Taking the Pulse of the Small Charity Sector

March to May 2017
16th Edition
Background of Respondents

Geographical spread

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>East</td>
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<tr>
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<td>11%</td>
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<tr>
<td>Wales</td>
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</table>

Where services are delivered

- Local 55%
- Regional 12%
- National 18%
- International 15%

<table>
<thead>
<tr>
<th>Cause Type</th>
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<tr>
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Regional Data Summary
Results from March to May 2017

**EAST**

Income Generation:
- Statutory: -2%
- Earned: -2%
- Voluntary: +2%

Demand for Services: +4%
Paid Staff Decreases by -1%
Volunteers Increase by 1%

79% report staff morale as good

**LONDON**

Income Generation:
- Statutory: -1%
- Earned: +1%
- Voluntary: +1%

Demand for Services: +6%
Paid Staff Levels Remain Static
Volunteers Increase by 2%

68% report staff morale as good

**MIDLANDS**

Income Generation:
- Statutory: -2%
- Earned: +1%
- Voluntary: - Static

Demand for Services: +7%
Paid Staff Increase by 2%
Volunteers Increase by 1%

74% report staff morale as good

WWW.THEFSI.ORG
SOUTH EAST
INCOME GENERATION
- STATUTORY -1%
- EARNED +1%
- VOLUNTARY - STATIC

DEMAND FOR SERVICES
- +6%

PAID STAFF DECREASE BY -1%
+2%

VOLUNTEERS INCREASE BY 2%

70% REPORT STAFF MORALE AS GOOD

WWW.THEFSI.ORG

SOUTH WEST
INCOME GENERATION
- STATUTORY -1%
- EARNED - STATIC
- VOLUNTARY +5%

DEMAND FOR SERVICES
- +6%

PAID STAFF INCREASE BY 2%
+3%

VOLUNTEERS INCREASE BY 3%

72% REPORT STAFF MORALE AS GOOD

WWW.THEFSI.ORG

WALES
INCOME GENERATION
- STATUTORY -2%
- EARNED +3%
- VOLUNTARY -7%

DEMAND FOR SERVICES
- -1%

VOLUNTEERS DECREASE BY -1%
+3%

PAID STAFF INCREASE BY 3%

53% REPORT STAFF MORALE AS GOOD

WWW.THEFSI.ORG
National Data Summary: March to May 2017

**INCOME GENERATION**

- **Voluntary Income**
  - 12% reported increases above 10%
  - 47% reported no change
  - 20% reported a decrease

**SERVICE DELIVERY**

- **Demand for services**
  - 69% reported an increase
  - 31% reported no change
  - 3% reported a decrease

**STATUTORY INCOME**

- 77% reported no change
- 9% reported an increase
- 14% reported a decrease in statutory income

**WORKING IN COLLABORATION**

- 77% state working in partnership with other charities

**NEARLY 1/2 OF SMALL CHARITIES Undertake LESS THAN 10% OF WORK IN PARTNERSHIP**

**EARNED INCOME**

- 22% of small charities reported an increase in the last quarter

**78% not collaborating at a significant level**

**WORKFORCE**

- 31% reported an increase in volunteers

**GREATEST CHALLENGES AHEAD..**

1. Workload
2. Funding
3. Demand for services

- 82% report staff morale as excellent

**GOVERNANCE**

- 81% hold reserves
- 19% operate without reserves
- 36% used reserves in last quarter

**TRUSTEE CONFIDENCE**

- 20% of trustees do not see closure as likely however 1/5 do

**INVESTING IN OPPORTUNITIES**

- 3% of trustees are fully confident to take up opportunities outside their business plan
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Foreword
Pauline Broomhead, Chief Executive, FSI

Why are many small charities and community groups “struggling to survive”? The answer is simple and it’s all to do with the maths. Since June 2013 all charities large and small have been working in a tough financial climate. During the same period the demand for the services they deliver has increased by 103% and it’s a trend that doesn’t look much like changing with an increase of +14% in year one, +22% in year two, +27% in year three and +39% year four. With percentage increase going up year on year we are looking at a very steep increase in demand for services between June 2017 and May 2018.

Resources are stretched, of that there is little doubt, but resilience, a characteristic of small charities and community groups, is at an all-time low. Our most recent Small Charity Index survey has revealed that 19% of all small charities and community groups fear for the future, potentially looking towards closure in the coming 12 months. The organisations that are at the heart of our communities across the UK and beyond are at breaking point.

With fewer than one in 12 Directors of Adult Social Care services fully confident that their local authority will be able to meet its statutory duties in 2017/18; with 28% of local authority care services inadequate or requiring improvement and with the number of unpaid carers increasing between 2013 and 2014 by 16.5% when the general population only grew by 6.2%1, it is within this challenging context that we have never needed our small charities and community groups more.

There is little doubt that in the coming years social care will be at the forefront of our political agenda as local authorities grapple with tightening budgets, rising costs and rising demand. As they respond to these pressures by reducing the number of people who receive state-funded social care, the only place for those outside the system will be to turn to small charities and community groups within their own communities.

But it is not only small charities and community groups delivering social care that are feeling the crunch. In a recent report carried out by the Association of Chief Executives of Voluntary organisations, it showed that more than a third of charities had to dip into their reserves last year to cover a shortfall in income2. Unsurprisingly one of our biggest challenges over the coming years will be achieving financial sustainability.

All of this is at a time when Government is fully focussed on Brexit, which will dominate the political agenda over the coming years. This is why we have released research and made four recommendations urging Government and small charities and community groups to take action:

1. Government be open, transparent and visible as they debate changes to UK policy and the law.
2. Government open clear channels of communication between themselves and small charities to ensure that voices are heard and listened too.
3. That Government plan for the reduction in funding from the EU by engaging with other public and private funders and their representative bodies to investigate alternative sources of funding post Brexit.
4. Lastly we urge all small and local charities and community groups to enter the debate, speak to those in their community and represent the views and issues of their beneficiaries.

Now, more than ever before, small charities and community groups will need to anchor down and draw on their strengths: our volunteers, whose numbers are increasing, the resilience and passion of those who work in the sector (trustees and staff) and our shared determination to build a better society for all.

Index Results: March, April and May 2017

Income Generation

Quick Analysis

Statutory Income

(1) We asked “in the three months March, April and May 2017 has your statutory income increased, decreased or remained unchanged?”
Base: All individual respondents (n = 295)

77% of small charities reported their statutory income levels remained unchanged.

Voluntary Income

(2) We asked “in the three months March, April and May 2017 has your voluntary income increased, decreased or remained unchanged?”
Base: All individual respondents (n = 295)

20% of small charities experienced a decrease in voluntary income this quarter.

Earned Income

(3) We asked “in the three months March, April and May 2017 has your earned income increased, decreased or remained unchanged?”
Base: All individual respondents (n = 295)

22% of small charities experienced an increase in earned income this quarter.
Detailed Analysis

Statutory income

As local authority budgets continue to tighten, the current commissioning environment is set to remain favouring contracts over grants, this is a new reality for small and local charities and community groups.

For the majority of small and local charities and community groups (77%), statutory income levels remain unchanged in the current quarter (Figure 1), suggesting that current commissioning processes continue to disadvantage small and local charities and community groups over larger charities. Only 9% reported an increase, while 14% reported a decrease in statutory income over the same period, which has increased from 10% in the previous quarter. Statutory income for small and local charities and community groups has decreased overall by 11% since 2013, and is the income stream that consistently experiences the largest drop.

A regional perspective
This quarter all regions reported a decrease in statutory income except for Scotland, which remained unchanged. The North West experienced the greatest decrease, of 3%.

Voluntary income

Donating money is reported to be the main way in which people engage with a charity and analysis from CAF shows that, in the short term, the EU referendum has had no impact on charitable donations so far.

However in the current quarter, for almost half of small and local charities and community groups (47%), voluntary income remained static (Figure 2). Only 12% reported increases above 10%, while 20% experienced a decrease. With only a total growth of 2% since June 2013, this suggests that voluntary income does not sufficiently compensate for any losses in statutory income, which leaves small and local charities and community groups extremely vulnerable to the shortfalls.

A regional perspective
Only the South West and the Scotland have seen an increase in voluntary income this quarter, of 5% and 3% respectively.

Earned income

Earned income from mission based enterprises could become the charity sector’s most important type of funding, with a growing number of small and local charities and community groups exploring this stream as a sustainable option.

Over this quarter, 22% of small and local charities and community groups reported an increase in earned income (Figure 3), a small rise from 20% in the last quarter. Overall, the Small Charity Index has reported a total 11% increase in earned income since June 2013.

A regional perspective
The greatest increase was seen in the North West, which saw a 2% rise in earned income this quarter.

Service Delivery
Quick Analysis

Demand for services

(4) We asked “in the three months March, April and May 2017 has your charity seen the demand for services increase, decrease or remain unchanged?”
Base: All individual respondents (n = 295)

- 69% of small charities reported an increase in demand for services this quarter.

Confidence in a small charity’s ability to meet the demand for services

(5) We asked “taking everything into account, how confident do you feel about your charity’s ability to deliver its planned level of services over the next 12 months?”
Base: All individual respondents (n = 295)

- 80% of respondents reported they are confident to a lesser or greater degree that they will be able to continue to deliver their services over the coming 12 months.
We asked the charities that answered YES, “what percentage of your services during the three months September, October and November 2016 were delivered in partnership?”

Base: All individual respondents (n = 301)

<table>
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<td>11- 20%</td>
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<td>21- 30%</td>
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<td>31- 40%</td>
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<tr>
<td>41- 50%</td>
<td>5%</td>
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<tr>
<td>50 +%</td>
<td>12%</td>
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We asked the charities that answered yes, “what percentage of your services during the three months March, April and May 2017 were delivered in partnership?”

Only 22% of small charities are collaborating at a meaningful level i.e. undertaking more than 30% of activities in collaboration with others.

Detailed Analysis

Demand for services

The small charity sector is recognised as being close to their local communities as well as having the ability to provide flexible and responsive support. Indeed, over half of the respondents (55%) to the Small Charity Index would describe their services as being delivered within their local community. With the combined effects of central and local government funding reductions, introduction of the welfare reforms and lower incomes of poorer households, this has placed more pressure on small and local charities and community groups to step in and fill emerging gaps in service provision.

This has resulted in over two thirds (69%) of small and local charities and community groups reporting an increase in demand for their services in the last quarter (Figure 4). Close to a third (31%) reported increases in demand of more than 10%, while only 3% reported a decrease in demand in the same period. These results highlight the continuous rise in demand for small and local charities and community groups’ services, with total increase in demand in services since June 2013 rising by a significant 103%.

A regional perspective

Small and local charities and community groups across all regions experienced an increase in demand for services, with the North West and Midlands reporting increases of 16% and 14%.
Confidence in a small charity's ability to meet the demand for services

With the trend of increasing demand for services not looking to change, resources are stretched almost to the limit for small and local charities and community groups. A defining characteristic of this sector is resilience, and 80% of small and local charities and community groups state they feel confident to a lesser or greater degree that they will be able to continue to deliver their services over the next 12 months (Figure 5), which is nevertheless a slight decrease from 84% in the last quarter.

A regional perspective
The confidence of small and local charities and community groups charities working in the East and Midlands remain the highest at 82% and 77%.

Working in collaboration

The FSI recognises the benefits of partnership working in response to increased demand for services and champions this to safeguard services4.

Results from the Small Charity Index show that 77% of small and local charities and community groups report to be working in partnership with other charities (Figure 6), an increase from 71% in the last quarter. However, only a total of 17% of small and local charities and community groups are collaborating at a meaningful level, i.e. undertaking more than 30% of activities in collaboration with others (Figure 7).

Workforce

Quick Analysis

(8) We asked “in the three months March, April and May 2017 have your paid staff numbers risen, fallen or remained unchanged?”

Base: All individual respondents (n = 295)

64% of small charities report their staff numbers remain unchanged over the current quarter.

(9) We asked “in the three months March, April and May 2017 have your volunteer numbers risen, fallen or remained unchanged?”
Base: All individual respondents (n = 295)

Almost a third of small charities (31%) reported an increase in volunteers this quarter.

(10) We asked “in the three months March, April and May 2017 which of these issues has presented the greatest, second greatest and third greatest challenge?”
Base: All individual respondents (n = 295)

Workload continues to be the most pressing concern to small charity leaders this quarter, selected as the greatest challenge by 29% of respondents.
Staff motivation

(11) We asked on a scale of 1 to 10 “how would you rate the current motivation/morale of your staff?”
Base: All individual respondents (n = 295)

82% of respondents reported staff motivation as good to excellent over the current quarter.

Detailed Analysis

Staff and volunteer recruitment and retention

One of the greatest risk facing a small team is losing key members of staff. However, results from the Small Charity Index demonstrate positive staff and volunteer retention rates.

Staff numbers have remained relatively stable, with 64% of small and local charities and community groups reporting no change in numbers, while 24% have indicated an increase (Figure 8). Many small and local charities and community groups are volunteer-led and do not have any paid staff, so it’s encouraging to see 31% of respondents reporting an increase in volunteer numbers over the last quarter (Figure 9). The Small Charity Index has seen a steady rise in volunteer numbers, with a total increase of 33% since June 2013.

A regional perspective
The South West saw the largest increase in volunteer numbers, by 3% this quarter.

Challenges

Many small and local charities and community groups face a capacity crunch as they deliver against a rising demand for their services with static income levels. As a result, workload remains the most pressing concern facing small and local charities and community groups (29%), followed closely by funding (28%) and demand for services (16%) (Figure 10).

Staff motivation

A knock-on effect of this would be diminished staff well-being, however morale remains high amongst the workforce, despite being pushed to breaking point, with 82% of respondents reporting staff motivation as good to excellent over the current quarter (Figure 11).
Governance
Quick Analysis

Reserves

(12) Does your charity hold reserves?
Base: All individual respondents (n = 295)

Yes 81%  No 19%

(13) If charities answered yes to question (12) we asked, “how much of your reserves have you used during the months of September, October and November 2016?”

- Maintained level of reserve: 64%
- Used 21%+: 7%
- Used 16-20%: 6%
- Used 11-15%: 4%
- Used 6-10%: 7%
- Used less than 5%: 13%

36% of those holding reserves have reportedly used reserves over the previous quarter.

Trustee Confidence

(14) Some charities may face exceptional challenges and may have to contemplate closure, we asked “how likely is it that your charity will face closure in the following 12 months?”
Base: All individual respondents (n = 295)

10 Very likely: 1%
9: 2%
8: 2%
7: 3%
6: 4%
5: 8%
4: 7%
3: 14%
2: 19%
1 Not at all likely: 41%

20% of charities don’t feel confident that they can continue to deliver services in the current environment.
Investing in Development

(15) We asked “how confident are your Trustees to take opportunities for development, outside of your current business plan which carry a financial risk?”
Base: All individual respondents (n = 295)

Only 3% of small charity Trustees report to be fully confident to take up opportunities for development.

Detailed Analysis

Reserves

The majority of respondents to the Small Charity Index (81%) report to hold reserves (Figure 12), however 36% of those holding reserves reported to have used reserves to meet operating costs over the quarter (Figure 13). The other 19% of small and local charities and community groups find themselves in a risky situation operating without reserves.

Trustee confidence

Small and local charities and community groups face exceptional challenges when operating in this difficult financial climate. When asked to determine how likely it would be that they would face closure in the following 12 months, on a scale of 1 to 10, with 10 being very likely, 20% selected between 5 and 10 (Figure 14).

Investing in development

Considering all that has been outlined above, it is not surprising then that only 3% of small and local charities and community groups’ trustees report to be fully confident to take up opportunities for development, outside of their current business plan, that carry a financial risk (Figure 15).
Conclusion

We can only address our most urgent challenge by addressing our most important one, and building financially sustainable organisations at the same time as our trustees are tacking the underlying challenge of building more robust governing boards. In short we must:

1. Build more sustainable small and local charities and community groups through investment in developing the skills to investigate and build mixed income economies.
2. Demonstrate the value to commissioners of commissioning small and local charities and community groups to deliver local services.
3. Support small charities to understand and develop skills in demonstrating impact and measuring social value.
4. Encourage and support more small and local charities to investigate the opportunities that building mission based enterprises could bring.
5. Embrace the use of volunteers and go beyond the traditional volunteer role, making our volunteers part of the solution not only to mitigate the resource issues we face, but to better meet the needs of beneficiaries.
6. Embrace new technologies that will improve service delivery.
7. Be open to more and more meaningful collaboration.
8. Find the resources to offer development opportunities to trustees so that they are able to govern charities to the best of their ability and have the confidence to assess when it is appropriate to take considered risks in order to build long term sustainability in charities or community groups.
Perceptions Data

General Data Protection Regulation (GDPR)

This quarter’s perceptions survey focused on the General Data Protection Regulation (GDPR). The GDPR comes into effect in the UK from 25 May 2018. This will have an impact on fundraising as the GDPR applies to campaigning, marketing, managing volunteers and recording information about service users.

(16) Do you currently collect/record data on individuals?
**Base: All individual respondents (n = 295)**

91% of respondents currently collect or record data on individuals.

(17) Will you review your data protection procedures before GDPR comes into effect on 25th May 2018?
**Base: All individual respondents (n = 295)**

91% will review data protection procedures before 25th May 2018.

(18) If yes, who do you collect data on?
**Base: All individual respondents (n = 268)**

The majority (82%) collect data on service users.
(19) Consent
Do you state clearly why you are collecting personal data?

Do you state clearly how you intend to use it?

If you make data available to third parties, do you get explicit consent to do so?

(20) Are you aware that individuals have the right to access their own personal data?
Base: All individual respondents (n = 280)

(21) The right to be forgotten. Would a donor, volunteer or service user be able to access information easily on:

How to find out what information you hold?
Base: All individual respondents (n = 276)

How information can be removed?
Base: All individual respondents (n = 276)

The majority of small and local charities and community groups (91%) currently collect or record data on individuals (Figure 16), and 91% stated they will review their data protection procedures before the GDPR comes into effect (Figure 17). Of those that currently collects data, 82% collected data on service users, 74% on volunteers and 54% on donors (Figure 18). Respondents demonstrate good practice, with 88% stating clearly why they are collecting personal data and 85% stating clearly how they intend to use it. If respondents make data available to third parties, 89% get explicit consent to do so (Figure 19).

Close to all respondents that hold data on individuals are aware they have the right to access their own personal data (98%) (Figure 20). With the right to be forgotten, 80% of respondents stated that individuals would be able to find out what information was held on them however, more than a quarter (27%) stated they won’t be able to easily access information on how this data can be removed (Figure 21).
Brexit Temperature Check

In June 2016, the UK voted to leave the European Union. Through the quarterly Small Charity Index, we are keeping a general overview of how small and local charities and community groups are feeling and dealing with the post-Brexit vote.

(22) On the day after the Brexit result, how positive/negative did you feel?

41% of small charity leaders stated they were not at all confident about the future on the day after the Brexit result.

(23) How positive/negative do you feel now about the decision to Brexit?

Over the year since, the proportion of those who continued to be not at all confident fell to 29%.

41% of small and local charities and community groups stated they were not at all confident about the future on the day after the Brexit vote, and only 1% stated they were fully confident (Figure 22). Over the year since, the proportion of those who continued to be not all confident fell to 29% (Figure 23). Those who were fully confident remains low, at 2%, which leaves 69% of small and local charities and community groups uncertain about the future.
Methodology

The FSI Small Charity Index is a quarterly ‘State of the Small Charity Sector’ Report. The Small Charity Index reports across four key areas: Income Generation, Service Delivery, Workforce and Governance. The aims of the Small Charity Index are to assess the challenges facing small and local charities and community groups across the UK, identify trends as they emerge and provide a benchmark against which policymakers can make decisions to support the sustainability of the sector.

The data gathering and analysis of trends is carried out by the FSI through its membership of over 5,000 distinct small and local charities and community groups. The FSI is able to capture large amounts of qualitative and quantitative data through surveys and consultations, in addition to face-to-face consultations with over 2,200 small and local charities and community groups per annum through its training and advice programmes.

The Small Charity Index is compiled using the above analysis together with the biennial Skills Survey and current research projects undertaken by the FSI. With additional reference to relevant research published by other infrastructure membership bodies such as Charities Aid Foundation (CAF), NCVO, Localgiving, Lloyds Bank Foundation and Small Charities Coalition. Examination of other data sources additionally informs the analysis behind the Small Charity Index.

Members of the FSI have an annual turnover of under £1.5 million, and respondents from this quarter’s Small Charity Index show 52% have an annual turnover under £150,000, 17% between £150,001 and £250,000, 19% between £250,001 and £500,000 and 12% between £500,001 and £1.5 million.

Data for the current period was collected between 1 June - 7 July 2017, and refers to the period 1 March to 31 May 2017. Comparisons are made with the same questions recorded each quarter since June 2013, giving a total of 48 months of comparative data.