THE IMPACT OF COVID-19 ON THE VOLUNTARY SECTOR

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About NCVO

The National Council for Voluntary Organisations (NCVO) is the largest membership organisation for the voluntary sector in England. With over 15,000 members, NCVO represents all types of organisations, from large 'household name' charities to small voluntary and community groups involved at the local level. We are also the lead body for volunteering in England.

Key points

- Charities and volunteers are stepping up to help communities deal with the devastating impact of the coronavirus.
- This increased demand for their services is happening just as the sector loses a significant proportion of its revenue.
- Charities stand to have lost out on an estimated £4bn in the 12 weeks since the start of this crisis.[1]
- The financial measures announced for business are proving to be of limited benefit to charities, although they are eligible to apply for them.
- The Chancellor's £750m support package for charities is welcome, but it will not be enough to prevent good charities around the country from closing their doors. Even many that survive will look very different in a few months' time, with a severely reduced capacity to provide the support that people rely on.

Our asks to government:

- A review of the existing business measures and how they can be changed is urgently needed, to ensure they achieve their aim of providing financial support to businesses and charities.
- The priority now is to get the money made available by government out the door swiftly and effectively. Funding needs to be used to meet everyone's needs.
- It is also important that Treasury officials work with civil society and DCMS to address the medium and long-term scale of the financial challenge ahead, and to ensure that the critical support civil society provides will continue to be able to meet need both in time of crisis and beyond.

Background

Charities and volunteers are stepping up to help communities deal with the devastating impact of the coronavirus. Their specialist knowledge and expertise will help people in need to respond and

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[1] £4bn of income over the coming 12 weeks is a conservative estimate. It assumes that government income remains stable, but there is no guarantee of this.

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 socio-economic consequences. However, charities are facing imminent collapse as fundraising income dries up. Charities are experiencing significant financial and service delivery pressures because of coronavirus. Our latest information suggests that charities will have lost out on around £4 billion worth of income in the 12 weeks since the start of this crisis. In particular charities are losing out on income because of the cancellation of fundraising events, a loss of trading income, and lower investment income.

How charities are responding to COVID-19

Charities are currently experiencing increased demand due to the impact of the coronavirus. Many of these organisations are now working on the front line in the fight against the virus, complementing the work of the NHS. These organisations include hospices and care homes looking after the elderly and shielded, charities supporting volunteers in health services, community organisations arranging for food provision to those in poverty, mental health and domestic violence charities. If these organisations close their doors or furlough staff, the result would be increased pressure on the NHS and other public services.

The services charities provide help to support and in places prop up the public sector. Without their support, the public sector would face extreme strain in delivering services. In particular, local charities provide services to meet the needs of communities; many local authorities commission charities to carry out services. If these charities become insolvent, such services will either have to be delivered by the local authority or, more likely, withdrawn.

Financial Impact of COVID-19 on charities

Voluntary sector organisations are on the frontline of supporting vulnerable people and will experience a variety of impacts related to the crisis. Some are seeing huge increases in demand for services, with 43% of charities predicting an increase in demand for their services, according to a recent survey. Our latest information suggests that charities will lose out on around £4 billion worth of income over the next three months.

Household names such as Cancer Research UK and Macmillan Cancer Support anticipate losing over £200m between them. Others such as Scouts and Mind expect to lose millions over the next few months and are severely concerned about their continued ability to exist in anything resembling their current form.

Charities are losing out on income because of the cancellation of fundraising events, a loss of trading income, and lower investment income.

Fundraising
Nearly every area of fundraising has been impacted, with many charities already experiencing major losses in cash donations. This directly affects and interrupts cash flow and the ability for charities to deliver their existing services. In the short term, the cancellation of fundraising events and community activity have left a big gap in charity finances. The vast income that has been lost already, and which will be lost, will not be recovered. As well as cash donations, fundraising activity that brings in regular and ongoing support is being severely impacted. 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 able to stay afloat.

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. Often payment-by-results contracts require a great deal of investment up front, with costs recovered over time. Charities experiencing cash flow issues will simply be unable to cover these costs. There are also concerns that it may be harder for organisations who deliver public sector contracts to recover costs that aren't direct staff costs, much of which is often recovered towards the end of the contractual period. Charities do not have the reserves for this to be sustainable.

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. A survey of charities undertaken has found that 44% of charities are already experiencing issues with cashflow, with a further 46% expecting to experience this in the near future. Almost half (45%) are unable to cover their payroll, and a third unable to pay their bills, rent, and mortgage. Furthermore, about one quarter (24%) of charities don't hold any reserves. All organisations, including large household name charities, have expressed concern about how their reserves are being depleted rapidly.

How existing business measures are working for charities

Although charities are eligible to make use of many of the financial measures announced for business, these are proving to be of limited benefit for the majority of charities.

The Coronavirus Job Retention Scheme will only make a marginal difference to the fixed costs of most charities. The majority of charities deliver services and offer support which cannot simply be interrupted for a period of months. They must remain open to support the public, and therefore expenditure associated with them will continue. Furthermore, many organisations have already seen an increase in demand for their services as a result of coronavirus. This is likely to increase over the coming weeks.

As employers and service delivery organisations facing business interruption, charities should be eligible to benefit from the 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 Scheme is to generate more than 50% of turnover from trading activity. Based on our research, the majority of voluntary organisations would be excluded from the scheme; only a small fraction of charities generate their income through trading with the public.

Many charities' financial models preclude them from taking on additional debt at such a precarious time. It is crucial that charities are able to come out of the crisis in a position to play a full and active role in rebuilding society. Saddling organisations that do not generate profit with unsustainable debt accrued to see them through the crisis would hugely hamper their financial sustainability and ability to deliver public benefit when the country emerges from the pandemic. This is especially concerning as the government will only cover interest payments and fees after the initial 12 months of the loan.

A review of the measures and how they can be changed is urgently needed, to ensure they achieve their aim of providing financial support to businesses and charities.

The government's support package for charities

NCVO welcomes the government's £750m support package. However, it will not be enough to prevent good charities around the country from closing their doors, as the Culture Secretary has conceded. Many of the charities which do survive will see severely reduced capacity to provide support for those people rely on them.

What now needs addressing is how the money will be distributed. Government has stated that it aims for charities to receive funding from this week. The importance of the money being distributed swiftly cannot be underestimated.

There also needs to be clarity on what the criteria for eligibility and prioritisation will be. Funding needs to be used to meet everyone's needs and rights.

Furthermore, clarity is required on how the fund will address regional inequality across the UK. Some poorer areas of the country have populations that are more reliant on charities and will feel the impacts of a reduction in services far more.

We also urge Treasury officials to work with civil society and DCMS to address the medium and long-term scale of the financial challenge ahead, and to ensure that the critical support civil society provides will continue to be able to meet need both in time of crisis and beyond.

Charities need to be able to support people who need it most. They cannot do this if they have to suspend their work or worse, close altogether.

Key figures

- In 2016/17, there were 166,854 voluntary organisations in the UK. The sector's total income was £50.6bn. £22.9bn (45%) of this came from the public.
- The voluntary sector workforce is approximately 870,000. 46% of these staff work in a social care setting. Another 13% work in education services and 5% work in health.[2]
- The voluntary sector spent £49bn in 2016/17.
- NCVO estimates that charities will lose at least £4bn in income during a 12-week period.
- An IoF survey found that 52% of charities have already reduced existing or previous levels of service. A further 12% intend to reduce their services. 43% of charities predict an increase in demand for their services.
- The charity Youth has conducted a survey, finding that 88% of youth charities expect to reduce their services. 17% said they may have to close permanently.
- 44% of charities are already experiencing issues with cashflow according to the IoF survey, with a further 46% expecting to experience this in the near future. Almost half (45%) are unable to cover their payroll, and a third unable to pay their bills, rent, and mortgage. Furthermore, about one quarter (24%) hold no reserves.

[2] https://data.ncvo.org.uk/workforce/#by-subsector