Financial vulnerability in UK charities under Covid-19: an overview

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Overview

This project began in mid-2020 and was part of a programme of work funded by UK Research and Innovation through the Economic and Social Research Council that had a focus on the impacts of the Covid Pandemic. Our project was motivated by a desire to draw on administrative data from the regulators of charities in England, Wales and Scotland to provide robust evidence on the impacts of Covid – specifically, about the impacts of the measures taken to contain Covid on both the income and expenditure of charitable organisations.

Our concern was that an evidence base was being constructed using small-scale local surveys to the neglect of administrative data which, while less immediately available than responses to surveys, nevertheless was high quality and comprehensive in coverage, as well as allowing analyses of longer-term trends.

We therefore set out to work with the most up-to-date administrative information available for England, Wales and Scotland from the regulators there (Charity Commission, and Office of the Scottish Charity Regulator, respectively).

Our work has generated briefing papers on the topics of charity reserves, the income mix of charities, measures of financial vulnerability, and charity formations and dissolutions. These papers describe in detail the data we used and the analyses we carried out. In this final overview report we bring together the findings from these pieces of work, update them where we are able to do so, and provide comparisons across England, Wales and Scotland, as well as (in relation to dissolutions and formations) across other jurisdictions.

All project outputs, and recordings of the presentations, can be found on the project website.
Key Findings

Charity reserves

- Our initial work on this demonstrated that around two-fifths of charities in England and Wales had reserves equivalent to three months’ operating expenditures at the onset of the pandemic, with the corresponding figure for Scotland being 30%. We found variations according to various charity characteristics.

- If anything, the data on which we rely underestimates the position because closer examination of charity reports showed some evidence that organisations were overestimating their unrestricted reserves in various ways. Thus the proportion of charities that have three months’ expenditure in reserve may in reality be lower than the headline figures suggest.

- It is too early to determine whether reserves are being run down during Covid 19. As we note elsewhere in this final report, the balance between income and expenditure may shift – for example, if Covid restrictions made it harder to operate and therefore spend money. So it is not inconceivable that we might have a situation in which reserve levels improve.

Financial vulnerability

- We establish convincingly that reductions in resources available to charities are of a magnitude that is unprecedented since the data began to be collected in the mid-1990s. The median reduction in income for UK charities, for organisations reporting after March 2020, is 13% – and the 25th percentile is 43%; that is, one quarter of organisations experienced a reduction of over two-fifths of their income.

- The corresponding figures for expenditure were even greater – at 16% (Scotland: 15%) and 47% (Scotland: 39%) respectively.

- In more recent analyses we have found changes in the ratio of expenditure to income since spring 2020; recent reports suggest that a typical organisation is spending around 90% of its income compared to 95 – 96% in previous periods. We find a significant minority of organisations spending very low proportions of their income – the tenth percentile on this indicator being 35%, so that 10% of charities were spending around one-third of what they brought in. This points to the severity of operational restrictions on some types of charity.
Income composition

- A mix of income sources is often perceived as a desirable position for charities to be in. However, our work shows the extent to which charities are reliant on a single source of income.

- Although we do not yet have data on what has happened to components of income since March 2020, we know that particular income streams relied heavily on face-to-face transactions. Therefore, organisations which themselves were heavily reliant on such sources were likely to face difficulties.

- The briefing paper on this topic pointed to subfields of charities that were particularly reliant on such sources.

- The evidence that we have suggests that the patterns of dominant revenue streams are stable over time. As yet unpublished work we have done suggests that levels of income dependence in the past are highly predictive of income dependence at the present time. This poses challenges for any strategy that assumes it is possible to diversify the income base of particular organisations.

Formation and dissolution of organisations

- A widely held view at the onset of Covid, and one apparently supported by survey research, was that, like the pandemic itself, there would be “excess mortality” as organisations were unable to continue in existence.

- In fact, we do not find such a pattern of foundations and dissolutions. Charity formations have been broadly consistent with previous time periods, but there was evidence in England and Wales of a drop in formations during 2021, with something of an upturn later in the year.

- Dissolutions also dropped in the months immediately following the initial lockdown, and evidence of a return to pre-pandemic levels is thus far, mixed.

- These patterns are broadly comparable with evidence from other countries.

Conclusions
We can state with some confidence that the financial turbulence that has affected charities is unprecedented in the two decades or so for which we have financial statistics. Economic changes in combination with restrictions on the regular activities of organisations have influenced both income and expenditure.

We are also confident in saying that the wave of dissolutions anticipated by stakeholders has thus far not materialised, but equally charity formations have not rebounded either. There is always turnover in the charity population; the key issue here is whether there will be detectable long-term consequences, such as the demise of strategically-significant organisations, or a major adverse effect on particular geographical areas or field of charity activity.

The analysis thus far has focussed on headline patterns, but more work is undoubtedly needed. For example, on key questions like whether the income composition of organisations, or the level of reserves available to them, has had a decisive influence on the prospects for certain charities or their likelihood of closure. With recent prominent calls for an improved evidence base in this field, we hope that this project provides a demonstration of what can be done with robust and widely-accessible administrative data.
Introduction

Voluntary organisations such as charities play an important role in the welfare mix in the UK and in recent years a series of independent enquiries have reasserted the significance of this contribution, arguing, for example, that these organisations are “never more needed”.

In order to respond to such expectations, organisations require a degree of permanence and predictability in their resource base. Funds are drawn from various sources. There has been an underlying stability, though not substantial growth, in donations from individuals; government funding, both in absolute and percentage terms, rose somewhat during the years of new Labour government, but has fallen back subsequently; income from charitable bequests has grown steadily, though these are heavily concentrated in small numbers of organisations; for those charities with assets (whether endowments of financial assets, property) returns have dropped in recent times, especially from financial assets. Key sources of income have been the growth of sales of goods and services. Reflecting this complex funding mix, there is considerable variation, between individual organisations, in the extent to which they are able to draw upon particular sources of income. But external economic shocks, such as the Great Recession of 2008 – 2009, and changes in government policies, have also had significant impacts.

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When the COVID-19 pandemic began it was soon clear that its effects were likely to be unprecedented, combining an exceptional public health challenge with an economic and social crisis. Measures taken by governments to shut down substantial sections of their economies for extended periods, combined with restrictions on the lifestyles and activities of citizens, led to a sizeable decline in world economic output. When the first UK lockdown was announced in March 2020, voluntary organisations and their stakeholders swiftly mobilised to argue the case that the circumstances posed an existential threat to many charitable organisations. Estimates were produced of enormous potential losses of income. Media coverage and public enquiries highlighted dramatic examples of individual organisations, facing the prospect either of closure, as their reserves became exhausted, or of operating on a substantially reduced basis. A Parliamentary Inquiry identified ‘consistent and widespread’ difficulties; the chief executive of Barnardo’s commented that charities faced ‘a perfect storm’ due to a combination of rising need and rapid reductions in income, while in February 2021 600 charities warned the UK Prime Minister that ‘resources are running dangerously low and [that] services are getting stretched to breaking point’. Several important income streams were directly affected. Community fundraising events were cancelled; earned income shrank greatly, through the enforced closure of charity shops and organisational premises, removing trading and rental income, while fee income from service users was heavily constrained by limitations on access to premises in accordance with social distancing guidelines.

However – despite this extent of public concern – the evidence base on the impact on the pandemic on charitable organisations was initially patchy and of variable quality. It consisted mostly of small-scale cross-sectional surveys (some repeated at various times during the pandemic) offering indirect measures of impacts, by asking charities to report on projections of their income and to describe expectations of effects on their activities. Substantial majorities of organisations responding to these surveys affirmed that their financial position had deteriorated substantially or was likely to do so in a short period of time and that they anticipated a clear negative impact on their ability to deliver on their charitable objectives. Significant minorities believed there to be an enhanced likelihood that their organisation would cease to operate in the near future.

These cross-sectional surveys provide a valuable snapshot but have certain limitations. First, there is the question of representativeness: large organisations, and organisations that employ staff, are consistently overrepresented, and as far as can be judged allowance is not made for this. Second, surveys asking charities about their projected income, which were carried out in the early stages of the pandemic when the future course of the pandemic was highly uncertain, may not necessarily provide a reliable guide to the cumulative impact of the pandemic on actual income. Third, relatively small sample sizes place limits on the ability to disaggregate trends to ascertain which sizes and types and charities have been most affected by the pandemic. Fourth, there are questions about the validity and reliability of what such surveys are measuring. For instance, statements about ‘negative impacts on the delivery of charitable objectives’ imply there is a consistent understanding of what constitutes a negative impact across organisations. Finally, without longitudinal data, it is difficult to assess the importance of the pandemic for charitable income we need to place the change in annual income during COVID-19 within the context of longer-term annual trends.
The advantage of these surveys is timeliness, and it has always been a criticism of reliance on data from regulators that there is a delay in its becoming available. However, the trade-off is that by using surveys we capture perceptions of what might happen rather than reports of what is actually happening, and variation in methods means that there is almost no possibility of comparison of results between studies.

Therefore basic questions remain unanswered in existing empirical work, regarding the extent of change in incomes and expenditures, the extent to which reported changes are exceptional or not (for example, by comparison with the impact of the 2008 – 2009 Great Recession), or the extent of variations by charity size or by field of charitable activity.

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The aim of our project has been to respond to these needs for evidence. We did so by using administrative data reported to the Charity Commission and their Scottish counterpart. There is a time delay in receiving and processing these data, since organisations have up to 9 months after the end of the financial year to submit returns. On the other hand, the validity and reliability of regulatory data means that it is worth waiting for. It is also readily comparable with data for previous time periods, which we now have for over two decades in the case of English and Welsh charities. Our work sought to use these datasets to assess the effects on the resources of registered charities of Covid-19 and the associated measures put in place to respond to it. What follows is both a summary and where possible an update of previous work we have done since July 2020. For more details of precisely how the work was carried out, please refer to our earlier briefing papers on the project website Assessing financial vulnerability and risk in the UK’s charities during and beyond the COVID-19 crisis - University of Birmingham
Data and Methods

We begin, though, with an overview of our main sources of data. This project used unique administrative data from the Register of Charities (RoC) compiled by the Charity Commission for England and Wales, and their Scottish counterpart, the Office of the Scottish Charity Regulator (OSCR), which contains key information on the activity of all registered charities in England and Wales. The analysis does not cover Northern Ireland, where the relevant regulator has been established only recently.

Charitable organisations are formal bodies which are self-governing, independent of government, not profit-distributing and which benefit from meaningful contributions of voluntary work and/or philanthropic donations. Charitable status is also underpinned by the specific criterion of ‘public benefit’: an organisation should ‘benefit the public in general or a significant section of the public’. The RoC and OSCR data, originally provided through the annual returns that charities are required to file, includes longitudinal data on charities’ headline annual income as well as more granular data on aspects of their financial resources. There are approaching 200 000 charities registered in mainland Britain. Taken as a whole the administrative data generated by registration and annual reporting offers a distinctive, robust and comprehensive source. We use it in several ways.

Financial reserves: for England and Wales, larger charities, with an annual income of at least £500,000, are required to provide a breakdown of charitable income, a breakdown of charitable expenditure, information on their assets and liabilities, and data on the level of their charitable reserves. The level of charitable reserves is calculated in accordance with the Statement of Recommended Practice, which provides guidance on the preparation of charitable accounts. Charitable reserves relate to the amount of ‘unrestricted funds’ that are freely available for use in furtherance of the charity’s objectives. They therefore exclude ‘restricted funds’ that can only be used for particular purposes which may have been specified by a donor. They normally exclude endowments held for the benefit of the charity with an aim to provide a longer-term income. They also exclude fixed assets, including property, that cannot be easily sold without affecting the operation of the charities’ activities. They may also exclude ‘designated funds’ set aside for a particular use.

Charities registered with the Office of the Scottish Charity Regulator (OSCR) with incomes greater than £250 000 must similarly report on their reserves, though data on unrestricted reserves are not readily available for recent years for Scottish charities, due to changes in reporting in 2016.

Indicators of financial vulnerability: these are based on a dataset now containing some 3.5 million observations of charities registered with the Charity Commission for England and Wales, where one observation is a non-zero report of income, expenditure or both for a given financial year. This permits long-term analysis of trends. Charities have up to 9 months after the end of their financial year to file reports with the Commission. The data are made available publicly and constitute the most up-to-date information for large numbers of organisations about the current state of their finances. We have over 90 000 observations covering financial years that ended after the announcement of the first national lockdown in March 2020. Measures used – described in more detail in a previous paper Patterns of Financial Vulnerability in English and Welsh charities after the onset of covid (birmingham.ac.uk) – include the proportion of organisations experiencing a 25% excess of expenditure over income in a given financial year; the proportion of organisations experiencing a 25% real-terms reduction in incoming resources over a three-year period; and indicators of the median (50th percentile) of the growth distribution of charity incomes. In this paper we simply report on the latter indicator and also provide information on recent changes in charity expenditures.
**Income composition:** Registered charities in the UK are required to annual file returns with the requisite charity regulator, in our case the Charity Commission for England and Wales, and the Scottish Charity Regulator (OSCR). Larger charities, with an annual income of at least £250,000 (SCO)/£500,000 (EW), are also required to provide more detailed financial information, including a breakdown of charitable income and expenditure, information on their assets and liabilities, and data on the level of their reserves. There are variations between jurisdictions in terms of precisely what data are captured, but we are able to differentiate income from: donations and/or legacies; interest and/or investment; income from trading; income from charitable activities; and other income. The data are available for c. 13000 charities in England and Wales, and c. 2500 in Scotland, respectively. Data are also now available in England and Wales on government funding, though we have not used it in this element of our work.

A limitation of this source is that it does not provide information on a charity’s sources of income: for example, voluntary income (donations and grants) can be received from individuals, government, other charities, private sector organisations etc. To overcome these limitations NCVO draw on digitised copies of charities annual accounts, capturing more granular information on income sources which are aggregated into six categories: donations / monies raised from individuals; fees paid by individuals; government; voluntary sector and National Lottery funds; internal (such as endowments); and a miscellaneous ‘other’ category. These are classified into grants and contracts where there is enough information to do so. We also draw on this source of data in our work on the income composition of English and Welsh charities.

**Formations, deregistrations and closures:** We define ‘formation’ as the registration of a charity with its respective regulator; and ‘dissolution’ as the de-registration of a charity with its respective regulator. Technically, formations are a subset of all new charitable organisations (those below an income threshold are not required to register with the Charity Commission for England and Wales), while deregistration does not always mean that a charity has ceased to exist; the entity may continue in operation (e.g. through merger or through adopting a different form). It is also known that charities may remain registered for some years after they have effectively ceased to exist (unlike companies, which must immediately post a notice that they are ceasing to trade). Thus deregistration may be an imperfect measure of the actual numbers of closures of organisations. Nevertheless, examination of trends in these events offers guidance as to the effect of significant changes in the external operating environment on the formation and dissolution of organisations. Data for this study come primarily from the publicly available charity registers of two regulatory agencies: Charity Commission for England and Wales, and the Office of the Scottish Charity Regulator. The charity register data were collected in January 2022 using a Python web scraping script that has been running monthly since August 2020.
Reserve Highlights: Reserves

Why are reserves important and what does guidance suggest?

The level of reserves that charities hold is an important aspect of their resilience. Reserves provide ‘financial flexibility’ to charities affected by a shock to their charitable income. Measuring the level of reserves helps capture how well charities are able to sustain expenditure and activity in the face of a sudden loss of income.

Charities with low levels of reserves may be thought of as ‘financially vulnerable’ to the extent that they are more likely to resort to immediate reductions in service delivery when they experience a financial shock. In contrast charities with higher levels of reserves have scope to smooth out imbalances between income and expenditure, and thereby maintain existing levels of activity. In England and Wales, Charity Commission guidance advises that a charity’s reserves policy should be informed by an appropriate assessment of financial risk. What may be considered an appropriate level of reserves depends on the unique circumstances of each charity. There is a tradeoff between the strategic accumulation of resources to sustain the organisation through difficult times, and the need to ensure that financial resources are not excessively tied up, thereby limiting the benefits that a charity provides.

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Charity Commission guidance is that a charity’s assessment of an appropriate level of reserves should be informed by a combination of forecasts of income and expenditure, analyses of future operational circumstances likely to give rise to a shortfall in resources, and assessments of external circumstances which might affect the charity’s ability to generate resources, such as trends in the economy, government spending, and household expenditures, including preferences about which charities to support. However, the scale, pervasive impacts and rapid onset of the Covid-19 crisis are beyond the scope of many charities’ assessment of risk. This increases charities’ financial vulnerability: in the present context, the level of reserves held by many charities may not be sufficient to ensure service continuity.

We focus here on the extent to which, on the eve of the pandemic, charities had reserves at all and, if so, how long they would be able to sustain their daily activities using only their unrestricted reserves. We have recently returned to this and begun to examine evidence about what has happened to charity reserves during periods affected significantly by Covid-related restrictions on daily life.

Main findings

We analysed over 12,000 sets of charity accounts in England and Wales, for charities with an income of at least £500k, for financial years immediately before Covid (i.e. ending in 2018 and 2019). We used these data to examine how many months of charities’ expenditure their level of reserves represented at the onset of Covid. We found that 21 per cent of charities had less than one month of expenditure in reserve; a third (33 per cent) of charities had less than two months; 43 per cent of charities had less than three months. The equivalent figures for Scotland, for 2016, were lower – with 30% having no more than three months reserves (note that the threshold for reporting was £250 000, which might account for the difference). At the lower end of the distribution a significant proportion of charities reported having virtually no reserves: the 10th percentile of the reserves distribution was 0.02 months of expenditure. Meanwhile, at the upper end of the distribution, 10 per cent of charities had reserves of at least 41 months of expenditure.
We found variations in the average (median) level of reserves between different kinds of charities. The following conclusions relate to charities registered in England and Wales but analysis of the (older) data for Scotland yields broadly similar conclusions, as follows:

1. In general larger charities had lower levels of reserves as measured by months of expenditure: the median charity with an income of between £500,000 and £1m had 4.2 months in reserve; the median charity with an income of between £1m and £10m had 3.8 months in reserve; the median charity with an income of between £10m and £100m had 3.3 months in reserve, and the median charity with an income of more than £100m had 2.9 months in reserve.

2. In terms of income source, charities whose main income comes through their charitable activities had the lowest reserve levels, with a median of 3.3 months of expenditure. Charities whose main income comes through generating funds had a median reserve level of 3.8 months, while charities whose main income comes from voluntary sources had a median reserve level of 4.2 months.

3. Longer established organisations on average had higher levels of reserves: the median charity registered at least 50 years ago had 6.5 months of expenditure in reserve; the median charity registered between 25 and 50 years ago had 4.3 months in reserve; the median charity registered within the last 25 years had around 3.5 months in reserve.

4. The field in which charities operate matters (Figure 1). Charities involved in culture and recreation, charities that operate internationally, and umbrella bodies were amongst the groups of charities with relatively low levels of reserves: each of these groups had a median reserve level of less than three months of expenditure. In contrast charities involved, for example, in research, and in housing, typically had higher levels of reserves, with median reserve levels of 5.7 months and 5.8 months of expenditure respectively.

Figure 1: Boxplot of months of expenditure in reserve, by field of charitable activity (ICNPO)

Note: ICNPO: International Classification of Nonprofit Organisations. The boxplot for Grant-making foundations is not shown, but the percentiles are provided in Table 1.
In addition we find that the proportion of charities with greater than three months of expenditure in reserve is fairly stable over time. Our time series commences just before the Great Recession and shows that the proportion of organisations with over 3 months in reserve was 52% between 2007 and 2009 and had recovered to 57 – 58% prior to Covid.

Figure 2: Key to reading percentiles from the boxplots

10 25 50 75

How valid and reliable are the measures of reserves?
We are presenting summary results from data that encompasses very large numbers of organisations and sometimes the response is that every set of charity accounts is different, so we are in danger of overgeneralisation. That said, charities making Part B returns are required to prepare accounts according to specific guidance, so one would expect a degree of consistency of reporting. However, our work suggests that there are variations in what is reported as “unrestricted free reserves”. We therefore examined a sample of 400 English and Welsh charities, to explore what was being reported as “unrestricted free reserves”. The suggestion from this work is that for a substantial minority of charities, items are being classed as “unrestricted free reserves” which in fact ought not to be included there.

Examining the Annual Reports and Accounts for 400 English and Welsh charities for up to five years suggests that there is inconsistency both between charities, and within charities across the years, as to the figure given in the Part B returns for ‘Level of Reserves’. Within the sample analysed, of those English and Welsh charities where it was possible to verify the figure given in their Part B returns, between 2016 and 2020 on average 37.0% of organisations reported in their Part B Returns a figure that matches the Charity Commission definition of reserves. 30.5% of charities were reporting in their Part B Returns as ‘Level of Reserves’ their total unrestricted funds, therefore including both tangible fixed assets used to carry out the charity’s activities, as well as designated funds (if any) set aside to meet essential future spending. Overall, across the five years 55.6% of the figures given in Part B Returns seemed to over-estimate the true free reserves available for the charity, while 7.5% underestimated free reserves. These findings suggest that the position on reserves is worse than reliance solely on the Part B Returns ‘Level of Reserves’ figure tells us.

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The implication of this is that in fact the position of charities, as reported through the Part B returns, may be worse than is being reported. A proportion of organisations appear to be classifying, as unrestricted free reserves, funds which in fact are not free to be drawn upon in pursuit of their objectives. In other words, statements about the levels of reserves in the sector as a whole may well be optimistic.

What has happened to reserves since the onset of the pandemic?
Our initial analysis suggests that, while there will be considerable variety in the experience of individual charities across the sector as a whole, for the typical (median) charity there is as yet no evidence for a distinctive decline in reserves for charities for financial years ending after March 2020. This may appear inconsistent with evidence for the sizeable and distinctive reduction in annual income in financial years affected by Covid. However, it is also the case that – while the typical charity experienced a sizeable decline in income during Covid – the typical charity also experienced a sizeable decline in expenditure. This sizeable decline in expenditure for the typical charity, likely stemming from a combination of the enforced curtailment of charitable activities as a consequence of Covid-related restrictions and/or a conscious decision to cut expenditure in response to a fall in income, may help to explain why the typical charity did not experience a sizeable decline in reserves despite a sizeable decline in income.
Research Highlights: Patterns of Financial Vulnerability
Measuring vulnerability and change in charity finances

Clearly the economic impact of Covid and the measures taken to control it were likely to have a disruptive effect on the finances of individual organisations. Stability and predictability in resources are highly desirable for any organisation but major exogenous events such as recessions have been shown to have substantial negative impacts on particular income streams.

A key focus in the early stages of Covid was estimates of the aggregate effect on charities as a whole of the economic and social measures taken to counteract the pandemic, with predictions of a reduction in income of up to £4.3Bn. At the risk of repeating the late 20th century observation that it was too early to discern the consequences of the French Revolution, we still cannot confirm or refute such predictions since we do not have a complete set of returns for registered charities for the period since the first lockdown measures. We cannot rule out the possibility that an aggregate estimate could be heavily influenced by a single observation. For instance it is possible to identify large organisations that have experienced 8-digit shifts in their resources arising from interruptions to dominant income streams. If some of these have still to report for financial years covering significant proportions of the post-March 2020 period then we could significantly misrepresent the magnitude of aggregate change.

As we have indicated throughout this project, we are sceptical of how much useful information is provided by the ubiquitous surveys of what organisations think is happening to their finances. How do we go about demonstrating unequivocally what has actually happened? We have drawn on the literature about financial vulnerability, using longitudinal data to show, in our earlier briefing paper, that the period from 2020 onwards has witnessed an unprecedented level of vulnerability. This is the case whether we measure that in terms of the proportion of organisations suffering a 25% reduction in resources over three years, or in terms of the proportions experiencing a 25% excess of expenditure over income.

These indicators tell us about how many entities exceed a particular threshold, but not by how much. Thus, in a period during which substantial, indeed unprecedented impacts on finances were anticipated, it is more helpful to provide a measure of the experience of a “typical” charity, such as the median rate of growth (or decline) in resources, or various percentiles of those indicators (e.g. the 25th percentile of the distribution).
Analyses

Given the emphasis on the extent to which change was likely to be unprecedented, we use longitudinal data, derived from approaching 25 years of returns to the Charity Commission, on charity incomes and expenditures. We adjust for inflation to allow for comparisons between years and for calculation of real-terms changes in resources. Financial returns are available for over 90 000 organisations whose financial years ended after March 2020 (indeed, we are now in possession of several thousand reports for charities that have experienced an entire financial year since the initial Covid restrictions were imposed in March 2020, but these may not be representative). We consider trends in the annual relative growth in charities’ income (change relative to their annual income in the previous year). We consider a panel of c. 90428 charitable organisations that have submitted their annual returns for financial years ending between mid-June 2020 and March 2021. We do not consider organisations with financial years ending between March 2020 and June 2020 since we wished to analyse organisations for which at least three months of their financial year had been affected by the pandemic. We consider both nominal annual relative growth (before adjusting for inflation) and real annual relative growth (after adjusting for inflation using the Retail Price Index). We use the median of the annual relative growth distribution to summarise growth in income in a particular year. The median is a more helpful measure of average growth than the mean and represents the annual relative growth in income of the ‘typical’ (middle performing) charity.

Confirming our earlier briefing paper, we find that the median charity experienced a real-terms decline in their income of 13%; as discussed in our previous paper this is a considerably worse event than the Great Recession over a decade earlier.

We also examine trends in the 25th percentile of the annual relative growth rate distribution. As with the median, the change in the level of income for financial years ending in 2020, compared to financial years ending in 2019, is highly distinctive in comparison to change in other years. In 2020 a charity at the 25th percentile of the relative growth distribution experienced a real-terms decline in income of 43%. This is also a much more sizeable decline than experienced during the Great Recession and subsequent period of public spending austerity. We have not repeated our earlier analyses in which we break down these figures by size and subsector of the charity population. The broad pattern revealed there has not changed. We have also run these analyses for Scotland, and found highly comparable results for changes in incomes.

We offer new analyses on how expenditure by organisations has been affected by Covid. Understandably there was considerable attention to the effects of Covid restrictions on income generation. However it is also important to acknowledge that in face of the restrictions imposed at various times since March 2020, activities for some organisations have been restricted, or have altered in character, which has meant reductions in expenditure.
It seems that those reductions have been greater than reductions in income for the typical (median) charity. A simple index of this is that the median charity in England and Wales experienced a 16% reduction in its expenditure (Scotland: 15%), compared to a 13% drop in income for the charity at the median of the income growth distribution (Scotland: 15%). At the 25th percentile, a charity experienced a 47% drop in expenditure (Scotland: 39%), compared to a 43% drop in income (Scotland: 38%).

The reductions were greatest for small organisations, with the typical organisation with incomes below £100 000 reducing expenditure by at least 20% of its budget, and organisations at the 25th percentile cutting their expenditure by one-half. In contrast, larger organisations experienced much smaller relative reductions in spending.

The fact that Covid-related restrictions affected both the ability of organisations to raise funds and their ability to spend those funds on their daily activities raises the question of what has happened to the balance between income and expenditure. This balance may vary from year to year for a number of reasons – in the case of an organisation implementing a capital project, income may significantly exceed expenditure for a few years as resources are accumulated, followed by a year or two in which the reverse is very much the case. Alternatively expenditure may substantially exceed income for certain sorts of charities, such as grantmakers seeking to respond to worsening social conditions.

We looked at the ratio of expenditure to income. In the decade before Covid, the median value of this ratio was 0.95 – 0.96, so in other words the typical charity was spending 95 – 96% of its income in a given year. However we found a distinctive decline in this indicator in 2020, to 0.90. Put another way, the typical charity was spending 90% of its income.

There are some interesting features of the data that we note here. At the lower end of the distribution the 10th percentile of the distribution was 0.35 in the Covid period; that is, expenditure was only 35% of income, a figure never previously approached in the two decades for which we possess data for English and Welsh charities. This perhaps points to some organisations whose incomes were sustained (perhaps through online giving or trading) but which were unable to spend those resources. As a result, one consequence may be that for some organisations, reserves have actually increased; we do not have enough information to draw absolutely firm conclusions on this, as yet.

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A further aspect of the expenditure/income ratio is that it has bifurcated. There is a marked increase in the variation in this ratio. At one end of the distribution the 90th percentile is 1.57, indicating that for at least 10% of organisations, expenditure is exceeding income by at least 57%. However, as figure 3 shows, in practice this largely reflects what is happening to the very smallest organisations, where increases in expenditure of even a few hundred pounds would make a very large difference to the ratio of expenditure to income. It is worth observing that the graphs also show an upward trend in this indicator for organisations with incomes in the range £10 – 100K, over several years prior to Covid.

At the other end of the distribution, the 10th percentile is 0.35, or 35% of income, as previously noted. Clearly some organisations are spending at a rate that exceeds incoming resources, perhaps attempting to meet rising needs and / or make additional grants to support other organisations while, for various reasons, other organisations cannot spend all they have coming in.
Conclusions

The analyses presented here and in our earlier briefing paper confirm that the period from March 2020 onwards has been unique in the recent history of the UK’s charities. There are broadly similar results across England, Wales and Scotland. If we rank organisations in terms of changes in their incomes or expenditures, we find that the median organisation – the one at the middle of the distribution – experienced reductions in income of 13% and in expenditure of 16%; these are unprecedented. More seriously perhaps, in terms of a potential threat to the operational future of organisations, is that there is a large tail of organisations for which the position is much worse. The bottom 25% of organisations typically report reductions of at least two-fifths in both income and expenditure.

“"If we rank organisations in terms of changes in their incomes or expenditures, we find that the median organisation – the one at the middle of the distribution – experienced reductions in income of 13% and in expenditure of 16%; these are unprecedented. More seriously perhaps, in terms of a potential threat to the operational future of organisations, is that there is a large tail of organisations for which the position is much worse. The bottom 25% of organisations typically report reductions of at least two-fifths in both income and expenditure. “"
Research Highlights: Income Composition

Introduction: diversification or dependence?

To insulate themselves against financial risks, charitable organisations are often encouraged to diversify sources of income, either by seeking new funders or types of funding (e.g., government contracts, earned/commercial income). Researchers differ regarding the merits of income diversification.

One argument is that income sources for voluntary organisations are invariably inadequate, unstable or uncertain. Therefore, reliance on one or two major sources of funding is inherently risky. Additionally, organisations with more diverse sources of income also have a broader range of connections to networks, which may help secure more funding. On the other hand, the advantage of a single large source of funding is that it reduces the organisational costs incurred in securing resources. It has also been argued that it is not revenue concentration per se that is harmful to survival, but rather the precise revenue stream on which an organisation is dependant. A different view is that the nature of income sources to which an organisation has access is to a degree determined by their mission: some nonprofits are able to attract high-income clients paying substantial fees (private schools and hospitals, elite cultural institutions) in a way that others are not (substance abuse). For instance some organisations may be less attractive to government funders if they do not provide public goods/services. There is little consensus on whether diversification of funding is beneficial or not. Recent high quality reviews of the evidence paint a rather tepid picture, finding at best only a small, positive association between revenue diversification and nonprofit financial health. However, little is known about this topic in the UK and one of the key areas for debate when Covid arrived was the exposure of particular organisations to sources of funding which, being reliant on face-to-face interactions and transactions, were likely to be adversely affected by lockdown measures.

Analytical approach

There are two phenomena of interest here: how dependent a charity is on a given revenue stream; and how diverse (or concentrated) its annual revenue is. These are complementary yet distinct phenomena. A charity may receive funds from several sources, implying a diversified profile, yet still be dependent on one of these streams for the majority of its total revenue.

We analyse dependence on a revenue stream by defining thresholds marking the relevance of a particular stream in terms of its share of total revenue: a stream is major if it accounts for at least 50 per cent; and dominant if it accounts for at least 90 per cent.

We analyse revenue diversification using the Herfindahl–Hirschman Index (HHI), which calculates a score between 0 (highly diverse) and 10,000 (highly concentrated) capturing how diversified an organisation’s funding mix is (this is described in our earlier briefing paper Income dependence and diversification of UK charities at the onset of Covid-19 (birmingham.ac.uk). We then consider how the distribution of this measure varies according to a range of charity characteristics. We analyse the median HHI value (the 50th percentile), as this better represents the income diversification of the ‘typical’ charity.

“one of the key areas for debate when Covid arrived was the exposure of particular organisations to sources of funding which, being reliant on face-to-face interactions and transactions, were likely to be adversely affected by lockdown measures.”
Findings

There is a high degree of reliance on a single income stream for the majority of a charity’s funding. Almost all charities depend on one stream for a majority of their total income, and half are almost exclusively funded by a particular income stream. Organisations are most likely to rely on charitable activities for the majority of their income (e.g., fees for services provided), followed by voluntary income (e.g., donations, grants and legacies) and other sources. Findings for England and Wales, and Scotland are very similar across the analyses conducted; for brevity we restrict our focus to England and Wales for the remainder of this section.

Table 2 Major and dominant revenue streams, charities in England and Wales, and Scotland

<table>
<thead>
<tr>
<th>Revenue stream</th>
<th>% of charities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major (provides at least 50% of total revenue)</strong></td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td>Scotland</td>
</tr>
<tr>
<td>Voluntary income</td>
<td>34</td>
</tr>
<tr>
<td>Charitable activities</td>
<td>51</td>
</tr>
<tr>
<td>Investment income</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
</tr>
<tr>
<td>From any of the streams above</td>
<td>97</td>
</tr>
<tr>
<td><strong>Dominant (provides at least 90% of total revenue)</strong></td>
<td></td>
</tr>
<tr>
<td>Voluntary income</td>
<td>15</td>
</tr>
<tr>
<td>Charitable activities</td>
<td>30</td>
</tr>
<tr>
<td>Investment income</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
</tr>
<tr>
<td>From any one of streams above</td>
<td>51</td>
</tr>
</tbody>
</table>

Note: Voluntary income includes legacies; ‘Other’ includes trading (Scotland) and activities for generating funds (England and Wales). Endowment not shown due to negligible value (< 1 per cent).

The high degree of reliance on a single income stream is stable over time, even in the context of large-scale environmental shocks like recession and austerity (2008 – 2014) and the COVID-19 pandemic (2020 – ongoing). The proportion of charities deriving at least 90% of their income from a single source has remained broadly constant since 2007 at around 50% (figure 4); this is true for the sector as a whole and for a consistent set of organisations that report financial information for every period (not shown on graph). So far there has been no noticeable change in the degree of reliance on a single income stream in 2020.
The distribution of charities according to their dependence on any or a given income stream is revealing but limited. For example, there is a great deal of difference between a charity that receives 50% of its income from one stream and the remainder evenly split between four other streams, and one which also receives at least 50% of its funding from one source, but in which the remainder is accounted for substantially by one other stream. Therefore, we turn our attention to a more nuanced measure of funding reliance: income diversification. This measure once again reveals the high degree of revenue concentration in the sector: around four in ten organisations (38.5 to 40%) are almost entirely dependent on one stream. For example, a HHI score of 8000 or more represents charities receiving c. 80% – 90% of their annual income from one stream. Meanwhile there is a short lower tail in the distribution such that around 14% of charities have some degree of income diversification (HHI < 5000). The median charity has a highly concentrated income profile (HHI = c.8,200).
Finally, we examined variation in the prevalence of dependence – whether a charity has a dominant income stream or not – by important covariates including time period (post-March 2020 financial year), organisation size and age, field of activity (that is, the subsector in which the organisation works: health, education, international development, etc), largest income stream, and whether a charity had a dominant stream in the previous financial year. We observe a high degree of *path dependence*: a charity is very likely to consistently rely on a single income stream over time. That is, if a charity has a dominant income stream in 2010 for example, it is highly likely to have one in 2011 also (and so on). We also find evidence that income dependence becomes more likely the larger a charity becomes, and that certain subsectors of charitable activity are more likely to contain charities with dominant income streams. In addition, reliance on a single income stream is less likely for organisations that derive most of their funding from voluntary income compared to charitable activities. We do not observe evidence that a charity’s age is associated with it having a dominant income stream, nor that the pandemic has had a noticeable effect on this outcome.

“There is still a high degree of dependence in the England and Wales charity sector, though to a lesser extent compared to an examination of income streams. Almost all charities (c. 89%) depend on one source for a majority of their total income, and c.45% are almost exclusively funded by a particular source. The proportion of organisations with a dominant income source is reasonably stable over time, though there is perhaps more variability compared to the analysis of income streams.

There are some important limitations associated with the financial information submitted to the charity regulator. First, it excludes charities with annual income less than a given threshold (£500k in England and Wales). Second, it does not provide information on a charity’s sources of revenue: for example, voluntary income (donations and grants) can be received from individuals, government, other charities, private sector organisations etc. Likewise the services that a charity provides can be purchased by individuals or by government (e.g., social care organisations). To overcome these limitations we draw upon an additional source of data on the finances of charities in England and Wales: digitised copies of charities’ annual accounts, as described briefly in the introduction; a fuller account of how charities are sampled and what information is captured is given here (birmingham.ac.uk).

Using this dataset we replicate the analyses reported above. There is still a high degree of dependence in the England and Wales charity sector, though to a lesser extent compared to an examination of income streams. Almost all charities (c. 89%) depend on one source for a majority of their total income, and c.45% are almost exclusively funded by a particular source. The proportion of organisations with a dominant income source is reasonably stable over time, though there is perhaps more variability compared to the analysis of income streams.
Discussion

There have frequently been calls from governments as well as from prominent voices in the voluntary sector for organisations to become more entrepreneurial, seeking out new funding opportunities. Indeed some public sector reforms, such as changes to commissioning practices in the NHS, have been presented as offering significant potential for the expansion of third sector activity. The evidence presented here shows what has happened over a period of over ten years to the funding mix of substantial numbers of charities. It therefore addresses the lack of longitudinal empirical evidence on charity income generation strategies. Using multiple high-quality data sources, we examine the extent to which charities in England and Wales, and Scotland are dependent on a single income stream or source over time. We highlight two key findings.

First, we find evidence of a high degree of reliance on individual income streams or sources over the period 2007 – 2020: c. half of charities derive at least 90% of their total revenue from a single stream or source. The proportion is stable over time, both for the charity sector overall and for a consistent set of organisations reporting in every period. This is particularly noteworthy given the large-scale economic shocks that occurred over the study period (recession and pandemic). The findings do not refute claims that individual organisations can and do pursue multiple streams or sources of income, and that these funding profiles may vary over time: in our data we observe that the typical charity has four income streams or sources. However our evidence shows that the extent of diversification is diluted by the greater trend for a large majority of organisations to be highly dependent on a single income stream or source.

“Our evidence shows that the extent of diversification is diluted by the greater trend for a large majority of organisations to be highly dependent on a single income stream or source.”

Second, we reveal the importance of prior funding mix in terms of explaining current reliance. Using a range of longitudinal statistical modelling approaches, fuller details of which are available from the authors, we consistently find that the level of income dependence in the previous reporting period is the most important predictor of dependence in the next period, even after controlling for relevant organisational characteristics. As yet there is no discernible shift in the long-term trend in reliance due to the pandemic, though we only analyse data on financial years ending in 2020. Therefore there may be a lagged effect of the pandemic on the funding profiles of charities. The lack of an immediate impact on income reliance may be explained by the universal reach of the pandemic’s effects: with the exception of a small number of charities operating in health and social care for instance, most organisations suspended their operations as almost all types of charitable activities and fundraising events were forbidden. Therefore all income streams were affected to more or less the same extent, at least for much of 2020.

“The high degree of reliance on a single income stream is stable over time, even in the context of large-scale environmental shocks like recession and austerity (2008 – 2014) and the COVID-19 pandemic (2020 – ongoing). The proportion of charities deriving at least 90% of their income from a single source has remained broadly constant since 2007 at around 50%.”

We would therefore urge caution in assessing the potential for income diversification. Individual giving has not witnessed significant expansion in recent times and the emerging cost-of-living pressures will probably limit individual donations as well as purchases of goods and services. On current public funding projections, so much is likely to be directed to social care and the NHS that other opportunities will be squeezed. Thus we would argue that we are unlikely to see much substantial change in the size of the funding pots available to registered charities, and therefore little sign of income diversification.
Research Highlights: Formation and Dissolution of Organisations

Context

It has been argued that birth and death notices of voluntary organisations are at best poorly-publicised. The precise point at which an organisation is formed can be hard to pin down – the initial ideas are often discussed for some considerable period before organisational formalities like constitutions and governing bodies are in place.

This is also true of dissolution, which may be thought of in several different ways such as resource reduction, market exit, and organisational mortality. For example, organisations may continue in existence in a very reduced form even if they have no financial resources; the formal regulatory notice of dissolution may follow years of inactivity. The underlying causes of individual formations and dissolutions may be highly varied, therefore, but the aggregate numbers still offer one index of the vitality of the voluntary sector field.

“The onset of the COVID-19 pandemic in early 2020, and the associated lockdown of economy and society, prompted the expression of concerns about an existential threat to many charitable organisations. Media coverage, surveys, and evidence given to public enquiries painted a highly pessimistic picture.”

The onset of the COVID-19 pandemic in early 2020, and the associated lockdown of economy and society, prompted the expression of concerns about an existential threat to many charitable organisations. Media coverage, surveys, and evidence given to public enquiries painted a highly pessimistic picture. The concern was understandable: voluntary organisations offer many benefits to the communities and individuals they serve, whether it be as important and visible community assets, provision of public goods/services, outlets for creative and compassionate pursuits, and employment and volunteering opportunities. Analyses of formation and dissolution are commonly found in literature focusing on ‘nonprofit density’, and seek to relate the number of organisations per capita in a community to a range of organisational, individual and community-level factors. Other research takes a micro-level approach and sees dissolution as a function of organisational size, age and a range of factors such as strategic and governance behaviours. Given the timeframe and scope of our project our focus instead has been at the macro-level, looking at trends in formations and dissolutions at the level of whole charity sectors or jurisdictions.

A number of rapid response research projects were initiated in 2020 and 2021 to try to capture the real-time impact of the pandemic on the UK charity sector. A consistent belief held by respondents to surveys undertaken at this time was that there was an enhanced likelihood that their organisation would cease to operate at some point in the near future. To give one example, repeated surveys conducted by Nottingham Trent University’s ‘Respond, recover, reset’ project found that between 8% and 14% of respondents agreed that their organisation was unlikely or very unlikely to be operating 12 months from the date of the survey. For comparison the typical dissolution rate for registered charities has historically rarely exceeded 2 – 3% per annum.

The advantage of such surveys is timeliness, but the trade-off is that by using surveys we capture sentiment about organisational demise, not its incidence. We should not dismiss real concerns expressed by organisations, but their forebodings may not come to pass. Nor will surveys necessarily capture responses from organisations newly formed during the pandemic, as they may not yet appear on email or membership lists that served as sampling frames, or been required to file annual returns with a regulator. Thus there is a gap in our understanding of the impact of COVID-19 on the UK charity sector: to what degree have the rates of new organisations being formed and existing organisations dissolving been altered since March 2020?

“there is evidence in England and Wales of a noticeable decline in charity formations in 2021, with a tentative rebound in the final few months of that year. In contrast, there was a sudden drop in the level of dissolutions in England and Wales, and no evidence of a sustained return to pre-pandemic figures.”

The pandemic is an exceptional event and thus posited to alter the expected or ‘normal’ levels of formations and dissolutions. We first visualise both the longer-term trends and immediate pandemic impact on charity formations and dissolutions in both England & Wales and Scotland, showing the changes in formations and dissolutions through the course of the pandemic restrictions. We then compare the numbers of formations and dissolutions in 2020 and 2021 to the averages observed over the period 2015 to 2019. We do this for five other jurisdictions also to provide comparisons for what occurred in Scotland, England and Wales. This is analogous to discussions of the “excess mortality” due to Covid-19 which have become familiar since early 2020.
Findings

In comparison with previous years for which we have data, formations are broadly consistent with what we would have expected based on previous annual trends, especially in 2020. However there is evidence in England and Wales of a noticeable decline in charity formations in 2021, with a tentative rebound in the final few months of that year. In contrast, there was a sudden drop in the level of dissolutions in England and Wales, and no evidence of a sustained return to pre-pandemic figures.

In Scotland we also observe a sharp decrease in dissolutions but with some evidence of a return to pre-pandemic levels heading into 2022. The graphs below display the trends, with each data point corresponding to one month. Note the different scales used on the vertical axis, reflecting the considerably greater number of events experienced in England and Wales.

Figure 7  Charity formations and dissolutions, England, Wales and Scotland, 2015 – 21
In this respect the UK’s experience was also shared in several other jurisdictions for which robust data are available. To enable comparison across these different contexts and regulatory environments, charity formations and dissolutions for 2020 and 2021 are expressed in terms of the deviation from the average rate of formation (or dissolution) in the 2015 – 2019 period. With the exception of the USA, charity formations were lower than average in 2021, though not to the extent they were in the UK. Dissolutions in 2020 and 2021 are below average levels for most jurisdictions (data not available for 2021 for Canada), with the exception of the US and Northern Ireland – in the case of the latter, this is almost certainly a function of regulatory issues around the registration and de-registration of charities in this jurisdiction.

Figure 8 Charity formations and dissolutions relative to average levels across seven jurisdictions

Charity dissolutions relative to average levels

Charity formations relative to average levels
Conclusions

Despite doom-laden initial predictions, the pandemic has not yet resulted in a fall in the number of charities. The rate of dissolution that we have seen is considerably smaller than that anticipated by sector stakeholders or by respondents to organisational surveys. Charity formations were maintained in the early part of lockdown, but there has subsequently been a more visible decline, particularly in England and Wales. This may represent the lead time involved in setting up a charity, with those registered in mid-2020 being based on groundwork conducted before the pandemic, so that only in late 2020 and early 2021 do we see the consequences of disruption to charity formation. This raises concerns if particular communities or sectors of activity experience lower levels of charity formation, where that may leave places and causes underserved. This is important in view of the unequal impact of the pandemic on households and individuals. On the evidence to date, we are likely to witness continued lower rates of new charity formation until we are well on our way out of the pandemic. Even with just a return to normal levels of new charity formation there will therefore be a longer term persistent effect of the smaller number of charities founded in 2020 and 2021.

We have also shown that the reduction in charity formation is paralleled by lower levels of charity dissolutions. These results seem counter-intuitive given what we know about the impacts of the pandemic on charity incomes (see earlier section of this report and associated briefing paper Patterns of Financial Vulnerability in English and Welsh charities after the onset of covid (birmingham.ac.uk)). But it is possible that various forms of government support and some emergency COVID grants have allowed some charities to continue which might otherwise have ceased to exist. Perhaps some organisations are in stasis: currently not operating and perhaps no longer intending to, but yet to notify the charity regulator. If true, it would imply a coming surge in charity dissolutions.

Predicting the future is hard, and the key unknown here is whether there will be a surge of charities failing on the horizon. While we would expect charity formations to begin to return to normal, we do not anticipate the numbers will be large enough to compensate for ground lost since March 2020. The reduced number of charity formations will therefore have a longer-term impact on the total number of charities, particularly in England & Wales. In contrast however, the broader evidence base on financial vulnerability combined with the survey results of charities’ experience of financial disruption means that we would anticipate a rise in stored-up dissolutions whose administration has simply been delayed by the pandemic. A significant number of these will simply be organisations that we might have expected to cease even in normal times. The open question is how many charities ceased to exist because of the pandemic, with this effect yet to be seen in the data.
To what extent has Covid had unprecedented impacts on the fortunes of charitable organisations in the UK? And to what extent does the approach we have taken provide valid and reliable evidence of those impacts? The answer to these questions depends partly on the issue being considered.

Firstly, if we take levels of reserves as an index of preparedness for contingencies, what was the situation of organisations in advance of the pandemic? While charity trustees could be forgiven for not planning for a global pandemic and its likely consequences, levels of reserves are relatively low – and as our research shows, they are possibly overstated. We know little, however, about reserve levels for smaller organisations, and that is potentially an area for future research.

“we are likely to witness continued lower rates of new charity formation until we are well on our way out of the pandemic. Even with just a return to normal levels of new charity formation there will therefore be a longer term persistent effect of the smaller number of charities founded in 2020 and 2021.”

What about the impact on reserves? The evidence we have is available for a time period commencing just prior to the Great Recession, and this suggests that reserve levels had recovered over the decade prior to Covid. As yet we do not know what has happened to reserves since March 2020. One possibility is that in fact for some organisations they may have increased, if they have been able to continue to attract income while being unable to spend it. Others, however, may have responded to the situation by increasing levels of expenditure to the extent that they were able to do so consistent with lockdown measures, in which case reserves may have been run down.

We are on firmer ground with data on headline indicators of trends in income and expenditure, and of financial vulnerability, where we can make comparisons between the past two years and events such as the Great Recession. Here the evidence is unequivocal: reductions in both income and expenditure are unprecedented in scale, with the typical (median) charity experiencing a real-terms reduction of around 13% in income. Note that as yet the data include relatively few organisations for which we have reports for a complete financial year since March 2020. It is possible that once such reports are available we will find a worse impact, although having said that, the variations in scope of restrictions will also have had differential effects on organisations. What we can say is that comparisons with previous periods suggest that the incidence of financial vulnerability has been considerably greater since March 2020 than at any other point in the two decades for which data are available.

Important issues to explore will be the balance between income and expenditure. Some organisations have undoubtedly experienced a reduction in income but equally they have been unable to spend the resources they have, so might be considered to be in an equilibrium. There might be more concern about a potential threat to organisations that have had to continue spending to meet rising needs in the face of a significant reduction in income. That is something which will only be answered by more intensive, case-study research than we have done here.

It is true that some funders have offered financial support to the sector. As yet we do not know what the outcomes of this support have been – indeed this may become visible only some years down the line. All we would say at this point is that we found some evidence that recipient organisations were not necessarily those that had experienced the greatest levels of financial vulnerability. Addressing such vulnerability was only one criterion in funding streams but the indicators we have developed may prove to be useful to funders as contextual information to support decision-making in future.
In some respects therefore the aggregate picture is a clear one, in which significant majorities of organisations experience real-terms funding reductions, which are of an unprecedented magnitude in the case of many entities. But precisely which organisations have been most adversely affected is more contingent on the exposure of organisations to specific funding streams. In the case of entities that possess substantial endowments, on which they draw to provide the bulk of the income that supports their activities, risks are associated with the performance of their assets. In the case of organisations that rely almost entirely on fundraising events held during the summer, on the other hand, severe restrictions on social activities could in principle eliminate almost all of their income. Organisations delivering services under contract might still be in a position to receive revenues (e.g. from government) but be unable to deliver services (because of social distancing restrictions). Whether organisations cease to exist as a consequence depends among other things on the severity of these shocks, the financial reserves that they hold, and their ability to continue in existence on an entirely voluntary basis. Our ability to analyse the income composition of organisations and its likely effects on present and future vulnerability does show the extent to which very many organisations are highly reliant on a small number of income streams. Equally, we also show that that has been the case for as many years as there are data available for analysis. This suggests that diversifying the resource base of organisations is not straightforward. Overall, while we have a good idea of the type of funding streams that are likely to have been affected since March 2020, it remains difficult to extrapolate from the data that we do have to predict the long-term future of individual organisations.

Finally, if we take organisational closures as a logical end-point of a crisis such as the present one, we do not find large-scale evidence of organisational demise. If anything, thus far, closures are running at a lower rate than prior to the pandemic. It is always possible that there is a pent-up wave of closures to come, if organisations are genuinely unable to recover from the impact of Covid on their finances. But we are not witnessing it yet, despite the concerns that have been expressed.

“the aggregate picture is a clear one, in which significant majorities of organisations experience real-terms funding reductions, which are of an unprecedented magnitude in the case of many entities. But precisely which organisations have been most adversely affected is more contingent on the exposure of organisations to specific funding streams”

The advantage of the approach taken in this project has been its reliance on actual, reported administrative data, not on perceptions revealed through surveys. In addition, as we accumulate successive waves of those administrative returns, we are in a better position to track change and put it into context. The disadvantage is the timeliness of the data – while some data (e.g. dissolutions or foundations) are updated almost daily, others (e.g. reporting of income breakdowns) lag behind. Here, though, the stability and consistency of patterns over time gives us confidence that we are not likely to see major shifts in the composition of income for the sector as a whole, or in the funding mix of individual organisations. The broad patterns seem likely to remain stable and, absent another major economic shock, there is likely to be a return to some extent to the pre-Covid patterns reported here. Within that, there will be a need for complementary work which explores the trajectories of individual organisations and, based on the datasets on which we have drawn here, seeks to analyse the aggregate patterns in more depth. This project is coming to an end just as the Government have announced a response to the report by Danny Kruger MP on his proposals for a “new social covenant” to sustain and grow the contribution of voluntary organisations. Central to Kruger’s recommendations and the government’s response is an acknowledgement of the need for an improved evidence base. The insights from the present project into the resources and resilience of charitable organisations would, if extended, form an integral part of such an evidence base.
Our research is being funded by the Economic and Social Research Council as part of the UK Research and Innovation call for studies that can contribute to understanding and alleviating the social impact of the pandemic. The project is providing analyses of the variegated impacts on charities of the very severe financial constraints they will experience due to the immediate and longer-term economic effects of the COVID-19 crisis. Building on our extensive prior research on the finances, distribution and exposure to risk of charities we are utilising large-scale databases constructed since 2008 to assess the distribution of financial vulnerability across the population of charities.