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If you have any questions on the report, please feel free to contact the authors or any of the firms listed for further advice.

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# Introduction



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The Kreston UK Charity Group Covid-19 survey 2021 was carried out in unprecedented times, not just for third sector organisations but for the whole world.

The impact of Covid-19 and the sector post-pandemic for charities form the two parts of this report, which is based on the answers to 26 different questions. The survey was completed by a cross-section of individuals working with charities – 50% being trustees and 50% chief executives or senior managers. The income of the charities participating reflected the overall sector and the areas they work in include education, arts, culture, health and social care, community sport and grant-making.

We want to provide an overview of the impact of Covid-19 on charities and their beneficiaries and most importantly how they see the future. It became clear that some charities have been significantly impacted, especially through lost income, whilst others have found more flexibility in the way they raise and spend money. Demand for their services has risen, whilst incomes were falling.

As with businesses and economies globally, there can be no doubt that charities have been hit, and in some cases hit badly by Covid-19. However, we wanted to find out the implications of the pandemic on their future. The good news is that there was a lot of positivity, aligned with some caution, about the way forward. What is apparent is that a clear strategy is needed, with the acceptance that things may not be done in the same way they have previously been. Charities need to consider these issues as the world changes to ensure they maintain their relevance. The good news is, the survey demonstrates that this message has been received and the future is looking far brighter than anyone could have imagined in 2020.

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# Executive summary

About a third of the responses were from charities with an income of less than £100k, a third £100k to £1m, a quarter £1m to £5m with the remainder over £5m.

Sectors represented include grant making charities, education, arts culture & sport each made up of around 15% of the survey. The largest sector by far was the health, social care & community sector with over 35%.

The key highlights of the survey painted an encouraging financial picture, demonstrated use of government coronavirus support and pointed to a positive future for the sector.



## The future...

**70%**

of those surveyed envisage a blended mix of face-to-face and online trustees' meetings

**60%**

are considering flexible working going forwards

**70%**

are expecting an increase in demand for their services

The last year has demonstrated the need for flexibility and innovation, and the charity sector has responded well in these areas. Willing trustees, employees and volunteers have risen to the biggest challenge many will have seen in their lifetimes.

The changes we have seen include a wide range of actions including:

- Delivery of services online.
- People working effectively at home.
- Effective online trustees' meetings.
- Flexibility in operating in different ways.
- Widening activities either in response to charitable need or to generate income.
- Better collaboration between charities and the public sector.

Financially, despite warnings to the contrary and some hyperbolic media reporting, our survey showed a sector if not in rude health, then one that has weathered the storm of the pandemic, adapted and is in a good position for the future.

# The impact of Covid-19



## Impact on income & expenditure

### Arts, culture & sports

67% of the arts, culture and sports charities reported a reduction in income with the remaining organisations' income remaining steady. This is not surprising given that the sector relies on the public visiting the attractions or events and during the last year that was only possible for a limited time, and even then, with restrictions – reduced capacity and/or timed entry was not uncommon. For those that suffered a reduction in income, the majority also saw a reduction in costs, which again is understandable with furloughed staff and lower running costs during closure periods.

### Private education

This sector was badly hit. All reported a reduction in income. Our experience is that educational establishments had to give some discount on their fees as:

- Pupils were being educated at home for periods of time; and/or
- Pupils were not receiving the extracurricular activities they were used to.

The range of discounts varied, however 10% or more of a term's fees was not uncommon and we know of some offering more than 25%. Whilst income in this sector fell, unfortunately costs increased. Not only were there additional PPE and cleaning costs to ensure that the staff and pupils were safe, but also additional spend on ICT to enable lessons to take place remotely.

### Grant making

Grant making charities saw their income fall, a possible reflection of the uncertainty in general across the UK. Costs overall remained broadly static.

### Health, social care and community

The health, social care and community sector brought a wide range of responses, reflecting the diverse range of entities operating in this sector. Approximately 35% saw an increase in income (12% a significant increase), 45% saw a decrease (25% significant decrease), whilst the other charities' income stayed broadly similar to the previous year. Of those that saw an increase in income, most, but not all, also saw an increase in costs. For those that saw a slight decrease in income, a small percentage (10%) saw an increase in costs. For the rest there was a mixture of static costs and reductions.

Some charities, especially within this sector, saw funders be more flexible, both in terms of adapting project outcomes as well as the timing of the funding. For some within the sector, there was also some security from a move over the last few years towards long-term contracts being awarded, which gave them increased certainty.

# The impact of Covid-19



**It will not come as a major surprise that 53% of charities saw an increased demand for their services during the pandemic. Charities within the arts, culture and sports arena all saw demand either reduce or stay the same**

## Government support

The most used support was the Coronavirus Job Retention Scheme with more than 50% of charities taking advantage of this. Whilst none of the grant making charities accessed this, all other categories reported circa 50% usage. Rates relief was accessed by more than 25%, mainly the arts, culture and sports and health, social care and community charities. The Coronavirus Community Support Fund was accessed by nearly 20%, mainly those within the health, social care and community charities.

Interestingly nearly 20% of respondents said they had increased fundraising income, although the vast majority were again in the health, social care and community charities – this probably reflects the fact that these charities were more in the public eye.

The most surprising statistic from the analysis of these additional income streams is that nearly 30% of respondents said they had accessed no government support or were not eligible. This included 50% of the grant making charities and 20% of those in the health, social care and community sector. This shows the diversity of this sector, with nearly half of all respondents either at one end of the spectrum, undertaking additional fundraising to balance the books, or at the other end, needing no additional government support.

## Impact on beneficiaries' requirement for support

It will not come as a major surprise that 53% of charities saw an increased demand for their services during the pandemic. Charities within the arts, culture and sports arena all saw demand either reduce or stay the same – in essence in several instances the beneficiaries could not use the facilities due to the lockdowns. Conversely, given the nature of the pandemic it was not a surprise to note that 68% of the health, social care and community charities saw demand increase, more than 50% significantly.

It would appear charities have turned to technology to help support beneficiaries, with 57% of those surveyed stating that they had provided more services online. Based on responses to the survey question 'Do you consider that the technology you had in place at the start of the pandemic was adequate to deal with the challenges ahead', nearly 50% responded 'no'. Looking at the survey results in more detail this response was not sector specific.

We have seen a number of our clients make significant investments in their ICT provision during the pandemic. Most parents will acknowledge that the education sector has seen major change with online lessons becoming the norm at times during the early part of the pandemic. Religious charities and those in health, social care and community have also moved online with more than two thirds having provided online access. One church group reported that it now broadcasts its Sunday services by Zoom with people from around the world 'attending'. On Easter Sunday they attracted an online audience of more than 3,000, something unthinkable 18 months ago.

By contrast less than 40% of the arts, culture and sports, and the grant making charities have invested in ICT. Especially for the arts, culture, and sports sector, this may have been a missed opportunity to raise much needed income, or had they already invested prior to the pandemic?

# The impact of Covid-19

## Impact on reserves

It is pleasing to report that for a sector that often works on small margins, more than 95% of respondents consider their charity to have been financially resilient during the pandemic.

This is probably partly a reflection of the commitment of the executives, their employees and the trustees. Nearly 70% of trusts reported an increase in the number of meetings that were held, utilising in most cases new technology – Teams and Zoom, so that they could be kept up to date and involved in critical decision making in a timely manner.

In just over 20% of cases however this involved taking decisions to restructure the organisation.

# Post Covid-19 impacts



In the first half of this report, we considered the impact of the Covid-19 pandemic on the charity sector and the actions charities have taken to respond to it.

As the vaccination programme kicks in and we see early glimpses of life after the pandemic, albeit no doubt with some short-term challenges still to be faced, thoughts turn to what the post Covid-19 period might look like for charities.

The second part of our survey asked charities about life post pandemic, and together with evidence of what we are seeing with our charity clients, we now consider what the implications may be for the future. As with all aspects of post pandemic life, thoughts change regularly, people look to see what others are doing, and we all aim to chart a way through uncharted waters.

## Survival

We asked charities if they thought they would be able to survive in their present form for the next 12 months.

We were surprised at how positive the results were. No charities reported consideration of mergers as a way to survive, and no charities stated that they did not think they would survive. Whilst there may be a natural reluctance not to forecast the demise of a charity an individual is connected with, we had thought that individuals in this position might respond 'don't know'.

The remarkably positive results could indicate a combination of different things including:

- How resilient the sector has been in coping with the financial challenges of Covid-19.
- Charities are collaborating effectively with others.
- Charities may have already conducted scenario planning to establish how they will cope with changed circumstances.
- The existence of reserves to cope with financial challenges.
- The availability of financial support from the government.
- A sense of optimism as we emerge from the pandemic.
- Additional support by local foundations.

Our view is that charities have proved remarkably flexible in responding to Covid-19 challenges, and the loss of income has been cushioned by reduced costs and available reserves.

## Income for the next 12 months

We have already seen that charities' income streams took a knock during the pandemic, so we asked them what they expected to happen in the next 12 months compared to the previous 12 months.



# Post Covid-19 impacts



**We saw earlier that more than 50% of charities saw an increase in demand during the pandemic, with just 20% reporting a fall**

These results help support the positive response to the earlier survival question and mirror very positive predictions now across the economy as a whole.

Notwithstanding the generally positive message, almost 17% of charities still expect a drop in income compared to a period when income levels were generally reduced. It is therefore slightly surprising that the results of the earlier survival question were so positive.

This may reflect several factors, including:

- The charities affected may be helped by stable or only slightly increased costs.
- The availability of reserves.
- An assumption that the next financial year could be more difficult if some or all of the Covid-19 specific grants and the Job Retention Scheme are no longer available to support the sector.

It will be interesting to see what the outturn is over the next 12 months. Fundraising activities and investment income have generally taken a hit and logic suggests these will bounce back.

Charities reliant on fundraising events and donations are likely to have to work hard to achieve good results.

Charities funded through government and local authorities may see a more stable position.

## Costs for the next 12 months

More than 60% expect costs to increase in the next 12 months, but only 11% expect them to increase significantly.

There are some inflationary pressures at work in the economy both in terms of salary levels and other costs, so it is not surprising that 50% of charities expect costs to increase a little.

As we have seen earlier, 42% of charities saw reduced costs in the pandemic, so the evidence from this question suggests that some of these cost savings may not be permanent. Perhaps travel and property costs will return to more normal levels, although it is hard to avoid the prediction that travel costs (including overseas travel) will fall and property costs may fall over a period as we move to a more virtual world with people using technology to work more at home and conducting more activities online.

## Demand from beneficiaries

We saw earlier that more than 50% of charities saw an increase in demand during the pandemic, with just 20% reporting a fall. We asked what charities expected over the next 12 months.

Over 70% expected an increase, with 30% anticipating a significant increase. This clearly indicates the impact of the pandemic, and assuming these demands can be met, how the sector will adapt to this change long term.

It is interesting to speculate why this might be, and our discussions with clients indicate several possible reasons:

- Pent up demand unsatisfied because of the pandemic, for example from people who may have been reluctant to leave home or engage with online platforms.

# Post Covid-19 impacts

- The financial impact on some individuals, particularly if unemployment levels increase.
- The well-publicised impact of the pandemic on mental wellbeing.

It is appropriate to link this to the earlier question on increases in costs, where the forecast increases were perhaps greater than expected. It is possible that despite reductions in some areas such as travel and property costs, charities' cost predictions reflect the costs which will come from increased demand from beneficiaries. For charities to cope with this increased demand, there may be a lot of pressure on existing staff and a requirement for higher staffing levels, with salaries being the largest cost for most charities.

## Reserves levels

We asked charities if they were happy with their current reserves levels after/over 12 months of the pandemic, and we were surprised that almost 80% were.

Our discussions with our charity clients indicate that they worry about reserves. Most of these concerns are about the possible inadequacy of reserves levels, although we do have some clients who are worried that they may be perceived to have too high a level of reserves.

The 80% response rate links in with the earlier positive replies to the question of charity survival, and the fact that whilst income levels have generally fallen, costs have also fallen, and reserves levels may not have been hit as much as we might have expected when the pandemic started in March 2020.

Time will tell if these reserves will be substantially depleted into the future as charities cope with increased demand over a period likely to last a lot longer than 12 months. When the dust settles and people begin to consider what organisations and people did during the pandemic, it will be interesting to see if charities are challenged as to whether they might have done more to support beneficiaries by using more of their reserves. If reserves are partly held for a 'rainy day', surely the Covid-19 pandemic meets this requirement!

## Working practices

After discussing the financial implications of the pandemic, we looked at working practices and if these are likely to change. Many organisations are considering how they might operate differently in the future.

# Post Covid-19 impacts

<p><b>Flexible working</b></p>	<p>60% are considering flexible working, such as working from home. 60% feels like a rather low percentage given that most charity clients we speak with are considering this, but it may reflect that some (e.g. care charities) may find this very difficult.</p> <p>In a world where retention and recruitment of good quality staff are increasingly important, charities should consider this issue carefully.</p>
<p><b>Property</b></p>	<p>We were surprised that only 27% of those surveyed were considering their property requirement.</p> <p>This may reflect the fact that charities may have long and inflexible leases, and we expect that more charities will consider this over time, particularly with 60% of charities considering flexible working. We have some smaller charity clients which have become virtual organisations with no permanent office space, so we expect to see the position change over several years.</p>
<p><b>Services</b></p>	<p>57% of clients are considering offering more digital services in the future. We had anticipated that this would be a greater number. However, considering the earlier question where 57% of charities had provided more online services during the pandemic, perhaps this builds on a situation where charities have already made significant strides forward in the last 12 months. Of course, a significant question will be how suitable digital services are for each charity and whether they are considered effective, both by the charity and its beneficiaries.</p>
<p><b>Technology</b></p>	<p>Almost 50% of charities indicated that their technology was inadequate to deal with the challenges that the pandemic threw at them. However, only 43% of charities said that they would increase technology spend in the future. Perhaps this reflects the fact that charities have spent money in the last 12 months to get their technology up to speed. However, it is often the case that charities seem to be a little behind private sector organisations when it comes to technology, so it is important that they ensure their technology is sufficient, particularly where beneficiary demand and the need for online services increase, or there is a significant shift to people working from home.</p>
<p><b>Mental health</b></p>	<p>Many organisations across private, public and charity sectors have been putting more emphasis on mental health amongst their workforce over the last couple of years. Most commentators forecast a long trail of mental health issues coming out of the pandemic, including the return to work for some, so it is not surprising that 55% of charities are looking to place more focus on this area. Perhaps the other 45% have already addressed this issue, or alternatively may need to consider if they are doing enough.</p>

# Post Covid-19 impacts



**We are all aware of the perils of Zoom fatigue, and most people we speak to yearn to meet in person again. Of the charities we surveyed, almost 25% envisage all meetings returning to real face to face meetings in future**

## Trustees' meetings

The earlier question on governance indicated that most charities have survived the pandemic by holding meetings on platforms such as Zoom, and that there have been more meetings.

We often attend trustees' meetings to discuss accounts, audit, and other financial matters, and it is noticeable over the last 12 months how good attendance has been. Sometimes this is because the absence of the need to travel is attractive. It may also be that there are fewer meeting demands, or that virtual meetings are usually shorter than face to face.

However, we are all aware of the perils of Zoom fatigue, and most people we speak to yearn to meet in person again. Of the charities we surveyed, almost 25% envisage all meetings returning to real face to face meetings in future.

However more than 70% envisage a mix of face to face and online.

The reality is that some people prefer online meetings and others prefer 'real' meetings, so no one is going to be entirely happy. It is also worth noting that our experience is that online meetings work reasonably well when there are less than 10 people attending, but after that become difficult to manage and for some individuals to contribute. Charities looking to move to a predominance of online meetings need to be aware that they may struggle to retain some trustees who prefer to meet in person.

The other challenge is ascertaining what a mix of online and face to face means. It is straightforward if some meetings are entirely face to face, and others entirely virtual. However, we have seen some unsatisfactory meetings where some people have been in a room and others have joined virtually, sometimes with two or more people in a room but using the same screen. There are challenges for people being seen and heard, but perhaps technology will be developed to overcome this.

## Risk management

We noted earlier that less than 10% of charities had a pandemic on their risk register. The position is much changed now, with Covid-19 featuring on many risk assessments, and some charities having a separate Covid-19 risk protocol.

Whilst we might be accused of being unduly pessimistic, we suggest that most charities should have pandemics on their risk register in the future. If it is not Covid-19, it could be something else.

What has been impressive across the charity sector has been the active risk management we have seen in the last 12 months. Risk registers can tend to be rather static and sometimes considered only annually. Many charities have demonstrated active risk management on a day-to-day basis in response to changed government policy and other circumstances, and perhaps this will be something charities can take into the future.

# Kreston UK Charity Group



The Kreston UK Charity Group comprises of 11 firms which work with more than 2,000 charities of various sizes and within many sectors across the UK. The representation across the group gives it a unique perspective and enables it to deliver proactive advice and guidance to organisations working from health campaigns to animal welfare. The network has a wealth of experience combined with the scope and capability to support and guide charities of all sizes.

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