

# STATE OF THE SECTOR 2020: THE CONDITION OF CHARITIES BEFORE THE COVID-19 CRISIS

## Headline findings for charities and funders to help respond to the COVID-19 outbreak

In the final month of 2019 and early 2020 NPC commissioned Savanta ComRes to undertake a survey of 300 charities<sup>i</sup>, intended to follow up its 2017 'State of the Sector' work which explored the charity sector's perceptions of itself and the issues it faced.

In light of the COVID-19 crisis and the likelihood that charities will form a big part of the response (and be adversely affected) we are releasing selected results now.

We hope they will give a picture of the challenges charities were facing just before the crisis, so these factors can be included in the targeting of funding and support from philanthropists and government, as well as the planning of any response, to maximise its effectiveness for the country, and for the sector.

While we do not know what will happen in the coming months, we have tried to distinguish between the immediate and long-term impacts of the crisis, taking the lead from many economists who are predicting a long recession.

The findings we have selected relate to two crucial factors underpinning the charity sector's response to this crisis: its resilience, which mostly covers issues related to funding; and its skills and practices, which mostly covers its ability to react and use its reputation and skills in the fight against the impact of the virus.

## Resilience

### Charities were already working harder and planning to do more before the crisis

In 2020, charities we spoke to said they were doing more of every activity we asked about than in 2017. For example, in 2017 83% of charities said they were delivering services or products and this rose to 89% in 2020. In 2017 65% reported running public campaigns, rising to 74% in 2020. Despite reported increases in all areas, the majority of charities also planned to do more of every activity we asked about in the next three years.

This increase in reported and planned activity comes despite the fact that, in the last year we have data for (16/17), total income had risen by only 2% across the sector<sup>ii</sup>. Charities may have gone into the crisis with growth in activities outstripping growth in income, which may put them in a challenging position if a recession occurs. The virus will likely increase demand for health and care services, and a recession increases demand in other areas such as homelessness while squeezing income.

## Cross-subsidy of government contracts brings risks

Of the charities we surveyed 54% delivered public sector contracts. This is up from 48% in 2017. Most of the charities delivering public sector contracts were large (60%) or major (73%), but there was an 18 percentage point increase, (from 20% to 38%) in the proportion of small/medium charities delivering public sector contracts at least some of the time.

59% of charities with a public sector contract said they are cross subsidising that contract with money from other sources such as fundraising.

Due to the crisis NCVO has forecast charities could miss out on £4.3bn in fundraising over the next 12 weeks<sup>iii</sup>. Then, we may face a recession, and associated contraction in fundraising income. Facing these challenges charities may not be able to afford to deliver some contracts, especially the smaller charities who have recently entered this field.

This has implications for the immediate and long-term survival of some charities but also the continued delivery of the wide range of the public sector services they provide, including crucial work with the elderly, homeless and other groups vulnerable to COVID-19.

65% of respondents said they expect to be delivering public sector contracts at 'about the same' level in three years' time. 25% said they expected to do more. We can only speculate about what the commissioning landscape will be post crisis, but we know it will affect not just the sector, but potentially the delivery of some key government-commissioned services. With £12bn of government services being delivered by charities<sup>iv</sup>, government should look at its commissioning approach in both the short and long term as the impact could be long lasting.

## Charities say they need more core funding

When charities were asked what would help the sector increase its impact, the number one answer was, perhaps unsurprisingly, more funding.

Of the organisations who receive money from independent funders only 47% thought that they offered appropriate core funding, and this falls to 42% of small and medium charities compared to 48% large and 53% major charities.

This funding is perhaps the most important to keeping charities afloat during the crisis and, while we acknowledge the efforts of funders who are already doing this, we urge more to think about core funding in the weeks ahead.

Finally, only 45% of charities thought that their funders collaborated well with other funders. So far in the crisis we have seen encouraging examples of collaboration such as the London Funders pledge. We hope funders reflect on this finding and do more to work together.

## Response

### We have concerns about charities' ability to use data

Using data and understanding the needs of users will be vital if charities are to adapt their work and deliver effective responses to the crisis.

In 2020, 95% of our respondents agreed that the use of data and evidence were important to them for achieving their mission, an increase from 2017 when, although the questions are not directly comparable, only 72% of organisations thought that the results from learning and evaluation were important.

When we look at how our respondents use data, 89% think they are good at evaluating their work. Specifically, 92% said they have made a change as a result of learning and evaluation. This has risen since 2017 when 83% claimed to have done this. Their confidence in their ability to learn and change as a result of data will be tested by this crisis.

When we cross reference charities answers with the Lloyd's Digital Index, which assesses charities' abilities to perform 'Essential Digital Skills' we find reason to be worried about over confidence. In the 2019 index, only 49% of the charity sample could use data to improve their products and services<sup>v</sup>.

There is clearly a wide gulf between this and the 92% of our respondents who claimed they have made a change as a result of learning and evaluation. The gap suggests charities may be over-confident in their ability to use data, which may prove to be a barrier in the current crisis.

## **Charities should prioritise learning from users**

To adapt services to meet the changing needs of users during this crisis, charities need to understand their users. Although over 9 in 10 (91%) charities agreed when prompted that user involvement was important for achieving their mission, when we asked them an open question on what the most important thing was to help the sector to have more impact in society, only 9 in 300 mentioned working more closely with beneficiaries, users or communities.

So, although they say it is important to them, we are concerned charities may not prioritise user involvement in the crisis. They should. Involvement, particularly in a time of huge change in how services are delivered to users, should help flag up problems with your services and help make them better. If this isn't happening it may compound the issue with data leaving charities unable to tell if beneficiaries are getting the help they need.

## **Charities need support to use digital**

Digital technology could be vital for delivering services under conditions of quarantine or social isolation.

89% of charities see digital technology as important for achieving their mission. However, we were interested to find that compared to 2017, charities' confidence that they are making the best use of digital technology has declined by 11 percentage points to 59% from 70%. We have speculated this might be caused by increased familiarity with this technology. As charities become more familiar with the possibilities, they may become more aware they are not making the 'best' use.

There are of course many ways a charity might use digital technology – from enabling more home working, use of social media, through to the very way that vital services are delivered. In the current crisis it may be useful to produce some guidance on best practice for using digital technology to deliver their services in the context social distancing and isolation.

## **Charities know trust has been an issue but think it won't affect their work**

Charities' reputations are vital in a crisis where confusion is common and misinformation is circulating widely. Of the charities we surveyed just 5% said that they did not think that public trust in the charity sector was declining (down from 10% in 2017). However almost half (45%) of charities we surveyed said declining public trust in the sector in recent years will have no effect on them compared to 31% saying the same in 2017.

The crisis will likely reveal if this is true and is a moment for the sector to rebuild the trust it seems to acknowledge it has lost.

## Charities have not been discussing if their structure helps them deliver

In 2020 fewer charities reported discussing changing governance structures (54% in 2020 vs 59% in 2017), merging with another organisation (25% vs 34%) and whether to continue with their charitable status (10% vs 15%).

This may mean charities are not in the optimum configuration to tackle the crisis. Unfortunately, due to the pressures we will all be facing, we expect conversations around these topics to increase and suggest they are had before they become critical. These conversations should not just be limited to the success and survival of individual organisations or missions, but those with the ability to support other charities should be asking how they could do so.

Already we are seeing the rapid mobilisation of community efforts to support people affected by the coronavirus outbreak. Much of this movement is beyond the charity sector, in small mutual aid groups. The relationship with the established sector, and its preparedness to support just such a rapid mobilisation will undoubtedly prompt much discussion of the charity sector's ability to move fast and respond.

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At NPC, we are committed to helping philanthropists and charities to navigate the COVID 19 outbreak, and are on hand to provide advice and support on how to best target funding in this fast-changing environment. Working with our network of partners and charities, we have already published guidance for philanthropists on sectors that may be most in need, as well as bringing together organisations across sectors to identify practical solutions that can help charities quickly respond to need. All our resources are available at here <https://labs.thinknpc.org/category/coronavirus>

The full state of the sector research will be released later this year. Thank you to our partners, PwC, Barrow Cadbury Foundation, Lloyds Bank Foundation for England and Wales, Odgers Berndtson and the NPC Supporters Circle



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<sup>i</sup> The paper was created from interviews with 300 charity leaders between November 2019 January 2020 and represents the most up to date snapshot of the perception of charity leaders available at this time. Charities were selected randomly from all registered charities in England & Wales with an annual income over £10,000. Respondents were either CEOs, chairs, trustees,

external facing directors or individuals with regular contact with the board about strategic matters. Further details are available on request.

<sup>ii</sup> NCVO (2019) *UK Civil Society Almanac 2019*, available online here: <https://data.ncvo.org.uk/sector-finances/>

<sup>iii</sup> <https://www.civilsociety.co.uk/news/charities-face-closure-as-sector-set-to-lose-4bn-over-12-weeks.html>

<sup>iv</sup> Institute for Government (2018) *Government procurement, The scale and nature of contracting in the UK*, available online here: [https://www.instituteforgovernment.org.uk/sites/default/files/publications/IgG\\_procurement\\_WEB\\_4.pdf](https://www.instituteforgovernment.org.uk/sites/default/files/publications/IgG_procurement_WEB_4.pdf)

<sup>v</sup> Lloyds Bank (2019) *UK Charity Digital Index 2019*, available online here: <https://resources.lloydsbank.com/pdf/CharityDigitalIndexReport2019.pdf>