About CAF

The Charities Aid Foundation is a leading charity operating in the UK and internationally. Our work connects and enables the vital organisations, institutions and individuals working to ensure that everyone has a stake in the future. We believe that the agency of lasting change lies across sectors and borders, in the hearts, minds and hands of those driven to make a difference.

We exist to accelerate progress in society towards a fair and sustainable future for all.
The contribution that charities make to our communities and to wider society has been undeniable in the last two years. But, having battled through the pandemic, many charities are now taking stock and asking hard questions about what they need to do to rebuild their finances and reset their relationships with volunteers, donors and the Government.

The Charities Aid Foundation is committed to furthering the understanding of the challenges facing the UK’s 200,000+ charities and the Charity Landscape report is valuable in helping to piece together a complex puzzle.

This detailed survey of charity leaders offers an overview of the past year, identifies both the pitfalls and the innovations and also speaks to the hard truths about financial resilience. It also speaks to the disparity of fortunes between larger and smaller charities and sends a clear message of the need for additional support for small and mid-sized charities. I am grateful to my colleagues who took the time to complete the survey, helping us all to shape the future.

Generating income was an ever-present challenge before Covid-19 and achieving financial sustainability remains a key issue. At the same time as bolstering or rebuilding their reserves, many charities are rightly deciding to invest in their infrastructure, digital and otherwise, in order to ensure they are fit for the future. As with business and government, charities have also accelerated their adoption of technology, particularly when faced with a near-total halting of face-to-face fundraising.

All of this is being done whilst continuing to meet demand for their services, a trajectory that does not appear to be slowing given the strain on finances many households are experiencing.

In light of the findings in this report, we urge the Government to explore new ideas to help the sector to achieve financial sustainability in the medium and longer term. Armed with in-depth local knowledge and on-the-ground networks, charities can and should play an important role in helping the Government fulfill its levelling up agenda.

Businesses, too, need to view charities as natural partners to help them demonstrate their purpose and multi-year funding should become the norm, with unrestricted funding in place so that charities can build for the future from a solid, resilient base. And charities themselves need to increasingly seek out opportunities to work together to achieve more.

Ultimately, it is through these myriad connections that we will be able to advance important initiatives, resolve challenges, spark innovation and ultimately improve lives.

Neil Heslop, OBE
Chief Executive, Charities Aid Foundation
Financial sustainability is the no. 1 challenge for charity leaders, whilst an increasing number of charities plan to use reserves to cover income shortfalls.

The top challenges cited by charity leaders were generating income and achieving financial sustainability (58%), followed by meeting demand for services (30%). The third most pressing challenge was a reduction in public/government funding (26%), although significantly fewer charities selected this option compared to pre-pandemic (32% in 2019).

A fifth (21%) of charities said that they planned to use charity reserve funds to cover income shortfalls rather than for capital expenditure – this was twice as many as in 2019 (10%). One in 25 charities (4%) said that making the most of their investments was one of their top three challenges.

Compared to 2019 fewer charities reported that raising awareness of our charity / cause and increased competition across the sector / within our cause were amongst their top challenges, suggesting that some organisations have raised their profile as a result of Covid.

Figure 1: Which do you consider to be the three most pressing challenges facing your organisation?
Most charity leaders feel optimistic for their own organisations, but less so for the sector in general, particularly around government support

The majority of charity leaders (81%) are optimistic about the future of their organisation, with the level of optimism increasing in line with charity income. Charity leaders tend to be more optimistic about their own organisations than they are about the sector as a whole (50% optimistic). Optimism is lowest amongst those whose organisations have an income of less than £1m (45%).

Three in four charity leaders (75%) stated that demand for their organisation’s services had increased over the first year of the pandemic, and 86% anticipated that demand would continue to increase. Most (80%) were confident that their organisation could meet this demand, although charity leaders were again less optimistic about the wider sector than they were about their own organisations.

Nearly two thirds (64%) of charity leaders are pessimistic about government support for the sector but there are large differences across the UK. Leaders of English charities (74%) are much more likely to be pessimistic than leaders in Scotland (42%) or Northern Ireland (57%). The pandemic has had little impact on these views, which are largely unchanged since 2019.
Charities in Scotland and Northern Ireland are more likely to feel government values their input

Across the UK, there was widespread agreement (69%) that over the next five years government will view charities as service providers, able to deliver public services through the public sector commissioning process. Leaders of charities in Scotland (77%) and Northern Ireland (81%) were significantly more likely to agree with this than their English counterparts (64%). Charities based in Scotland (47%) and Northern Ireland (38%) were also more likely to agree that government will value charities for their contribution to the development of public policy (vs. 25% in England; 31% UK average). In Scotland in particular, 80% of charity leaders believe that government sees charities as vital connections to local communities (vs. 64% UK average).

Nevertheless, nearly all charity leaders across the UK (91%) agreed that over the next five years the sector will be expected to fill the gaps in public service provision. Unfortunately, only one in three (29%) think that charities will be seen as an important source of insight in planning ahead for future crises, even though the pandemic has heightened public awareness of the contribution that charities make to society (71%).

Figure 2: The Covid-19 pandemic has raised fundamental questions about the relationship between charities and the government. To what extent do you agree or disagree that over the next 5 years, government will...?
Larger charities were more likely to have invested in tech solutions during the pandemic

Almost all charity leaders (89%) believe that technological change is relevant to their organisation. The majority of charities invested in I.T. during the first year of the pandemic, but this was particularly the case for larger charities, just under two thirds (64%) of charities with an annual income of less than £1m said that they had invested in I.T., new technology & online solutions, compared to 80% of charities with an income of £5m+.

Charity leaders overwhelmingly agreed that technology will allow charities to open up new and innovative ways of carrying out their mission (88%) and that technology will change the nature of the workplace for charities (90%). Leaders of larger charities (£5m+ income) were significantly more likely than those of smaller charities (under £1m income) to be in strong agreement on these points. They were also more likely to report that they had already implemented, or were considering, a permanent move to remote working (80% of £5m+ charities vs. 58% of charities with an income under £1m).

In an increasingly digital charity landscape, only a quarter of charity leaders agree they know how to make their online fundraising truly effective

More than seven in 10 (72%) charities reported introducing, or planning to introduce, new methods of giving. Separate polling undertaken by CAF has showed that half of charities believe that the pandemic has changed fundraising forever (48%), with 51% of charities stating that they plan to do more campaign activity via digital platforms such as apps, websites or social media. Furthermore 45% have increased their ability to accept card, contactless and digital donations or payments.

Two in five charity leaders are increasingly adopting online fundraising when raising money (41%) and believe that charities are using new technology effectively to increase giving (39%). However, only one in four (24%) report having the knowledge to make this online fundraising effective, although this has improved since pre-pandemic (15% in 2019). With the move away from in-person fundraising and cash giving brought about by Covid, this may leave some charities increasingly vulnerable.

Figure 3: For each of the following, please tell us whether your organisation has done this in the last 12 months?

| Invested in I.T., new technology & online solutions | Income under £1m | 64% |
| Considering, or implemented, a permanent move to remote working | Income £5m+ | 80% |

Two in five charity leaders are increasingly adopting online fundraising when raising money and believe that charities are using new technology effectively to increase giving

1 CAF charity polling with a sample of 589 charities. Fieldwork took place between 10 - 18 August 2021.

Polling results: The coronavirus outbreak and charitable giving | CAF Research (cafonline.org)
Recommendations for the future

**FOR GOVERNMENT**

- In recognition of the funding crisis facing the sector, the Government should continue its existing support and explore new ways to ensure the sector is financially sustainable in the medium and longer term. More support for small and medium sized charities is particularly needed.

- Charities can play an important role in helping the Government fulfil its levelling up agenda. The Government should ensure levelling up funding opportunities are open to charities, as well making sure that the sector is involved in the development and implementation of the levelling up agenda.

**FOR GRANT MAKERS**

- Grant makers should consider charity resilience when looking at a funding request. While charities need core funding, giving charities the time and space to identify areas where they need to strengthen their organisation, be it leadership or financial acumen skills for senior leaders, will be vital to their long term success.

- Grant makers should be sure to share any plans to shift funding priorities or information about new funds, or the reopening up of funding programmes which were impacted by the pandemic. Charity leaders looking to rebalance their finances would welcome any predictability in the funding landscape.

- Multi-year funding, be it from philanthropy or Government should become the norm and should be unrestricted. This would help charities to become more resilient and enhance the relationship between the grant makers and the people and communities they are eager to serve.

**FOR CHARITIES**

- Charities need to invest in resilience measures such as good governance and leadership, digital transformation, and staff development. Many changes will have been made in response to the pandemic, and charities should take stock of what measures will make the biggest difference over the long term.

- Charities should talk to funders about the value of resilience as a core theme and stress their need to change how they operate in the aftermath of the crisis.

- Charities need to spend time examining how the fundraising landscape has changed and how the rise of digital fundraising will affect them.

- Charities should reach out to new digital networks, social movements and mutual aid groups to find opportunities to work together. Charities require champions across other sectors to highlight their importance and need for continued support from national decision makers.
METHOD

The survey was undertaken by CAF, working in partnership with ACEVO. Charity leaders were invited by email to take part in the online survey between 19 March and 26 May 2021.

A total of 1,080 responses were received. Respondents were drawn from customers of CAF Bank, and members of ACEVO, ACOSVO or CO3 (all organisations which represent civil society leaders). Data is unweighted. Not all respondents answered every question. At least 708 CEOs answered this series of questions, including 440 respondents with a head office in England, 163 with a head office in Scotland and 87 with a head office in Northern Ireland. We would like to thank the participants for their time in completing the survey.