

Small Charity Index Trends

Are Closures on the Increase?

Last year I speculated on how long small charities could keep taking the ever increasing pressure of delivering more services with fewer funds 'on the chin' as they desperately held on, keeping their doors open for those who need their support. This year, not surprisingly, the answer seems to be that they can't!

The consistent message coming out of the Small Charity Index is that small charities are struggling, as they are relied upon by some of the most vulnerable in our society to deliver more services than ever before. This is at a time when the resources needed to deliver those services is diminishing or at best remaining static. Therefore, it's not surprising that when we looked for the 'biggest impact' trends we found that the Charity Commission reported more small charities closing in 2017 than opening. In the last three months alone, the Commission's data records 18 small charities closing their doors, supporting our ongoing Index data that tells us that more than one in five Trustees see closure as a possibility.

We hope that our latest trends data causes 'pause for thought' on the implications of what civil society would look like without an independent, vibrant and thriving small charity sector.

Question: Some charities may face exceptional challenges over the coming months, and some may have to close down. On a scale of 1-10 how likely is it that your charity will close down during the next twelve months? (1 not at all likely - 10 very likely)

LIKELIHOOD OF CLOSURE

How likely is it that your charity will close down during the next twelve months?

YEAR 1

From June '13 - May '14 on average 18% of small charities viewed closure as likely



YEAR 2

From June '14 - May '15 small charities who viewed closure as likely increased by 1%



YEAR 3

From June '15 - May '16 small charities who viewed closure as likely increased by 1%



YEAR 4

From June '16 - May '17 small charities who viewed closure as likely remained static



YEAR 5

From June '17 - May '18 small charities who viewed closure reached its highest at 21%



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There are currently 168,186 registered charities in England and Wales, 88% of which have an annual income of £500,000 or less¹. The overall number of charities registered has remained relatively static over the five years covered by this trends report; however, in 2017 more small charities closed than opened, with 570 closing compared to 370 registering with the Charity Commission².

This uncertainty is reflected in the Small Charity Index, where small charities have reported a great deal of insecurity over the past five years. Throughout the five years covered, the percentage of charities feeling a lack of confidence in their ability to survive has fluctuated, with lows of 15% in the quarters March - May 2014 and June - August 2016. However, reflecting the high number of closures in 2017, in the following quarter the percentage of respondents feeling closure may be likely rose significantly to 22%, where it remained until March - May 2017.

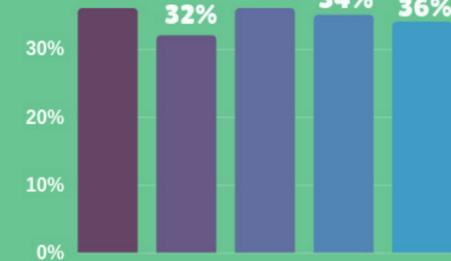
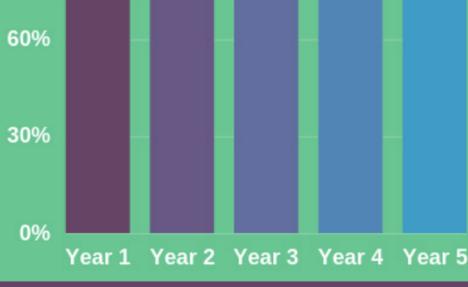
In Year 1, on average 18% of respondents reported feeling that closure may be likely (Infographic 1). By Year 5, this has increased to an average of just over one-fifth (21%) of respondents perceiving closure to be likely throughout the four quarters covered. Although the increase may be slight, the fact that around one-fifth of small charities are consistently telling us that they fear closure is an important trend to consider. Small charities are operating in difficult times, where relatively static income is paired with an increasing demand for their services, worsening the struggle to stay afloat. We will continue to track this trend over the coming year as small charities fight for sustainability.

Question: Does your charity hold reserves?

USE OF RESERVES

Does your charity hold reserves, and have you used them in the last 3 months?

Between June 2013 - May 2018, the average percentage of charities holding reserves fluctuated between 74% and 82%.



During this time, the average percentage of charities using their reserves remained around one-third throughout.

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Overall, the charity sector is estimated to hold around £53 billion in reserves³, with the Charity Brand Index 2018 finding that the largest charities hold on average four months of reserves⁴. The Small Charity Index has found that the majority of respondents do hold reserves (Infographic 2). Throughout the past five years, the percentage of small charities who reported to hold reserves has varied as Trustees have done their utmost to keep their doors open. The percentage of small charities reporting to hold reserves over this period has varied between averages of 74% in Year 1, fluctuating up to 82% in Year 5.

As small charities fight to survive, the average percentage of those who have needed to dip into their reserves has remained relatively constant with an average of around one-third of respondents each year over the past five years. The December - February 2014 quarter saw the largest percentage of small charities reporting using their reserves (48%), as well as being one of the lowest quarters for charities reporting holding reserves (71%), possibly due to the high use and consequent depletion of them during this period.

In Year 5 of the Small Charity Index, on average 34% of respondents reported that they had needed to use their reserves in the previous three months. Combined with the 21% who felt closure may be likely, this evidences a worrying trend of small charities needing to dip into their reserves simply to stay afloat.

Question: How confident are your Trustees to take opportunities for development, outside of your current business plan which carry a financial risk? (1 not at all confident - 10 fully confident)

TRUSTEES CONFIDENCE

How confident are your Trustees to take opportunities for development, outside of your current business plan which carry a financial risk?

YEAR 1

Not confident 71%



Fully confident 4%



YEAR 2

Not confident 64%



Fully confident 2%



YEAR 3

Not confident 65%



Fully confident 2%



YEAR 4

Not confident 65%



Fully confident 3%



YEAR 5

Not confident 65%



Fully confident 2%



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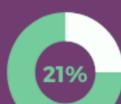
As we have already seen, small charities are operating in a climate where one-fifth are fearing closure may be likely, and one-third of those who hold reserves are needing to use them to survive. As well as the financial implications of this, another impact may be Trustees feeling less confident to take opportunities which arise outside of their current business plan.

The percentage of respondents who rated their Trustees as not confident to take opportunities for development outside of their current business plan which carry a financial risk has fluctuated between an average of 71% in Year 1, to a static average of 65% for Years 3, 4 and 5. The lowest percentage of small charities reporting that their Trustees were confident to take risks was in June - August 2013; the first ever quarter of the Small Charity Index. Interestingly, the highest percentage occurred in the last quarter of Year 5 (March - May 2018) at 39%, although 61% of respondents did not rate their Trustees as confident.

Despite this peak in confidence during this quarter, only 3% of respondents rated their Trustees as fully confident. Similarly, although the average percentage of respondents reporting their Trustees as being confident to take risks has risen to 35% in Years 3, 4 and 5, those who rated them as fully confident dropped from an average of 4% in Year 1 to just 2% in Year 5 (Infographic 3).

SUMMARY

From June '17 - May '18 small charities who viewed closure reached its highest at 21%



Between June '17 - May '18, 82% of small charities held reserves, 36% of which used them.

65% of Trustees were not confident to take risks between June '17 - May '18, whereas 2% were fully confident to.



Fully confident 2%



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1 Charity Commission: Recent charity register statistics, September 2018

2 BBC, 2018

3 NCVO Almanac, 2018

4 Charity Brand Index, 2018