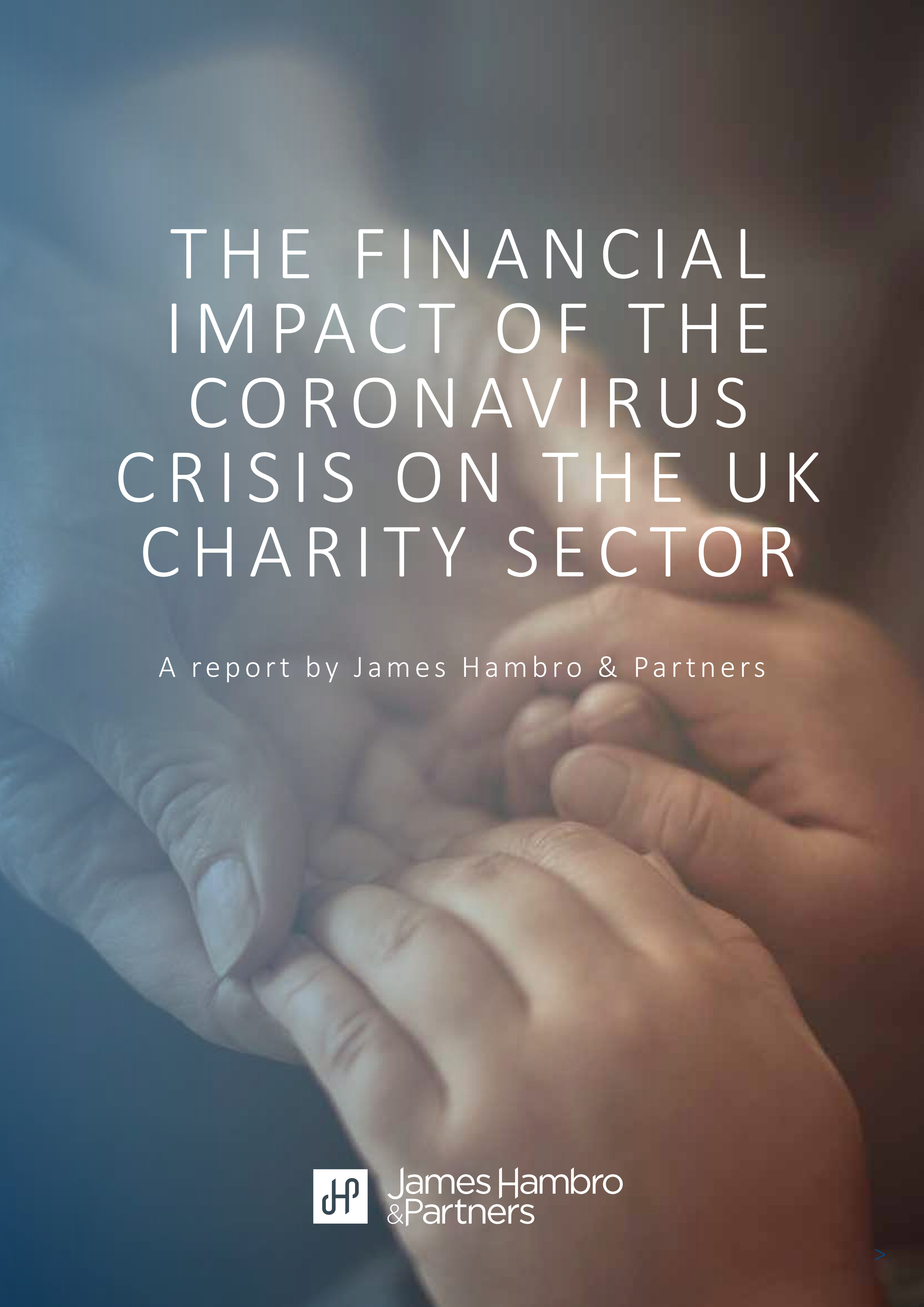

THE FINANCIAL IMPACT OF THE CORONAVIRUS CRISIS ON THE UK CHARITY SECTOR

A report by James Hambro & Partners

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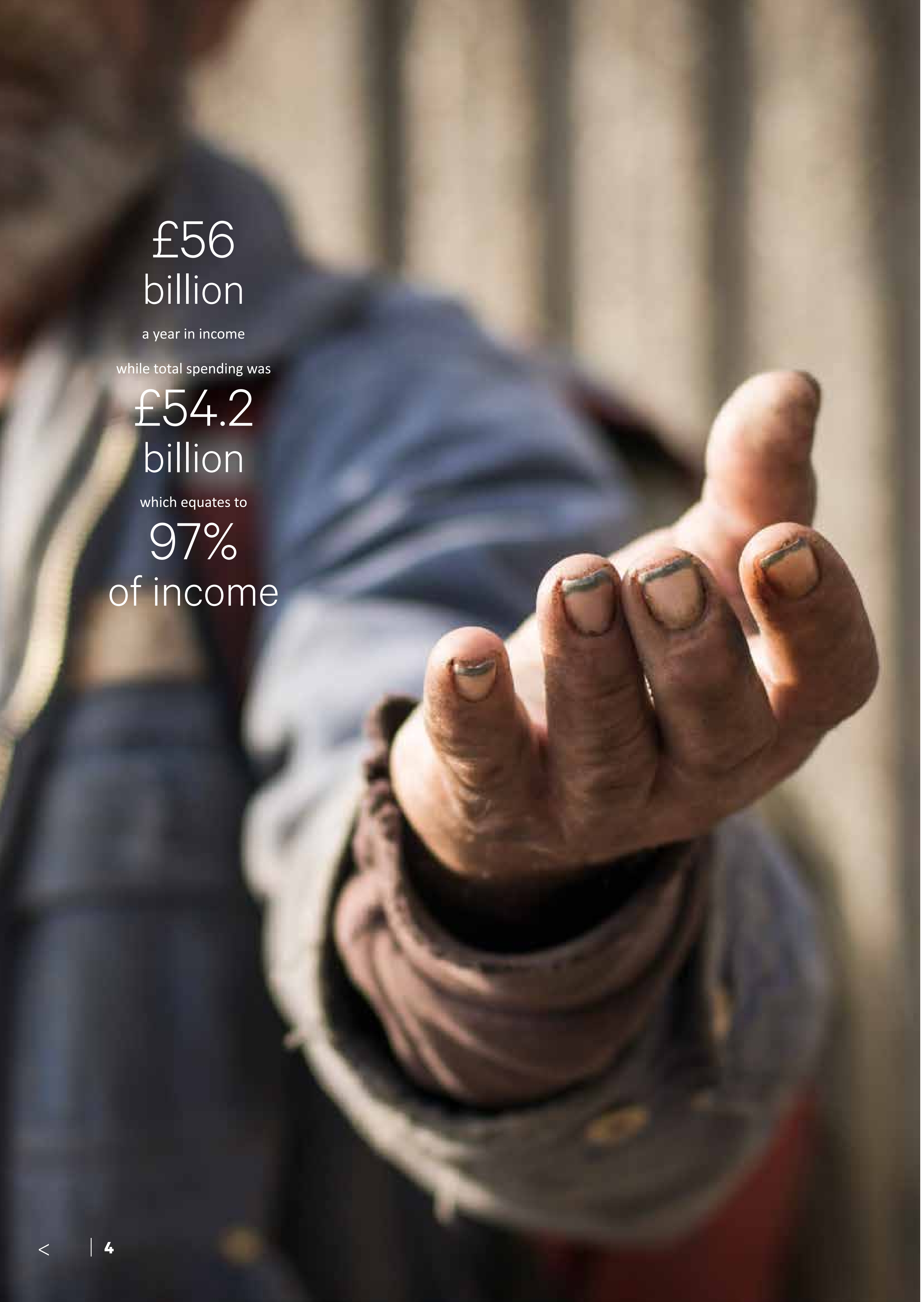
DECEMBER 2021



INTRODUCTION

Charities have struggled through a perfect storm during the COVID-19 pandemic as lockdowns have made fundraising more difficult while driving up demand for their services.

Inevitably charities' income has suffered, and organisations have struggled to adapt to financial pressures which have forced many to take tough action to ensure their survival.

At James Hambro & Partners we work for a wide range of organisations managing their investments and are committed to supporting the charity sector which plays such a vital role in society.

From our experience with the charities we work for, we were aware of the problems they faced during the pandemic, but wanted to develop a better understanding of the financial pressures the sector as a whole is under.

Charities faced a range of financial challenges as a result of the coronavirus crisis. Our survey highlighted the significant drop in fundraising activity during the health emergency, coupled with a fall in donations. In response to the economic slowdown interest rates were cut to historically low levels, further reducing the already meagre returns available on cash reserves. Furthermore, charity investors seeking income were impacted by the number of companies that cut or suspended dividends in 2020 and this was set against a backdrop of record low bond yields.

That is why we commissioned independent research among a nationally representative sample of consumers and 100 charity executives to find out their views and the issues that concerned them most.

Our analysis of the latest industry data set shows charities generated around £56 billion a year in income in 2018/19, while total spending was £54.2 billion which equates to 97% of income. Charities are not-for-profit so that is entirely how it should be. However, the most recent pre COVID-19 crisis data showed that income rose 1% year on year while spending increased by 2% and it is very likely that income shrank during the COVID-19 crisis, highlighting the pressure that charities are under.

A recovery in charity finances will depend largely on donations bouncing back and volunteers who give their time being able to return. However, investments can play an important part - charities generate around £4 billion a year in income from their investments so they need to ensure investments are working hard for them but at the same time are invested appropriately.

The current state of charity finances as a result of the epidemic is concerning and some organisations had to take drastic measures to ensure that they could continue to operate. But our survey also highlighted that a recovery is underway, although many charity leaders believe that it will be some months before incomes return to pre-pandemic levels.

Now more than ever charities need to be able to call on specialists with the knowledge and expertise to guide them through this particularly challenging time.

KEY RESEARCH FINDINGS

WHAT CONSUMERS HAVE TOLD US

36%

During the Covid-19 crisis, 36% of regular donors to charities have cut back the amount they give, compared to

9%

who have increased their donations or started to give for the first time

44%

of fund raisers have cut back or stopped the amount of activity they do due to the crisis compared to

12%

who have increased

2/5

Two out of five charity volunteers have stopped working for voluntary organisations completely

1 in 8

One in eight adults have started using or increased their use of charity services during the crisis

7%

Around 7% of adults – the equivalent of 4.73 million people - say they have used the services of charities more during the pandemic while

3%

the equivalent of 1.58 million - have started to use the services of certain voluntary organisations for the first time

WHAT SENIOR CHARITY EXECUTIVES HAVE TOLD US

CLOSED

8%

8% of the senior charity executives interviewed believe their organisation is at risk of closure over the next 12 months

18%

Nearly one in five (18%) say the financial health of their charities has deteriorated dramatically during the Covid crisis, and

58%

say it is slightly worse

53%

More than half (53%) have made redundancies

24%

24% furloughed staff during the pandemic

56%

56% say they have seen their income fall by over

30%

30% since the start of the pandemic

SOLD

45%

45% have sold assets such as property to generate income

74%

74% say the value of their investment assets has increased – 15% say it has increased dramatically

64%

Nearly two out of three (64%) of charities interviewed have had to sell or cash in investments during the crisis due to fall in their income

THE PANDEMIC EFFECT ON DONATIONS AND FUNDRAISING

9%

Around 9% of donors say they have increased donations or started giving for the first time during the pandemic

Many charity donors and fundraisers have cut back on regular monthly payments and activity as their own incomes were hit in the pandemic, and they are unsure when donations and activity will return to normal.

Nearly two out of five (36%) regular donors have cut the amount they give each month by an average of £11 while 44% of fundraisers have reduced or stopped the amount of fund-raising, they do.

There are some bright spots – around 9% of donors say they have increased donations or started giving for the first time during the pandemic with average increases in regular payments of £15 a month.

But the cutbacks still leave charities facing a reduction in donations and the road to recovery will take time. Just 23% of those who have cut monthly donations say they plan to restore their payments within three months while around 19% say it will take at least six months before they start donating at the same level. Around 3% say they will never increase donations again.

It is a similar story for fundraisers supporting charities– around 25% plan to get back to normal within three months, while 22% will wait at least six months and 4% believe they will never return to fundraising.

Regular donors who have cut back on donations say their own financial situation has forced them to reduce payments – around 41% have suffered pay cuts, lost their jobs, or were furloughed.

There are however signs of a shift in legacies to charities during the pandemic – around 6% of people questioned say they have written a will for the first time and left money to a charity or amended an existing will to leave a legacy. Many of them have done so because they have used charity services during the pandemic.

THE IMPACT THE PANDEMIC HAS HAD ON FUNDRAISING ACTIVITY	PERCENTAGE OF PEOPLE WHO FUND RAISE FOR CHARITIES
No impact	38%
I have increased my fundraising	12%
I have stopped and raised no money	20%
I have cut back, and funds raised have dropped by 75% to 99%	11%
I have cut back, and funds raised have dropped by 50% to 75%	3%
I have cut back, and funds raised have dropped by 25% to 50%	6%
I have cut back, and funds raised have dropped by 1% to 25%	4%
Don't know	5%

"The COVID-19 pandemic has had a massive financial impact across the economy and that has inevitably hit charity giving and fundraising. As well as the financial hit, our research also highlighted the sharp fall in volunteering during the crisis.

"The major concern for charities is how long the recovery in donations and fundraising activity will take. With the withdrawal of the furlough scheme, which was used by nearly 9,000 not for profit organisations, we expect further pressure on the sector.

Patrick Trueman, Portfolio Manager at James Hambro & Partners

DEMAND FOR CHARITY SERVICES

Charities have provided a vital lifeline during the COVID-19 pandemic with more than one in eight adults starting to, or increasing, their use of their services. Around 9% of people - which equates to 4.7 million adults - used charities more and 3% - equivalent to 1.6 million - told us that they had started to use the services of certain voluntary organisations for the first time

Demand for charity services might have been higher if voluntary organisations could have coped with the increased demand for their services. Around 7% of adults – the equivalent of 3.7 million people – say they are no longer able to use the services of some charities they have relied on in the past either because they have closed, or the organisations are facing financial constraints

Nicola Barber, Partner, Head of Charities James Hambro & Partners commented:

In normal times charities play a vital role and that increased during the pandemic which created a substantial growth in demand for their support.

"Many charities have seen the increase in demand for their services in 2020 continue into 2021. Increased demand for services has however come at a price for charities who are also under financial strain themselves, given the sharp fall in income they've experienced."

THE IMPACT OF THE PANDEMIC ON CHARITIES AND THEIR SERVICES

Around 1 in 12 (8%) senior charity executives believe that over the next 12 months, the charities they work for are at risk of closing completely because of falls in income while 57% say they may have to cut back on the services they provide. Over half (55%) believe they will have to consider selling assets such as property to generate cash to continue.

More than half (56%) of charities have seen their income fall by over 30% since the pandemic started, and 42% have endured falls of between 10% and 30%. Only 2% say they have seen their income remain unchanged or rise.

Nearly two out of three (63%) of the executives interviewed have stopped making investments since the crisis started because of the fall in their income. Some 45% have sold assets such as property to help generate funds, and 40% have had to cut back on the services and support they provide. In terms of their colleagues, 53% say they have made staff redundant, and 24% have furloughed some of their workforce. Over the next 12 months, 45% believe they may still have to reduce the number of staff employed by their charities.

Nicola Barber commented:

“Many charities have had to endure significant falls in their income during the pandemic, but at the same time demand for their services has increased. Over half the charities, we surveyed reported a drop in income of over a third since the start of the pandemic. This has placed huge financial strain on them and sadly our research shows the drastic steps many have had to take to continue to offer the vital services they provide, and in some cases survive.”

The impact on investments and reserves has been substantial. Around two out of three (64%) charities with at least £1 million of investable assets have had to sell or cash in some of their investments because they have suffered a fall in income and 42% say they have been forced to sell to meet growing demand for their services.

HOW LONG IT WILL TAKE TO RETURN TO PRE-PANDEMIC INCOME LEVELS

Percentage of charity executives interviewed who say it will take this long for the income levels of the charities they work for to return to pre-pandemic levels

Two to five months	8%
Five to six months	24%
Six to seven months	20%
Seven to eight months	25%
Eight to nine months	15%
Nine to ten months	6%
Ten to 11 months	1%
Over 11 months	1%

Charities with investible assets often rely heavily on them to generate an income, but 18% say the income they generate has fallen dramatically since the COVID-19 crisis started, and a further 52% say income has fallen slightly. Just one in ten (10%) say the income generated from their investments has risen with 20% claiming there has been no change.

However, despite this, 15% say that since the pandemic began the value of their investment assets has increased dramatically, and a further 59% say they have risen slightly as stock markets around the world have risen after the sharp fall seen in February and March 2020. Only 15% say they have fallen in value, with the remainder claiming there has been no change.

Patrick Trueman commented:

Our research suggested that the impact of the crisis has been felt across the sector. Around 64% of the charities we surveyed have had to sell assets to ensure their survival. Many charities without an asset base will be in a far worse position.

Nearly one in five (18%) say the financial health of their organisation has deteriorated dramatically during the Coronavirus crisis, and a further 58% say it has become slightly worse. Just 9% say it has improved and 15% say it has not changed.

However around 68% of charities with at least £1 million of investible assets believe their income will return to pre-pandemic levels in six months while around one in 12 (8%) say it will take over nine months.

18%

Nearly one in five (18%) say the financial health of their charities has deteriorated dramatically during the Covid crisis, and

58%

58% say it is slightly worse

THE IMPACT OF DIVIDEND CUTS ON CHARITY INCOME

The UK market is a major source for dividends for stock market investors but much of it is generated in sectors which are highly cyclical such as mining, energy, and banking.

Portfolios that were targeting income suffered most as dividends were cut or cancelled. Last year, among FTSE 100 companies 32 dividends were cancelled, nine were cut and 13 were suspended. In 2020 UK dividend payments fell 44% to the lowest level since 2011. The continued fall in bond yields has also added to the challenge for income investors.

There has been a recovery since then, albeit from a low base with dividend income rebounding strongly and rising 31% in the second quarter of 2021 as many companies reinstated dividend payments. The UK market is a major source of dividends for stock market investors but much of it is generated in sectors which are highly cyclical such as mining, energy, and banking.

Interest rates have remained at historic lows since March 20009 when the Bank of England cut the base rate to 0.5% before cutting again in August 2016 to 0.25%.

The COVID-19 crisis saw the Bank cut yet again to 0.1% in March 2020 – the lowest level for more than 300 years - highlighting an ongoing issue for charities.

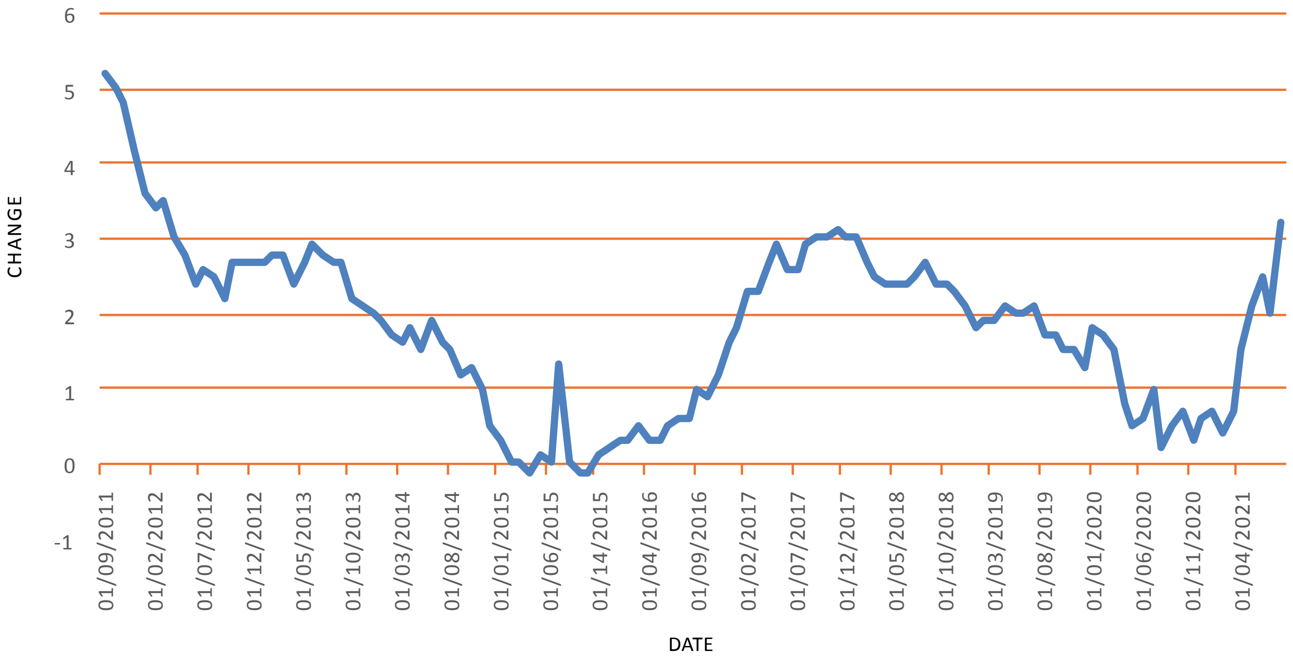
Our analysis shows the average interest rate on a deposit of £10,000 from a charity cash deposit account in January 2018 was 0.54% AER, which had dropped to 0.28% AER by August 2021. The corresponding figures for deposits of £100,000 were 0.57% AER and 0.30% AER, respectively. For deposits of £1 million they were 0.54% AER and 0.31% AER.

In January 2018, there were 82 savings accounts open to charities (48% of savings accounts open to charities) offering an interest rate of 0.5% AER or more on balances of £50,000, and 34 (20% of the market) paying over 1% AER. By August 2021, the corresponding figures were 29 (20%) and six (4.1% of savings accounts open to charities)

Deposit rate on accounts (AER) on balances of £50k	Percentage and number of cash deposit accounts open to charities (January 2018)	Percentage and number and percentage of cash deposit accounts open to charities (August 2021)
0%	0.58% (1/172)	0%
Less than 0.1% but more than 0%	13.95% (24/172)	26.35% (39/148)
0.10%	9.88% (17/172)	10.81% (16/148)
Between 0.11% and 0.25%	14.53% (25/172)	22.97% (34/148)
Between 0.26% and 0.50%	18.02% (31/172)	23.65% (35/148)
Between 0.51% and 0.75%	12.21% (21/172)	8.11% (12/148)
Between 0.76% and 1.00%	11.04% (19/172)	4.05% (6/148)
Between 1.05% and 1.25%	8.72% (15/172)	3.38% (5/148)
Between 1.26% and 1.50%	7.56% (13/172)	0% (0/148)
Over 1.5%	3.49% (6/172)	0.68% (1/148)

The impact of inflation means that almost all cash deposit accounts pay negative real returns and fears of rising inflation in the year ahead highlight the issue for charities.

UK CPI YOY



Source: Bloomberg, September 2021

Nicola Barber commented:

"Many charities have significant sums of money in cash deposit accounts which often forms a crucial part of the organisation's reserves. In some cases, though a proportion of this cash could be available to invest, potentially earning a higher return to help support charity's work. Following the Bank of England base rate cut to 0.1% in March 2020, banks and building societies cut their rates and, taking inflation into account, most charities are receiving negative returns on their cash deposits.

"As charities come under greater financial pressure during the pandemic and many are seeing a rise in demand for their services, we are seeing more voluntary organisations looking carefully at their reserves to consider if they can afford to take on more risk in order to generate a potentially better return."

Cancer charity Maggie's is an example of the pressures as Allison Wood, Finance Director, Maggie's explains:

"The Coronavirus crisis has been one of the most challenging periods for Maggie's in its 25-year history. We know that thousands of people with cancer have had their treatment disrupted, and this, coupled with the additional emotional stress placed on them during the pandemic has meant demand for our services has never been greater. This came alongside the challenge of fundraising in a very changed environment. With deposit interest rates at historically low levels, we have worked closely with the team at James Hambro & Partners to invest in a number of differentiated multi-asset portfolios that meet our specific objectives taking into account our cashflow requirements, risk appetite and time horizons."

THE INVESTMENT CHALLENGE

Charites generate around £4 billion a year in income from their investments, so they need to ensure they are working hard for them but at the same time are invested appropriately.

However, charity executives questioned say there is room for improvement in the services provided by investment management firms. Just 38% describe the investment advisers they use as very transparent in terms of how they work and their charges. Just over half (54%) describe them as reasonably transparent but one in twelve (8%) say they are not transparent at all.

Only 42% said the information provided by their investment advisers is very easy to understand. Some 13% say it is not easy or it is very difficult to understand.

Just one in five (20%) say they receive a very bespoke service from their investment advisers, 61% describe it as quite bespoke and 19% say it is not very bespoke to their needs.

Only 27% describe the client service they receive from their investment advisers as excellent, 48% say it is good, but one in four (25%) describe it as average or poor.

Around 45% of senior executives are very concerned about the ability of the investment management advisers to meet their organisation's ethical requirements. A further 49% say they are quite concerned about this.

When it comes to selecting investments, 88% of charity executives interviewed said it is important they have strong environmental, social and governance (ESG) credentials, with 36% describing it as 'very important'. Nearly nine out of ten (87%) believe that the level of importance charities place on ESG factors when selecting investment will rise between now and 2024, with one in five (22%) saying it will become significantly more important.

Our research found that investment advisers focusing on the charity sector will increasingly need strong ESG credentials. Some 82% of charity executives interviewed say this is an important feature of their selection criteria when choosing investment advisers to work with, and 90% think this will become more important over the next three years.

88%

88% of charity executives interviewed said it is important they have strong Environmental, Social and Governance (ESG) credentials When it comes to selecting investments

CONCLUSION

Many charities may need to review their financial strategy to ensure their investments are working as hard as possible for them.

The charity sector has been one of the worst affected by the COVID-19 pandemic, hit by a series of blows with fundraising and incomes under pressure while demand for its services has increased.

Charity executives and their staff have shown tremendous resilience during the perfect storm that has hit the sector throughout the last 18 months managing to keep services running and demonstrating the importance of the sector in our national life.

The strain is showing however, with organisations having to sell assets and cut staff to survive. In some extreme instances organisations have even contemplated closure .

Recovery is not going to be easy with fundraisers and charity volunteers indicating that it will take time for them to return to normal as the wider economy recovers from the pandemic's shock.

Hopefully, the economic recovery and continued fall in unemployment will support a pickup in donations as well as volunteering activities. A study by the Bank of England has found that a lot of families were able to increase their levels of savings over the pandemic and to pay down debts. How much of this estimated additional £250 billion of savings makes its way into the voluntary sector remains to be seen.

Although stock markets have risen since the early part of the pandemic, portfolios that were targeting high levels of income suffered, particularly in 2020, as many dividends were cut or cancelled. Returns on cash reserves remain negligible with the Bank of England base rate at an historic low. The threat of inflation means the value of cash in the bank is being eroded.

Strong and responsible investment management can play an important role in helping charities to ensure they are achieving the best possible returns on their assets to support their activities. This is particularly important while pressures on donations and fund-raising remain. Many charities may need to review their financial strategy to ensure their investments are working as hard as possible for them.

ABOUT JAMES HAMBRO & PARTNERS

James Hambro & Partners is an independently owned wealth management group established in 2010 by Jamie Hambro and seasoned industry experts.

The founding partners wanted to create an investment manager that offered the high standards of personal service often associated with smaller businesses, while also delivering strong investment performance. Clients' portfolios are tailored to suit their individual needs while all being underpinned by the same robust and proven investment process with its foundations in their global stock selection expertise.

As well as managing the investments for charities and not-for-profit organisations, James Hambro & Partners looks after the financial planning and investment needs of private clients and their families. James Hambro & Partners has circa £5 billion of assets under management. Its head office is in Pall Mall, London, with other offices in Leeds and Edinburgh.

The company has considerable experience of managing funds for charities and not-for-profit organisations. Using its first-hand experience, it has shaped its service to address the specific needs and challenges of those charities with £1 million or more to invest. Its clients span a broad range of charitable purposes.

James Hambro & Partners builds genuinely bespoke portfolios for its charity clients and responds to their ethical concerns, using market-leading research to identify companies and sectors that might contravene the standards they set. It is committed to delivering clear communication, and clients can talk directly to the team managing their money whenever they need to. They deliver reports tailored to their clients' needs and they are designed to be understood by trustees of all levels of financial experience. James Hambro & Partners have won the prestigious Charity Times Boutique Investment Manager of the Year Award in four out of the past six years.

ABOUT THE RESEARCH

Research among charity executives was conducted by the independent research company Pureprofile among 100 senior executives who work for charities between June and July 2021.

Consumer research was conducted by the consumer research company Consumer Intelligence which interviewed 989 adults aged 18-plus weighted to represent the UK population between June 28th and 29th 2021.

Data on charity accounts was provided by the financial services insight company MoneyComms which reviewed review the cash deposit savings account market for charities in January 2018 and August 2021.

Data on charity finances was drawn from analysis of the UK Civil Society Almanac 2020 - National Council Voluntary Organisation (NCVO) (latest figures 2017/2018). Dividend data was sourced from Dividenddata.co.uk

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