



The financial impact of COVID-19 on the voluntary sector

The coronavirus pandemic has demonstrated need to boost the resilience of the voluntary sector. We do not limit this to financial resilience (although this is a significant issue for many voluntary organisations), but it also relates to the ability to ensure they can provide services to the people they work with even though times are changing, and Wales faces a series of public health, economic, and environment challenges.

However, this paper focuses on the financial challenges facing the voluntary sector in Wales over the next 18 months.

Increased hardship

The Coronavirus pandemic has increased hardship in Wales, and this has led to an increased need for the voluntary sector. Some areas where the sector has seen increased demand in recent weeks include:

- Support for those self-isolation or shielding due to the pandemic (including people no longer required to adhere to specific regulations but who lack the confidence to routinely leave their house).
- Support for people with medical conditions.
- Support for people who have experienced challenges due to the lockdown, such as those suffering from abuse or family estrangement.
- Mental health support and befriending services.
- Support for people who have lost income due to the lockdown or the resulting pandemic, especially those who are now destitute.
- Cultural, arts and education provision during the lockdown.

All of these services are vital to people with whom charities work. The lockdown created a surge in demand that would have been difficult for the sector to manage, especially given the need to develop newer digital ways of working, in normal times. The financial uncertainty being faced

by many organisations at this time has made this need for new and adapted service delivery methods especially challenging.

The financial challenge

The sector is experiencing significant financial losses, whilst also seeing increases in demand for the services it provides. As a consequence, the sector is less able to help those people it works with at exactly the time

There is a significant likelihood of charity closures, or mergers. For larger organisations, reductions in funding may not mean closure, but will mean having to reduce their work with people. A wide range of charities are already making significant numbers of staff redundant.

UK-wide, charities are estimated to lose 24% to their total income for the year¹. We estimate that this would be approx. £620m for charities with headquarters in Wales, and a further loss to UK-wide charities which operate in Wales.

Welsh charities are smaller than their counterparts in England and Scotland and Wales has the highest percentage of micro charities in the UK (53%). A further 32% are small charities. (Micro: less than 10k, Small: less than 100k). For smaller charities like those in Wales, significant changes in fundraising income can be particularly problematic. The Centre for Social Justice estimates that 24% of charities with an income of less than £1m have NO reserves, making their ability to survive and adapt during this time less likely.

It is not yet clear how many redundancies there will be – many are waiting to re-assess at the end of the Coronavirus Job Retention Scheme – but we know:

- 33% of charities said they expected to have to make job cuts in the next 12 months.
- A further 36% of charities said they were unsure if they would have to make redundancies.²

Opportunities for future income-generation are also reduced. For example, mass participation events, an important fundraising income

¹ Research on a UK-wide basis by NCVO, Charity Finance Group, Institute of Fundraising and supported by PricewaterhouseCoopers.

² Research by Acevo and the Centre for Mental Health.

stream, are likely to continue to face restrictions even as other restrictions are lifted. Many organisations also rely on hospitality, leisure or retail facilities which continue to face financial challenges (and may not be eligible for business support as total income may not be reduced significantly, but project-restricted funding cannot be used to make up the balance).

The sector has made good use of the funds provided by the Welsh Government³. We also appreciate that the Welsh Government has made additional funding available to enable the voluntary sector to support the wider recovery.

This funding has often been roughly equivalent to Westminster funding, although we note that there are gaps, for example in direct grants to frontline services.

Wider funding challenges

This crisis has exacerbated wider challenges regarding charity funding in Wales. These challenges include:

1. Charitable income per head is half what it is in England and Scotland; £400 per head in Wales, £800 in England and Scotland. (However, this is partly due to the location of registered offices of major charities, and some “English” activity will take place in Wales).
2. A narrower range of funders (or regions of Wales) and a very limited number of endowed trusts in Wales than in the rest of the UK.
3. A significant amount of Welsh charitable activity is delivered by charities headquartered elsewhere in the UK, many of whom are facing reduced income. Some non-Welsh headquarters may not fully understand the context and aren’t linked into decision-making here. This, in turn, might contribute to operations in Wales being less resilient and Wales offices closing.
4. A sense amongst the sector than some nominally UK-wide funders do not adequately fund organisations in Wales.

³ A list of Voluntary Services Emergency Fund recipients is available here: <https://wcva.cymru/wp-content/uploads/2020/06/VSEF-recipients.pdf>

5. Fundraising has been rising as a proportion of Welsh charities' incomes over the last decade, but Welsh-based charities tend to be smaller and raise a lower proportion of fundraising income.
6. A sense that many organisations' move towards a more diverse income mix has been hampered by the lockdown.
7. The particularly challenging financial situation being faced by organisations which represent BAME communities in Wales, including significantly loss of income over a number of years.
8. the potential diminution or loss of European funding following the closure of European Structural Funds.

Non-financial resilience

Our recent work has also highlighted other, non-financial matters that can support the resilience of the sector, including support for the digital transition and improving the ability of the voluntary sector to influence the public sector more widely.