



WHAT HAVE WE LEARNT FROM LOCKDOWN 1.0?

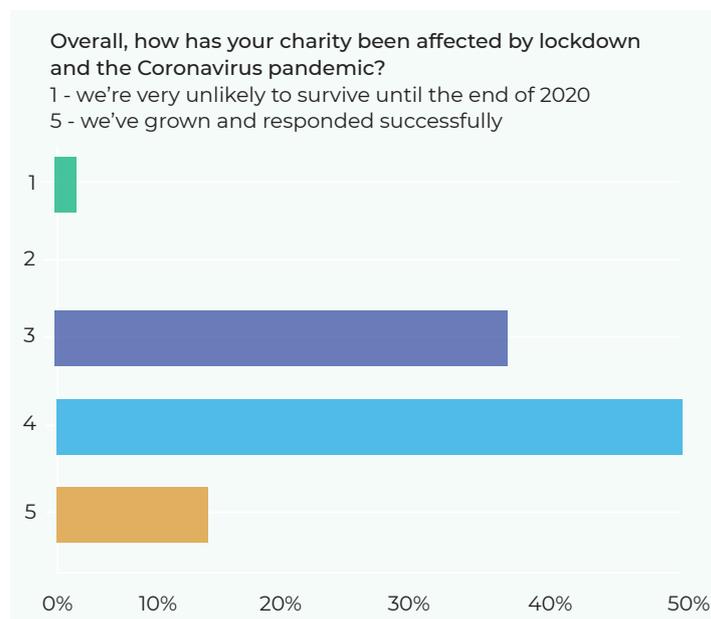
Since lockdown began in March 2020, our Fundraising & Management team has presented more than 20 interactive webinars on impact, finance, fundraising and impact-led strategy to help charities and non-profit organisations deal with the uncertainty and changes they're facing. We have done these through Moore Kingston Smith and also in partnership with a range of other organisations such as ACEVO, ICAEW, and Social Value UK. The team has also worked with a range of organisations to support their activities and make them stronger during the pandemic.

This short report accompanies a webinar that the team presented on 12 November, a recording of which is available on our website. It summarises the findings of a survey during October 2020 of more than 60 charities, interspersed with insights from the Fundraising & Management team and their work with a range of charities and non-profits.

OVERVIEW

In our survey we asked how charities felt they had been affected by the Coronavirus pandemic between March and October 2020. More than 60% of respondents were skewed towards feeling they had grown and responded successfully to the pandemic. Only one respondent was concerned about not surviving beyond the end of 2020. Other sector surveys, including NCVO's monthly barometer¹ on responding to the pandemic, estimate the likely proportion of charities closing due to Coronavirus to be about 10% of the sector. Those completing our survey demonstrated that they were better equipped to weather the storm, and that positivity should be considered when reviewing other responses. However, it is also worth noting that amid the negativity that rightfully accompanies the pandemic and its associated recession, there are charities that have found opportunities to grow and find new ways of working.

Our findings should be moderated, perhaps, with the small size of our sample. But our general findings from our ongoing client work is that roughly half of those we work with are focused on survival, and half are evolving to meet the needs of a post-Coronavirus environment. All are changing.



¹ Largest study of voluntary organisations reveals devastating financial impacts of Covid-19 <https://www.ntu.ac.uk/about-us/news/news-articles/2020/09/largest-study-of-voluntary-organisations-reveals-devastating-financial-impacts-of-covid-19>

What change meant in 2020

We have observed charities and non-profits responding to the changed circumstances of 2020 in a range of different ways. This has included working to raise income, reduce costs, introduce efficiency measures, recover more costs from funders and commissioners, and collaborate with other organisations to improve reach or reduce overheads. Equally, many have rapidly introduced webinar protocols and remote ways of working, internally and with clients, and are now eyeing how digital and better use of IT can further be used as a tool to support their organisations.

The non-profit sector can be known for moving quickly, and this year has seen much rapid shifting in activity. Some of the motivations behind the changes have been down to different influences. For some, it has been about trying to balance money and impact, that is, to be more deliberate about generating enough income to fund activity while making sure that the activities themselves are as impactful as they can be. This is a really important and welcome emphasis.

Evolution rather than survival

Others have been doing things they should have done before (for example, stopping those non-viable services that have continued due to indecisiveness). 2020 has accelerated the need for change and trends that have been slowly taking shape are now moving rapidly. For some organisations they are trying new things to evolve (not just survive). Others are potentially trying to evolve, but in reality it is all about survival. It is difficult to lead an organisation through both at the same time.

We are also seeing organisations liberated by the removal of red tape. This is perhaps most evident through the speed of transition of working from home policies, but is seen in other areas, including an openness by grant-making trusts to make grants based on trust and impact, rather than process and reporting. Government has also become a little more flexible in its trust of non-profit organisations, a welcome upside which we hope continues.

Overall, the rapid change and the ability of some organisations to 'pivot' their programmes successfully has pointed to the importance of them being impact-led and keeping their organisation's strategy alive, rather than dust-covered on the shelf.

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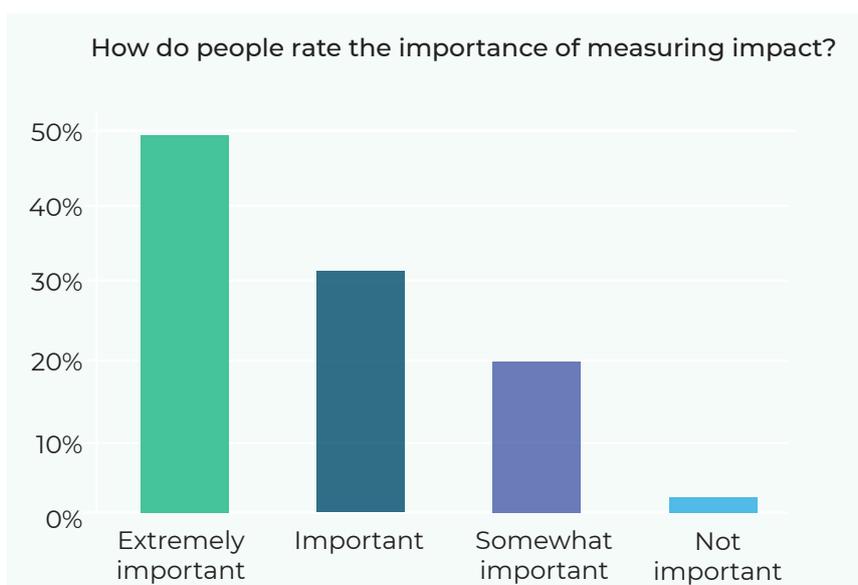
IMPACT MANAGEMENT

In terms of measuring and managing organisational impact, the lockdown has posed several challenges for non-profit organisations. These ranged from the strategic to the more pragmatic. With people suddenly unable to meet or gather face-to-face, new ways of working needed to be established quickly. This posed a real challenge with regards to finding innovative ways of engaging with stakeholders and trying to work out the best approach to deliver services, with many other areas of organisational activity, including impact measurement, taking a back seat. More strategically, charities saw their income streams dry up, which meant that impact measurement may have slipped down the list of priorities. This was the state of affairs for some in the early stages of the pandemic, though thankfully we have seen a shift in recent months.

For other organisations, impact became more important than ever. The radical change in stakeholders' situations and environments, combined with access to pots of funding targeted at pandemic-related problems, meant that impact measurement as a way of understanding stakeholder needs, figuring out the impact of new projects, and gaining trust and buy-in from funders lent some a renewed focus on ways of approaching impact.

The importance of impact measurement

Our survey asked about a number of impact related issues. Encouragingly, most people (nearly 80%) agree that measuring their impact is a priority with nearly 50% believing that it is 'extremely important'. Perhaps once seen as a 'nice to have', the world is now acknowledging the critical role that impact measurement has to play in the running of a successful organisation. In the light of the pandemic and given the changes that many organisations are facing at the moment, now is the time, more than ever, to look at the social value they are creating in the world.



An interesting finding from the survey is that while most people acknowledge the importance of impact measurement, and many are at least attempting to measure it, only 47% could claim that they are doing it well and with the strategic aim to improve the impact they create. This is promising, but there appears to be a discrepancy between organisations' attitudes and behaviours toward impact measurement. The key question to ask is, 'Why does this gap exist?' What are the barriers that organisations are facing when it comes to measuring their impact?

Overcoming the barriers of measuring impact

The first may be of course a cultural issue - organisations don't have full buy-in from either trustees or staff. We have often seen this to be an obstacle when it comes to impact measurement and unsurprisingly 50% of respondents say a main concern is embedding impact management practice into their organisation. Results from the survey also suggest that organisations grapple with some of the basic technical aspects of impact measurement, with the vast majority of organisations highlighting at least one issue or area of concern.

The vast majority of organisations have developed new ways to engage with their stakeholders during lockdown.

Over 50% of organisations say their main concerns are around identifying outcomes, measuring outcomes and valuing outcomes, and over a quarter are struggling to even engage with their stakeholders at the moment. Some of this may be due to the lockdown, but it is likely that these have been, to a large extent, ongoing issues. When it comes to demonstrating your impact, understanding what changes for your stakeholders is crucial and being able to engage with them and measure these outcomes is necessary. Other comments from respondents suggest that organisations are struggling to find robust ways to measure impact or are trying to align with demands from funders. These are all understandable issues and the encouragement from our team is to face them head on, start somewhere, and don't try to get to perfection in the first iteration of doing this.

With this pragmatism in mind, one encouraging result from the survey was that the vast majority of organisations have developed new ways to engage with their stakeholders during lockdown. A fifth of organisations feel that this is working really well, while three out of five are still developing their approach, demonstrating the flexible and adaptive spirit that organisations have taken on this year.

The focus is still skewed towards money over impact

Coming back to one of our over-riding observations of non-profit organisations during 2020, a noteworthy finding from the survey is that 70% of organisations report that they focus on both money and impact, although within that, most admitted that this wasn't balanced and the focus tipped towards money. This balance is something that is important to achieve. As social purpose non-profit organisations, the reason for existence is to create positive social change in the world, and therefore in order to know we are being effective and optimising the change we create, we need to measure it. If we are accounting for money properly, but not for our social value, this is going to cause tension and our values and actions are in danger of being misaligned.

FINANCIAL STRATEGY

Given that many charities have been feeling the financial squeeze over the last decade of austerity, you might expect the Coronavirus pandemic to have hit charities especially hard. However, Chapman and Robinson (Third Sector Trends in North East England and Cumbria) indicated back in 2014 that charities, and the charity sector as a whole, are incredibly resilient and able to adapt to ensure their survival in challenging times. Over 60% were positive about their charity's financial response to the pandemic with the remaining 36% responding that their charity had neither suffered nor grown as a result of the Coronavirus. This goes to show that charities have been quick to adapt to the 'new normal' of national lockdowns, home working, and restrictions on how they can fundraise.

Cost recovery

From our work, we see that many organisations are struggling because they don't understand the margins they generate in different areas of their business. The missing link being overheads and how these are absorbed into different activities and services. Less than half of the survey respondents said that they present all costs associated with a project when applying for grants. This will inevitably lead to a funding gap and over two thirds of the responses said that they did not recover all of their costs. This highlights how crucial knowing your costs and including all costs really is. By including all costs, you can then see in a transparent manner what the funding gap is and that enables you to make informed decisions about the level of subsidy provided and the sustainability of the service. Having effective sign off for funding gaps (and where the gap will be paid from) is essential to monitoring the subsidy provided to each project. However, this can only be done if services or projects have been fully costed in the first place.

Many organisations equally don't understand their business model – how they generate revenue and income and how they spend it. These are two 'must haves' for any successful organisation.

If your management information is arriving four weeks after the period end, is it really going to be useful or show an accurate picture?

It's good to talk

We asked our survey participants how well their fundraising and finance teams communicate with each other and the responses were refreshingly different from the traditional stereotype. We found that almost 80% of charity finance teams regularly communicate with their fundraising counterparts. This is really positive to see and may be part of the reason that so many charities are feeling generally positive about their survivability and financial sustainability. Better communication between departments ensures better visibility of how they can work together to the common good of their charity. For example, if finance teams communicate their organisation's overhead levels effectively to the fundraising team then the fundraisers are able to ensure that they are pricing the necessary level of overheads into their bids. This will result in recovering more money to pay for their charity's central costs that are often paid for from reserves rather than fundraised income.

It's about time

Better communication between departments should also lead to better management information as the other departments are able to give financial context to the numbers. However, one area where we particularly see charities failing is with the timeliness of their management information. During our management information webinar, we established that the majority of charities are still taking several weeks after the period-end to prepare their management information. During the past few months, and surely for a while to come yet, it has been even more important to have timely financial data. If your management information is arriving four weeks after the period end, is it really going to be useful or show an accurate picture of your current situation? Instead, we suggest getting your financial data as accurate as possible and then preparing the management information on 95% of the data four days after the period end rather than 100% of the data four weeks after period end; learning from fast-close methodology and good practice from the commercial world.

FUNDRAISING

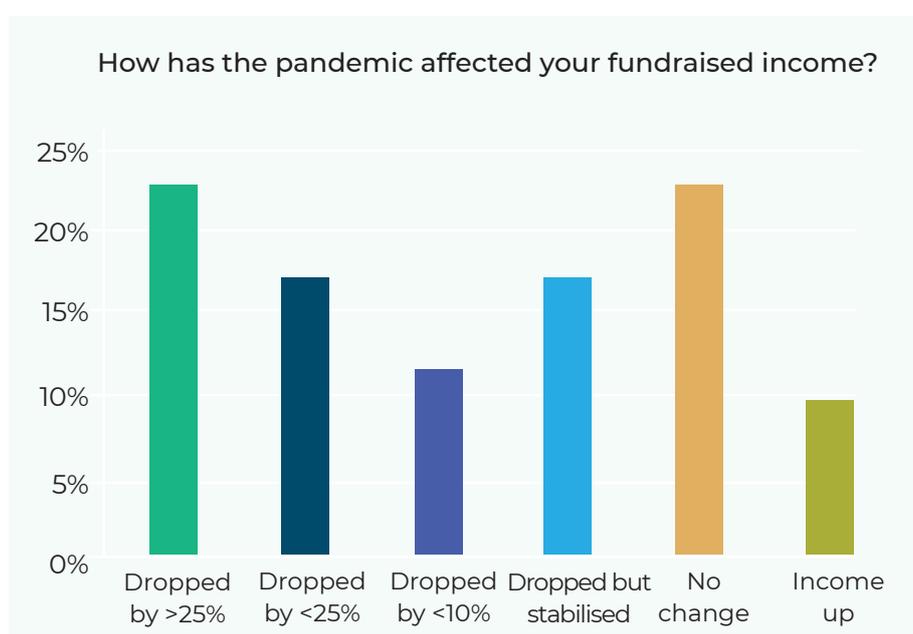
There have been two major influences on charities from the pandemic: reduced opportunities to generate income, particularly through fundraising and from retail; and an increase in demand for services, with an accompanying increase in costs related to delivering those services. Some estimates have suggested that a gap of £10.1 billion exists² between the income levels charities are receiving and the costs they are being expected to incur to deliver services.

We therefore asked how charities were managing their fundraising. Surprisingly, the majority (70%) felt that they were confident or somewhat confident of delivering on their fundraising strategy during the next 12 months. However, nearly a quarter were either not very confident or didn't even have a strategy. The largest segment was 36% who only felt somewhat confident. There was a correlation between charities that felt they were growing in response to the crisis and those that felt confident about their fundraising strategy. On the other hand, those whose fundraising strategy was weaker were more likely to feel less confident about surviving to the end of the financial year.

An up and down year

Regardless of confidence in fundraising strategies, there is a real mix in terms of actual income generation. Just over a fifth of respondents had seen income grow, while the same proportion had seen their income drop significantly. In total, more than half of respondents had seen income drop significantly and feared that they wouldn't hit this year's targets. However around 10% hadn't noticed much change and a sixth had bounced back after a slight dip.

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²Pro Bono Economics Covid Charity Tracker Report October 2020 <https://cfg.org.uk/userfiles/201019%20October%20Covid%20Charity%20Tracker%20v3.pdf>

Making a case

Fundraising strategies are linked to having a 'Case for Support'. Most charities had renewed their cases for support since March, but around a fifth of charities responding didn't know what their case for support was. We found a clear correlation between charities seeing their income stabilise or drop slightly, renewing their case for support, and feeling confident about their fundraising strategy.

Evidence from other sector surveys and recent opinion pieces in the sector press back this up. For example, Bluefrog's³ research of donor views during the pandemic shows that in what is perceived as a leadership vacuum, donors expect charities to be able to ask them for donations and to present clear plans for how they are responding to the situation around them. Some donors actually have more disposable income than usual, as there are fewer opportunities to spend money, and the introduction of a 'new normal' has tempered their previous spending priorities.

In the grant-making world, trusts have moved remarkably quickly to respond to the crisis, changing their grant-making models, collaborating with other trusts and making some exceptional gifts. This comment from Oliver French at grant-maker, Lankelly Chase, shows some of this shift in perspective.⁴

"We're living and working in a complex environment, and we've been trying to deploy our resources and attention accordingly. This means pivoting away from a focus on things like planning, delivery and assessment; and looking instead towards sense-making, responding, and adapting to continuous change."

Getting ahead in fundraising

Our advice to fundraising charities is to focus on communicating with and stewarding your existing donor base. This involves being clear and open about what your current needs and current plans for the future are. Donors want to help, and need to be given opportunities to do so. Some may not have the means to help right now, and need to be given ways to pause their support without being classed as 'lapsed donors - never to be revived again'. However, this does rely on charities having strong connections with their donors and routes to contact them. The rule of wealth, warmth and access being three requirements when it comes to asking for donations remains true. The pandemic is affecting 'access' in particular, and in some cases 'wealth'. Warmth to charitable causes remains high. But charities that rely on fundraising activities where the 'access' element is weaker such as street collections, raffles at events, even sponsored challenge events where the connection to the donor is second-hand, will find it much harder to raise sufficient income.

Fundraisers should therefore work on being sensitively creative and use creative ways to communicate with their audiences. This will inevitably involve a more thorough integration of digital technologies, not just email and social media, but looking at fundraising processes end-to-end and introducing better ways to connect using IT. They need to plan carefully, being aware that cash flow is critical at this time, so investment in fundraising activities, while essential must be carefully moderated. This pulls together the insights from our Impact Management and Financial Strategy colleagues. To raise funds well, it is even more important to demonstrate that the donor's pound will be used to create significant social value, and that your organisation understands and manages its money well, so that it can remain sustainable into the future.

IMPACT-LED STRATEGY

What we have seen in our work, and in the survey results, is the resilience of the sector. There is a spirit of wanting to be more relevant for the future, more sustainable and more impactful as we build back better from the pandemic. However, the key issue that has puzzled many organisations is how to get the balance right between focusing on money and impact.

³Queer Ideas *What do donors think about giving now we are 7 months into the pandemic* Mark Philips October 2020 <https://queerideas.co.uk/2020/10/what-do-donors-think-about-giving-now-we-are-7-months-into-the-pandemic.html>

⁴IVAR *Old dogs, new tricks? Learning from lockdown blog series* Oliver French October 2020 <https://www.ivar.org.uk/old-dogs-new-tricks/>

Part of this comes from gathering the information to make decisions; having the management information to see the true margins and surplus/deficit on each activity, and having a basic understanding of the outcomes and impact or change that each activity creates. If in doubt, focus on impact first.

Several of our webinars focused on a basic 2x2 grid mapping out impact and financial viability for each activity. For those activities that are not considered impactful and do not generate income sufficiently, we may need to consider stopping these activities; and yet that is hard for many to do. For those services that are impactful, but do not generate sufficient financial return, the key question is how to be better at recovering costs, setting charge rates to increase profitability, or tailoring a more compelling case for support for the best audience. The alternative is to be conscious and transparent about using our unrestricted reserves to subsidise any 'gap'.

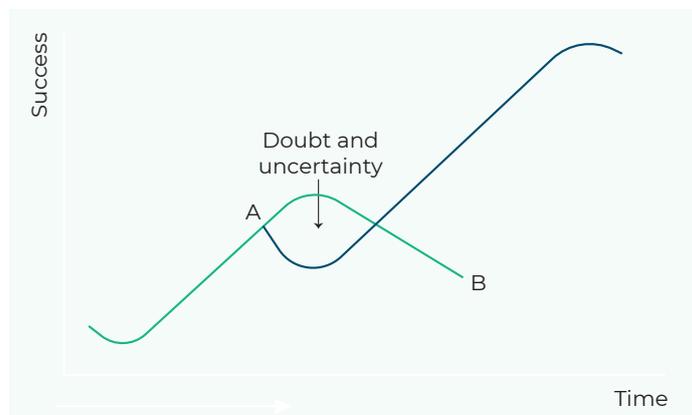


And, even when we achieve the right balance between impact and finance, we can't just leave our work there, we can always improve for the future.

Summary

The Chinese saying goes that the best time to plant a tree is 20 years ago. The second best time to plant a tree is now.

Our survey results and insights from our work with clients plays this out; charities are working hard to survive and thrive, to 'build back' their work post-pandemic. They are also looking carefully at how they re-imagine their work for the future. At the cusp of all growth curves there is a period of doubt and uncertainty when the brave and insightful decide to start the next, new journey. It typically begins with less success than before, but if nurtured can grow into a second curve that increases impact.



At Moore Kingston Smith Fundraising & Management, we help clients to solve these problems and are proud of the difference we make.

All organisations need to look at the best time to change and evolve, before doubt and uncertainty step in. We would be more than happy to help you on your journey.



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