice and guidance on how those gaps might be filled.

There should be a degree of challenge and debate over the future strategy of a charity and the plans put in place to achieve this

Trustees may in some cases find it helpful to utilise the experience of independent third parties to "de-personalise" the challenge process and to provide a robust assessment of the available options. This independent challenge may come from a respected individual or organisation, in whom the trustees can have confidence to find a solution which prioritises the needs of beneficiaries but is also achievable.

The management of costs and use of reserves

There remains uncertainty over changes in income over the coming 12 months and beyond. However charities continue to have the opportunity to manage controllable costs and consider the use of funds and reserves as a means of continuing to fulfil core objectives and meet the needs of beneficiaries. The purpose of this section of the report is to highlight some of the expectations that respondents have over expenditure and proposals for the use of reserves. We also highlight questions we feel trustees should be asking of management, and in return, areas on which we feel a strong management team should be challenging their trustees.

Reserves policy

The survey indicates that 44% of all respondents intend to utilise reserves in the coming 12 to 24 months (a decline of 2% from November 2009), with a further 24% indicating that they do not know.

With nearly half of all respondents intending to use reserves, it is important to note that 68% of charities have reserves which represent less than 6 months' average expenditure, with 63.6% of small charities and 72.2% of medium charities falling into that category. Only 15% of respondents have reserves sufficient to cover more than 12 months of core operating costs.

Many sector commentators are saying that coping with the present circumstances are precisely the reason why reserves are held and that it is therefore entirely appropriate for charities to utilise reserves in this way. However, we would urge all charities with modest levels of reserves to consider carefully which services to maintain, so as not to risk the solvency of the organisation itself.

A key question for those who do not intend to use reserves is "what are the barriers to you using your reserves?", particularly in the current climate. We posed this question to those respondents that did not intend to use reserves and the reasons outlined in the table were given.

Only 15% of respondents have reserves sufficient to cover more than 12 months of core operating costs

In our experience, we find that the best performing charities have regular discussions regarding the required levels of reserves, the current level of reserves, and how to manage any gap. Most importantly, these discussions should involve trustees and management discussing and debating the strategic direction of the charity and the associated risks and benefits of actions that could be taken. We suspect that the reported reluctance of management and trustees to use reserves, and the lack of information to make decisions is partly the result of communication not occurring appropriately. With improved communication and open discussion there is greater chance of a situation where all parties will be comfortable with the decisions made regarding the use of reserves.

We do not have sufficient reserves	28.6%
Trustees reluctant to use reserves	28.6%
Management reluctant to use reserves	28.6%
Do not have sufficient information to make decisions	17.9%
Other	32.1%

Collaboration and mergers

As reported in previous surveys, charities are continuing to consider mergers. In this survey we found that 21% of respondents indicated they were considering collaborative working. Surprisingly, only 2% indicated that they would consider a full merger. Over the past two years, we have increasingly questioned why the sector does not increasingly utilise collaborative working and mergers as a means of offering better value for money to funders and to increase effectiveness of those services offered.

We recommend that charities consider this as an option when next considering their strategic direction and action plans. We do not expect this to be an appropriate action for most charities. However we do encourage that the option is explored and debated. Charities should consider whether joining up with another charity could cut costs, reduce competition for limited funding sources or strengthen a bid for funding. Both trustees and management should participate in discussion and utilise information to provide all involved with the necessary insight to reach a decision.

40% of respondents will cut back on services

We are seeing a good deal more discussion regarding potential partnerships amongst charities now and there does seem to be a much greater appetite to approach these discussions with an open mind. There is still a long way to go in many cases, but we would encourage charities to have discussions with their peers, with umbrella bodies and with charity professional advisers as to what is working – and what is not working – in practice.

Payroll and costs

We reported in our previous reports that the downturn may present opportunities for charities, one of which is potential cost savings in various areas. However, some 56% of respondents expect an increase in their overall cost base over the next 12 months, with 28% expecting a decrease. Of those expecting an increase, half expect this to be between 2% and 6%. We would encourage those charities expecting an increase to review critically their cost base to understand whether further savings can be made if necessary.

Some 54% of charities forecast an increase in their wages bill over the next 12 months (42.9% of small charities, 40.6% of medium charities and 81.9% of large charities). This represents a decrease from previous surveys. However, we would reiterate the points made in our last report regarding salary increases in the sector. Increases in the wage bill demonstrate that perhaps charities are not taking advantage of the increased power of employers in the employment market. There is currently the opportunity to hire skilled employees at more competitive rates than in previous years, particularly in light of salary freezes and job losses in the public and private sectors.

It is interesting to note that 55% of charity finance professionals indicated that their charities would consider redundancies in response to the shortfall in income, suggesting that in some cases redundancies could be made whilst providing for salary increases. Decisions regarding headcount and wages will of course be specific to each charity. However we would urge charities to consider carefully the level of any pay increases, and the implications these will have.

Part 3: *Role of the fundraising and finance teams*

The fundraising and finance teams

Both the fundraising and finance teams will be pivotal in ensuring charities can adapt and cope with the uncertain economic climate over the coming year. This survey explored how fundraisers and finance professionals view their roles and their expectations for the future.

Investment in fundraising

In previous surveys, respondents indicated the desire to increase investment in fundraising. This survey has found that this was still the case, with 83% of respondents intending to increase fundraising activity, with 60% of those receiving statutory income intending to increase fundraising in new areas.

However, this increase in fundraising has the potential to bring its own problems and this was reflected in the results with 91% of respondents stating that they felt fundraising would become more difficult. Some 88% indicated that donors would be feeling the effect of increased taxes and cuts, whilst 85% cited the increasingly competitive environment for fundraising. Some 46% of respondents stated that fundraising targets would become more challenging.

Fundraising is crucial to the survival of many organisations, and so investment in this area should be welcomed as a positive step, but with an element of caution – exploring fundraising for the first time, or diversifying into new areas of fundraising should not be considered in isolation. Investment should be considered in conjunction with long-term strategy plans for the organisation and should be subject to risk assessments and consultation with management and trustees. This is to ensure that investment in fundraising is in the charity's best interests and is the right step to take at this juncture.

As well as investing in new areas of fundraising, organisations should look at what is already being done, as there are occasions when a new fundraising stream may not be as effective as expanding an existing stream that may have further potential. As well as expanding existing operations, it may be more prudent to develop existing resources – investing in staff training and development can allow for not only improvements in relationships with donors, but can also be motivational and keep staff happy and ensure effective working from within.

If all considerations have been taken into account and investing in fundraising is considered to be the best option for your organisation, it can be hard to know which fundraising method or methods are right. There are a number of different questions to be asked to help facilitate this decision. Questions such as which fundraising streams are complementary to the charity's existing donor base and existing fundraising methods; what resources do you already have and what new resources would a new fundraising stream require. It may also be helpful to explore how other charities utilise these fundraising streams, as not only could this raise advantages/disadvantages about the mechanism, but it may also provide ideas for how you may want to employ certain methods.

By investing in fundraising and expanding fundraising capabilities, charities can greatly increase their services and impact on beneficiaries and the wider society. However, to do this well, charities need to ensure that they have considered all options and made the right choices.

The effectiveness of your finance team

Throughout this report we have sought to stress the importance of insight, understanding your charity and preparing quality information that enables pro-active and well informed decisions to be made at all times. This applies to the day to day operational decisions of senior management, or medium and long term strategic objectives set by the board of trustees.

Charity finance teams are a key part of insight, and financial considerations should be integral to all areas of decision making. When making strategic decisions, finance professionals are often best placed to explain and quantify the options available, allowing trustees and senior management to make an informed decision. In order for this to be possible, it is imperative that finance teams are used effectively and have the appropriate resources and skills.

We asked the respondents a series of questions to understand the perception of finance teams in charities at present. We found that:

- Almost all (95%) Finance Directors think that the role of finance teams goes beyond being simple 'score keepers'. This was significantly different to the view of fundraisers – 22% said they believed the finance team was there to be 'score keeper' only.
- Three quarters of finance departments have a written vision or strategy.
- 33% of respondents see finance as a 'business partner', with the finance teams actively involved in strategic decisions of the charity.

Insight will be vital for charities in the years to come. It is increasingly important in effective finance function delivery. It is about the finance team adding value to the organisation and supporting the strategic and operational decision-making process. It helps here for the finance team to have a clear vision or strategy. While it is promising that three quarters of finance departments have a written vision or strategy in place, this leaves a gap of 25% who do not. We would urge these charities to consider creating one.

It is apparent from the results and wider observations that there is a difference in understanding between what the role of the finance function is and what the rest of an organisation thinks the role is; reducing this gap will be a key challenge for finance functions.

We compared these results to those of a PwC report entitled 'A place at the top table? Raising finance's game in the public sector', which analysed the perceptions and expectations of central government finance professionals, to see how they varied. At the moment, charity finance departments appear to only spend 17% of their time on "insight" compared to 22% of central Government finance professionals. The largest part of a charity finance professional's role appears to be "compliance and control", with 53% of their time focused in this area. Compliance and control is important, but we need to consider how we can do this more efficiently so that we are able to devote time to insight into the challenges ahead.

The tables and graphs opposite present the time spent by finance on insight, compliance and control and efficiency activities at present, and the time that they hope to spend in three years' time. The graph then shows how this compares to Government finance professionals. When asked about expectations of their role in three years time, we found that 54% of respondents expected to spend up to 25% of their time on insight, and a further 41% up to 50% of their time. This increased recognition of the importance of insight is encouraging. The challenge for all organisations is to ensure that the finance team are equipped and able to suppport the charity, and that their insight is utilised appropriately in all decisions made.

38% of charities intend to restrict delivery of non core charitable objectives, and 32% will restrict planned recruitment

Finance professionals current role

Efficiency	29%
Compliance and control	53%
Insight	17%
Total	**100%**

Finance professionals role in 3 years time

Efficiency	33%
Compliance and control	43%
Insight	24%
Total	**100%**

Conclusions

The charity sector is expected to feel further impact from the economic downturn and the Comprehensive Spending Review in the coming 12 to 24 months. There remains a need for trustees and management to maintain open dialogue regarding the future of the charity and acting in the best interests of beneficiaries. It is key in these discussions that quality management information is available in order to support all strategic decisions.

As we have reiterated throughout the report, insight is key to the operation of any organisation, particularly charities. Insight should support all decisions that are taken by an organisation and in the current economic climate this is more important than ever. At a minimum, insight should support reactive measures; ensuring these are the right course of action to take. All decisions should be supported by financial insight with the benefits and costs considered. Striving for better practice in financial planning and management enables charities to prepare and best position themselves for the future ahead.

Our previous reports have suggested that there will be winners and losers coming out of this economic climate. We are already seeing that some charities are becoming weaker and others are thriving. We believe that the impact of the Comprehensive Spending Review will continue to be felt way in to 2011, and potentially increase this polarisation. We have previously tried to highlight some of the behaviours which can help to separate the winners from the losers and have outlined a number of them again in this report. There are significant opportunities for strong charities, but to make the most of them will require discipline, imagination and stamina, amongst many other attributes. We again hope that our series of reports will provide some guidance.

Striving for better practice in financial planning and management enables charities to prepare and best position themselves for the future ahead

Some information about the authors

Charity Finance Directors' Group (Reg charity No. 1054914)

The Charity Finance Directors' Group (CFDG) is the charity that champions best practice in finance management in the charity and voluntary sector.

Our vision is a transparent and efficiently managed charity sector that engenders public confidence and trust. With this aim in sight, CFDG delivers services to its charity members and the sector at large which enable those with financial responsibility in the charity sector to develop and adopt best practice.

With more than 1650 members, managing over £17.53 billion, (which represents around half of the sector's income) we are uniquely placed to challenge regulation which threatens the effective use of charity funds, drive efficiency and help charities to make the most out of their money.

For more information, please see *www.cfdg.org.uk*

Institute of Fundraising (Reg charity No. 1079573)

The Institute of Fundraising is the professional body for UK fundraising. We support fundraisers, through leadership, representation, setting standards, and training, and we champion fundraising as a career choice. Our members abide by a Code of Conduct and Codes of Fundraising Practice and we offer professional recognition and peer support.

There are three membership schemes, which run parallel to each other and offer different benefits:

Individual membership

Individual members demonstrate commitment to raising standards, achieving best practice and developing their career in fundraising.

The Institute champions and promotes fundraising as a career choice; this membership scheme is about fundraisers, their career and their professional development. Additionally, we offer support and networking opportunities through our National, Regional and Special Interest Groups.

Organisational membership

Organisational members are showing their commitment to the sector by supporting the Institute in its long-term aims. Our organisational members are leaders in the sector, committed to achieving the highest standards of fundraising practice. Their agenda is part of the Institute's lobbying portfolio, ensuring their voices are heard at the highest level.

Organisational members are automatically included in the process of developing and revising Codes of Fundraising Practice, ensuring that the standards are practical, fair, realistic and meaningful to fundraisers, donors and beneficiaries.

The Institute also helps organisations in terms of providing support and information on the big issues in fundraising and also in ensuring that the needs of fundraisers are championed for at the highest level. The Institute's policy and campaigns team has publicly fought across a range of public policy issues.

Corporate membership

Corporate members demonstrate their commitment to a thriving fundraising sector and membership provides their businesses with a voice and a mark of best practice.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP has a long-term commitment to working with the not-for-profit sector. Our team of specialists provide assurance, tax and advisory services to over 450 charity clients. We advise them on every stage of their life-cycle – from those starting up or reassessing their governance structure to more mature organisations perhaps expanding overseas.

Whatever stage your organisation is at, whatever role you play, we can support you in addressing those issues that are keeping you awake at night. We will work with your team to find a working solution tailored to your organisation.

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