

# IS THE GOVERNMENT'S FINANCIAL RESPONSE TO CORONAVIRUS SUFFICIENT?

The National Council for Voluntary Organisations (NCVO) is the largest representative body for charities and voluntary organisations in England. NCVO has over 15,000 members ranging from large 'household name' charities to small community organisations. NCVO is also the national body for volunteering in England.

Charity Finance Group (CFG) is the charity which seeks to inspire a financially confident, dynamic and trustworthy charity sector. We have over 1,450 charities in membership and our members manage over £22bn of funds, a third of the entire UK charity sector's income.

This submission is also endorsed by the following organisations: Small Charities Coalition, Locality, Association of Chief Executives of Voluntary Organisations (Acevo), Institute of Fundraising (IoF), Association of Charitable Foundations (ACF), Directory for Social Change (DSC), National Association for Voluntary and Community Action (NAVCA)

## 1. Overview of the voluntary sector

1.1 In 2016/17, there were 166,854 voluntary organisations in the UK. Smaller organisations make up the vast majority (82%) of the sector. They include micro organisations, those with an income under £10,000, and small organisations with an income between £10,000 and £100,000. In 2016/17, the voluntary sector's total income was £50.6bn. £22.9bn (45%) of this came from the public, while £4.8bn came from investment income. Both of these income streams have been immediately impacted by the coronavirus emergency, while pressure on other sources of income such as government contracts and grants (£15.8bn) is expected in the coming weeks.

1.2 Voluntary organisations play a vital role in improving our society and make a huge contribution to the UK economy. The voluntary sector contributed £17.1bn to the UK economy in 2016/17<sup>1</sup>, representing around 0.85% of total GDP. The social services subsector alone contributed £3bn during this period. Voluntary organisations help mobilise large numbers of people across the country to give time to good causes. An estimated 11.9 million people formally volunteered at least once a month in 2017/18. The most recent figures from ONS for 2016 estimated the value of voluntary activity in the UK to be £23.9bn<sup>2</sup>.

1.3 Just under 870,000 people worked in the voluntary sector in the UK in June 2018, equivalent to 2.7% of the UK workforce. For comparison, the voluntary sector workforce is just under three-fifths of the size of the NHS workforce, (the single largest employer in the UK with a headcount of around 1.5 million). Forty-six percent of these staff work in a social care setting. Another 13% work in education services and 5% work in health<sup>3</sup>.

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<sup>1</sup> According to the estimation method developed by NCVO and ONS

<sup>2</sup> <https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/articles/householdsatelliteaccounts/2015and2016estimates>

<sup>3</sup> <https://data.ncvo.org.uk/workforce/#by-subsector>

1.4 NCVO's definition of charities excludes private schools, hospitals and government bodies with charitable status. When these are discounted, the voluntary sector spent £49bn in 2016/17, £7bn of which was on grantmaking (eg to universities for research), leaving an operating expenditure of around £42 billion. £18.3bn (44%) of the sector's operating expenditure is spent on salary costs, with some subsectors devoting a significantly higher proportion of their expenditure to staff costs. For example, organisations operating in health and social services spent over 50% of their expenditure on wages. After grantmaking and staff costs, charities spend money on goods and services, just like any other business. This includes buildings and utility costs; costs pertaining to trading, and taxes and licencing costs.

## 2. The financial impact of coronavirus on the voluntary sector

2.1 Charities and volunteers are stepping up to help communities deal with the devastating impact of the coronavirus. Given the scale of the challenge facing the country and the widespread social and economic impact, the help they can provide at this time is invaluable. Their specialist knowledge and expertise will help people in need to respond and adapt to the impact of coronavirus – either directly by supporting the health and social care system or indirectly by supporting those affected by the enormous economic and social consequences of coronavirus.

2.2 However, charities across the country are facing imminent collapse as fundraising income dries up. Charities, like businesses, are experiencing significant financial and service delivery pressures because of coronavirus. Payroll, mortgage/rental payments, tax are just some of the regular expenditure payments charities continue to be liable for. In parallel income is falling. Community and voluntary sector organisations are also on the frontline of supporting vulnerable people and will have a variety of impacts related to the crisis. Some are seeing huge increases in demand for services. Many service models will need to rapidly change as organisations stop bringing people together and move to ensuring isolated people receive support.

**2.3 Trading:** Voluntary sector organisations have seen an impact on trading. Bookings for accommodation, training and services have been cancelled and charity shop have been forced to close. Many organisations have a diverse range of trading activities from community cafes to room and space hire – which will all be impacted by the wider economic shock we are set to face.

**2.4 Fundraising:** Nearly every area of fundraising will be impacted, with many charities already experiencing loss in cash donations of hundreds of thousands, in some cases, millions of pounds. This directly effects and interrupts cash flow and the ability for charities to deliver their existing services, or do more in response to the crisis. In the short term the cancellation of fundraising events and community activity (both large-scale such as the London Marathon, and smaller events by individual charities) have left a big gap in charity finances. Some of this income will be deferred (for example the London Marathon has been postponed to later this year), but even deferred activity will then impact charities' Christmas appeals and later campaigns. Put simply, the vast income lost already, and that will be lost in the months ahead will not be recovered. As well as cash donations, fundraising activity that brings in regular and ongoing support (e.g, direct debits) is being severely impacted. Public fundraising (such as door to door and face to face fundraising) are the mainstay for many charities to find new supporters. With the cancellation of much of this activity, charities will have fewer regular supporters this year, costing them millions of pounds of income, as

well as severely disrupting the fundraising environment with many fundraising agencies and partners not being able to stay afloat.

**2.5 Contractual income:** Many voluntary sector organisations deliver public sector contracts. In the case of contracts using payment-by-results, an inability to deliver against contracted outcomes has the potential to have disastrous results for the sustainability of these organisations. However, this extends to all contractual arrangements. The median surplus (income less total costs) on service agreements or contracts as a percentage of income from these is -3.5% (compared to -0.5% in 2018). For a quarter of organisations this was 1.1% or more and for a quarter this was -38.7% or less. The median for larger organisations over £50m was a loss of 3.6%.

**2.6 Wider economic impacts:** Voluntary sector investment portfolios have already been impacted by the fall in the stock market. This includes charitable foundations, which will have smaller funding pots available to charities in the medium term.

2.7 For most charities, cashflow/ liquidity will be the primary concern in the short-term. A survey of charities undertaken by CFG, NCVO, the IoF and PWC has found that 44% of charities surveyed are already experiencing issues with cashflow, with a further 46% expecting to experience this in the near future. Almost half (45%) unable to cover their payroll, and a third unable to pay their bills, rent, and mortgage.

2.8 Only 24% of charities hold reserves. On average, charities hold reserves equal to just over three months of business as usual operating costs. But they are being depleted rapidly due to the unprecedented challenge that coronavirus presents.

2.9 Charities currently experiencing increased demand due to the impact of the coronavirus include hospices, care homes, specialist schools, domestic violence shelters, food poverty organisations, family support, meals on wheels and other forms of community transport, and mental health charities.

### **3. The extent to which the government's financial response has supported the voluntary sector**

3.1 A number of government announcements in response to the coronavirus will be of direct help to the sector. These include; the deferment of VAT payments and support for organisations paying sick pay to employees.

3.2 However, the Coronavirus Job Retention Scheme will only make a marginal difference to the fixed costs of most charities. Some charities may be able to lay off shop workers and fundraisers, but these amount to a fraction of charities total costs. The scheme enables employers to have 80% of a staff member's salary covered by the government if they are furloughed – that is, if they are sent home and stop working. However, the majority of charities and voluntary organisations deliver services and offer support which cannot cease for three months in the way that a bar or cinema can. They must remain open to support the public, and therefore expenditure associated with them will continue. While some charities may be able to close temporarily, much of the sector needs to continue supporting people and communities as they did before. Furthermore, many organisations have already seen an increase in demand for their services as a result of coronavirus. This is likely to

3.3 increase over the next weeks, as more people are required to self-isolate, and individuals identified as vulnerable and at risk require additional support.

3.4 We estimate that charities will miss out on a minimum of £4.3bn of income over the coming 12 weeks, though this is a conservative estimate and the figure is likely to be far higher. The figure has been calculated using initial survey feedback from charities about their experiences over the past week, and NCVO's Almanac which provides authoritative data on the sector's finances. It assumes that government income remains stable, but there is no guarantee of this, particularly where payment-by-results contracts are concerned. The estimated £4.3bn covers normal expenditure and does not include any extra costs related to the pandemic or responses to it.<sup>4</sup>

3.5 Charities have been in conversation with the government about a package of support for the charity sector but details are yet to emerge. With many charities facing significant financial pressure and in some cases imminent closure, **the voluntary sector urgently requires support from government that is substantial, simple and swift.** This should include:

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

## Appendix – examples

### Ability Community Transport Northampton

In 2019, residents of West Northamptonshire started to benefit from a new community bus service operated by Ability Community Transport. For Concessionary bus pass holders the service is provided free within the county of Northamptonshire. The bus service operates 5 days a week along the main shopping areas of Towcester, Brackley, Banbury and Northampton. 82% of users are over 70 and the majority of passengers live alone with no access to their own transport. Apart from taken older people on shopping trips, the service is used to transport carers to the people they are caring for and takes patients to hospital and visitors to see their loved ones.

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<sup>4</sup> Due to the fast-changing nature of this crisis, these figures are preliminary and may need to be increased substantially as the economic impact hits home for charities.

The main funding source is from concessionary fares. If people cannot travel, they cannot fund the service. With no passengers they do not get funded. As a result of losing this service they have now closed their service. They fear that without additional support, if they remain closed then at the end of this crisis there may be no service to start again.

They want to help in other ways, however that means being funded differently. If people are not travelling the concessionary fare scheme will not be facing any claims. That money could be used to provide emergency grant funding to organisations like theirs, to run services that meet the needs of their users who are self-isolating in this crisis. They could provide a service of delivering medicine, groceries and essentials to those in need.

### **Anonymous**

An international organisation aimed at supporting children. They have estimated that they will lose £3m of their £8m fundraised income. So, unless they get help, they will have to lose staff. This will not be restricted to fundraising staff but also staff who provide core functionality.

They have £12 million of grants overseas but if they can't pay their finance, HR, security, safeguarding team, country directors and programme managers out of their fundraised income, they will collapse and be unable to deliver against their grants. The current job retention team will keep these people out of the office just when they are needed most.

If the people they put on furlough could volunteer their time back, the organisation could stay functioning and help a lot of people.

### **Anonymous**

They are a small charity that seeks to transform the world through fellowship, education and campaigns. Their income is under £100,000 a year and a significant amount of their spending goes on a small staff team who service and support their membership. A third of their income comes from individuals and churches, a third from some long-term room lets and a third from one off/occasional room hirers. With the cessation of public worship and the implementation of social distancing a third of their income has now had to be projected forward as zero and another third is looking in significant doubt if not zero. This means they are now considering a reduction in staffing and reduced education and campaign activity for the year.

They have been diligent and good in diversifying their income beyond any one source however many of those sources will now be significantly impacted. They would be looking for some help in wage offsetting from the government to enable them both to function but also to service and support their fellowship of members. They have spent the last few years spending down their reserves and the unknown nature of the length of this emergency, and the potential recession that could follow means they face a very difficult time ahead.

### **The Back Youth Alliance - group of leading youth sector organisations**

Income and operations for organisations in the youth sector, are already being significantly affected by the outbreak and the associated measures (both mandated and voluntary) that are being introduced. If unaddressed, this only stands to worsen with time.

Impacts include staff and volunteers. Many activities and services rely on an active and dedicated volunteer and staff base who could be affected by:

- a) the virus itself, need to self-isolate and have other dependents that require them, and therefore won't be able to give up the time to volunteer or work.
- b) increasing restrictions to their ability to engage with groups of young people (even more so where they are members of a vulnerable group).

Not only will this have a significantly negative impact on the volunteers themselves - who often gain a real sense of wellbeing from volunteering - this will have a significant impact on our sector's ability to continue to offer those services, with a knock-on effect on young people themselves. Employed staff will also be affected as demand reduces and income declines - leading to significant risks of large-scale redundancies - which in turn has significant implications for wellbeing.

## **Beat Eating Disorders**

Beat's first estimates are that with a relatively quick recovery time for the UK their income will still be hit by between £1million and £1.1 million next year. They believe areas that will be particularly hit are Community and Corporate fundraising, but all areas of their income will be reduced. They are revising forecasts and plans daily and looking at diverting staff resources and cutting any non-essential costs.

They are already seeing an increase in demand for our vital services and are doing everything they can to build and adapt these. They are looking at all opportunities to preserve their services that are more in need than ever and to protect their workforce for the future sustainability of the organisation.

Last week they launched the Sanctuary – an online support group for people affected by eating disorders and is unique because it is open daily and runs all the time the Helpline is open. With less than 24 hours promotion they had over 40 participants over the course of the day. They have seen a 30% increase in contact across all channels and in particular on social media and online support groups. Every single user has referenced concerns about coronavirus in their communication.

They are hearing from our service users that appointments are getting cancelled, and also from clinicians that they are needing to cancel appointments due to self-isolation. This is also adding to the demand for their services.

## **Child.org**

Child.org has lost somewhere between 40-80% of their income. Child.org has 15 full time staff, based in the UK and in Kenya, and was predicting a turnover of £850,000 this year. All staff, excluding two whose salaries are ring-fenced as part of a grant, have been informed that they will be reduced to three days a week from next week as a cost-saving measure. They are in real need of help and trying to tackle an urgent need for information in Kenya (most of the grants they've seen so far from corporates are only for charities supporting the vulnerable in the UK).

## **Communities 1st**

Communities 1st is now incurring costs in being able to respond to this, whilst their generated income is taking a nose-dive. At the moment they haven't had any commitment from district councils to support the expenditure, but district councils are being very supportive in using their services. One council hadn't considered the charities might also be included in the 12-month rate-free announcement from the other day as they don't class charities as small businesses.

## **Love, Jasmine**

Love, Jasmine are a Merseyside based charity providing support to families who have lost a child of any age from 20 weeks gestation, including adult children. The vast majority of the families that we support are Merseyside based but we don't restrict support to this area and families from across the country have accessed our Retreat for a respite break.

Service delivery wise, they've had to make massive adjustments and they've cancelled all of their peer related activities and respite breaks. They've also stopped face to face counselling sessions and where possible these are now being carried out remotely via telephone or skype.

The vast majority of their income comes from the local community – from organising their own fundraising events, local businesses, individuals and beneficiaries. Currently they are receiving one grant which covers around 20% of their income and have had a number of one-off smaller grants over the last year to fund different projects but they massively rely on community fundraising. In the past week, they've cancelled their annual fundraiser and four other fundraising events have been cancelled. It's also looking likely that they will have to cancel another event in June. These cancelled events don't just impact their service now, it will greatly affect our ability to get through the winter months when income isn't great.

As it stands, they definitely won't be able to pay their sessional counsellors from next month and after next month, may have to make the two other permanent members of staff redundant and the long term prospects for the charity aren't good.

## **MND Association**

Their activities have been severely disrupted by the need to protect their beneficiaries, staff and volunteers from the virus. People living with MND are extremely vulnerable to the virus. As such, their staff and volunteers cannot provide face to face support which is critical to their service. This is made worse by the fact that many people with MND cannot speak or move their arms, so telephone and e-contact is also problematic.

Most of their staff are now working remotely from home, as are their volunteers. They are working to ensure already isolated people are not left unsupported through the virus. This includes finding ways to ensure they have practical tasks like shopping and prescription collections.

They are very reliant on community fundraising which has been hugely impacted, so they are exploring various new funding models. They need financial assurance should this carry on, so they may maintain their services whilst fundraising ceases. They cannot raise money to cover costs while their community is unable to fundraise. They would also like clarity on likely government measures so that they can plan services that can be carried out even if they are in lockdown.

## **Voluntary Adoption Agencies**

Voluntary Adoption Agencies (VAAs) provide a quarter of adoption placements across the UK and are paid a fee by local authorities when the child moves to their permanent home. Put simply, no placements means no income to pay social workers and hundreds of adoptive families losing the vital support they will need at this stressful time. Urgent government assistance is needed to retain VAA capacity for the future and for the immediate needs of adopted children and their families.

## **Youth Hostel Association (YHA)**

YHA as a leading youth charity/social enterprise relies on people, especially young people, being able to travel and stay away from home for 90+% of its income. In light of the latest government guidance they have taken decision to close all hostels for recreational and non-essential use until 31 July. This means they will lose around half of their £50m turnover this year, and likely more if restrictions on travel continue. They have also lost an estimated £1million fundraising potential.

Currently they are offering their hostels to the national effort eg NHS, homelessness, key workers, but are asking no more than costs are covered to prevent any further loss. The Chancellor's announcements on employment support and VAT were very helpful and timely and will significantly help mitigate impacts in the short term. However, there will still be a very significant long-term impact on their finances and their ability to deliver their mission.

While the impacts are very severe – they state that they will survive - they are strong, well run and resilient. But they can't rule out longer terms impacts, such as having to sell much loved hostels. In addition to their staff they have small suppliers, a freelance supply chain, community organisations and others which rely on them through this crisis and beyond. As such, in these unprecedented times any further support from government will be hugely welcome to help them support society.