

Kreston

# Charities Report 2023

*Helping to understand the current issues for UK charities*

Inside front cover

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# Introduction

With Britain in the midst of a cost of living crisis and a bleak economic outlook, charities are starting to feel the pinch. Whether it's a decrease in funding as donors grapple with their own soaring costs, an increase in demand or recruitment challenges, charities face an uncertain future.

All of this comes not long after the Covid-19 pandemic, which in itself had a monumental impact on the charitable sector, seeing an increase in demand for services and a big impact on mental health.

This survey was extended to clients of the Kreston UK Charity Group, who work with more than 2,000 charities of various sizes offering a range of services across the UK. Understanding and considering the experiences of a wide range of charities can provide important guidance to support the sector to adapt and grow, helping to deliver the best outcome for the country and its people.

This report, based on a survey of over 50 UK charities, explores the challenges currently affecting the third sector and how charities plan to deal with relevant issues such as cyber security, diversity and the climate crisis.

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## Top 10 findings

1. Recruitment has become more challenging for charities since the pandemic in 2020 (see section 2.2)
2. 78% of charities had not increased pay by at least the rate of inflation at the time of the survey (10.5%) (see section 2.1)
3. 84% of charities have seen costs (excluding salaries) increase by at least 5% in the last year. 46% have seen costs rise by over 10% (see section 1.3)
4. 73% said their financial reserves are sufficient to cover future development plans and contingencies for increased costs or reduced income (see section 1.2)
5. Collaboration between charities and public sector organisations has increased since the pandemic (see section 3.1)

6. The majority of charities surveyed are concerned about a lack of diversity among the board of trustees (see section 7.2)
7. 82% of charities said their beneficiaries are more affected by mental health issues than they were before the pandemic/cost of living crisis (see section 8.1)
8. 76% of charities surveyed felt the charity sector as a whole is more valued by the general public than it was pre-Covid pandemic in 2019 (see section 5.1)
9. 85% are satisfied that their charity has reasonable and proportionate cyber security measures in place to protect it, but only 56% have cyber insurance cover in place (see sections 6.1 and 6.2)
10. Most charities are now addressing environmental matters but 72% do not report on environmental impact (see sections 9.2 and 9.3)

# Executive summary

Perhaps unsurprisingly, this survey and report show that charities are being affected by the current cost of living crisis facing the UK. A large majority of the charities surveyed have seen costs rise over the past 12 months due in no small part to soaring energy bills and a steep hike in inflation.

Recruitment is a real concern, with 64% of charities saying that it has become more challenging to both recruit and retain staff since the Covid-19 pandemic. One reason for this could be that only 22% have been able to offer pay increases to match the high levels of inflation. To try to tackle the recruitment challenge 75% of charities are taking steps, other than financial, to make their charity a more rewarding place to work. It remains to be seen whether this will be effective or whether workers will continue to look elsewhere to gain a better financial package.

Despite the uncertain economic times, the charities we surveyed are confident in their ability to tackle any further financial challenges. 56% of the charities said they are in a more sustainable financial position than when the pandemic started in March 2020. Even more encouragingly, 73% said their financial reserves are sufficient to cover future development plans and contingencies for increased costs or reduced income. Conversely, that also means that 27% are concerned that they do not have sufficient funds in place to cover another sudden increase in costs.

The Covid-19 pandemic has clearly had a big impact on the charitable sector, particularly concerning mental health. 82% of charities said their beneficiaries are more affected by mental health, and 72% of charities surveyed have increased the provision of mental health support for staff/volunteers in an attempt to tackle the increasing strain many are feeling.

The pandemic has also seen some positive change however, with 76% of charities surveyed feeling the charity sector as a whole is more valued by the general public than it was before the Covid-19 pandemic. Collaboration between charities and public sector organisations has also increased since the pandemic.

However, a lack of diversity, particularly at senior level, is a major worry for the charities we surveyed. 72% said they are concerned about a lack of diversity among their Board of Trustees, while 46% said a lack of diversity among staff in general is troubling.

Charities are, on the whole, well equipped to deal with cyber security, with 85% saying they are satisfied that their charity has reasonable and proportionate cyber

security measures in place. Despite this, many charities may be vulnerable to the financial cost of cyber crime, with a little over a half of those surveyed having cyber insurance cover in place.

It is a mixed picture as well when it comes to environmental factors. 72% of charities do not report on environmental impact. However, the climate is a growing issue and charities are starting to take note, with 33% saying that environmental matters are part of their broader goals, and a further 50% saying they are addressing climate concerns despite them not being part of their objectives or purpose. It is worth noting that none of the charities that responded to the survey have environmental issues as their primary purpose so this mixed response is perhaps to be expected.

While it is of no surprise that charities have felt a big impact from external factors such as the pandemic and the cost of living crisis, it is encouraging that most charities are well equipped financially to see them through any challenging times ahead. However, there are real and valid concerns around recruitment, a lack of diversity and increasing costs that will need to be addressed over the coming year.

## Section 1:

# Financial position

## In brief

Our research finds that a small majority (56%) of charities are in a more sustainable financial position than they were when the Covid-19 pandemic arrived in the UK in March 2020.

Despite the economic turmoil brought about by a mixture of the pandemic, events in Ukraine and Britain's rapid fire of prime ministers, 73% of charities consider their financial reserves to be sufficient to cover future development plans and contingencies for increased costs or reduced income.

While these are encouraging numbers, they can of course be flipped around. 44% of charities find themselves in a less sustainable position and 25% are concerned that their financial reserves are insufficient to tackle future cost rises. For these charities, a combination of reasons including an increase in demand, recruitment challenges and rising costs are all causing an alarming strain on their finances.

It's no surprise then that a large majority of the charities we surveyed have seen costs increase. As energy bills and inflation soared, 84% of charities have seen their bills rise (excluding salaries) by at least 5% over the last year, and 46% have seen a rise in bills of over 10%.

Rising costs, coupled with dwindling charitable donations<sup>1</sup> in the past six months mean that there are tough financial challenges ahead.

## Findings

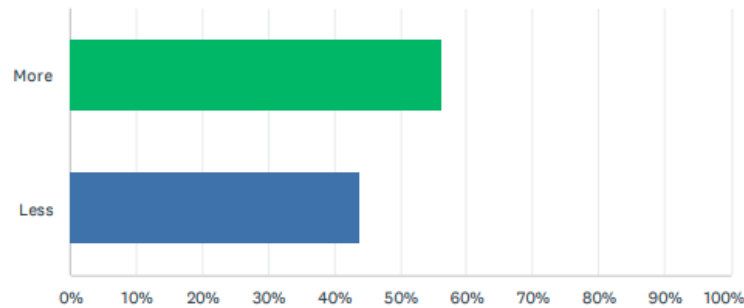
### **1.1 - Although 56% of charities are in a more sustainable financial position than they were before the Covid-19 pandemic, 44% are worse off**

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<sup>1</sup> Source: [Six in 10 people have reduced charity donations over past six months, research shows | Third Sector](#)



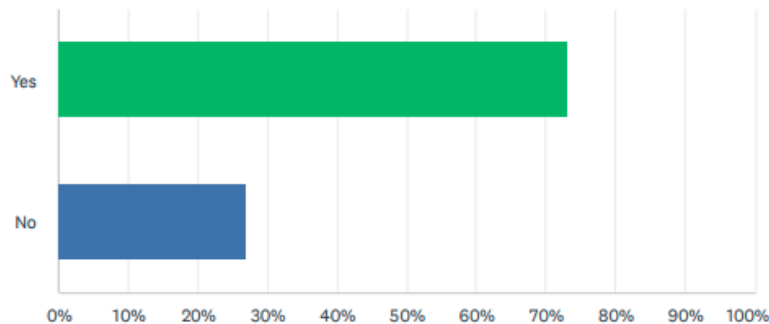
Is your charity in a more or less sustainable financial position than it was when the pandemic started in March 2020?



While it is encouraging to see over half of the charities surveyed in a more sustainable position than they were before the pandemic, the fact that just under half are in a less sustainable position is concerning.

## 1.2 - 73% of charities believe that they have sufficient financial reserves to cover increased costs and reduced income

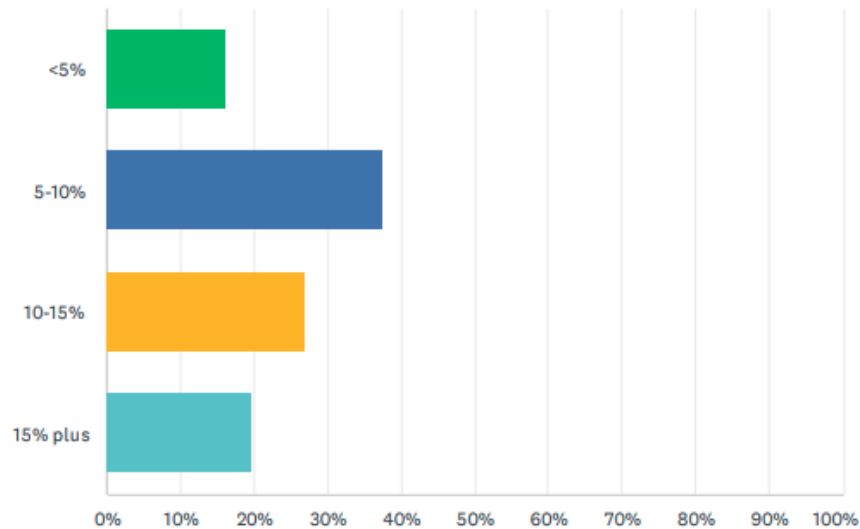
Do you consider that your financial reserves are sufficient to cover future development plans and contingencies for increased costs or reduced income?



Again the data arising from this question shows two sides of the story. 73% of charities believing that they have sufficient financial reserves is a promising number. It suggests that the majority of charities have robust financial plans in place to cope with worsening financial positions as the UK heads into recession. The fact that over a quarter of the charities surveyed - not an insignificant number - have insufficient funds is alarming, they say their futures are far from secure.

### 1.3 - Costs for charities are increasing - with a fifth seeing rises of over 15%

Excluding salaries, how much have you seen your costs increase in the last year?



The past year has been a tumultuous one economically for the UK. With Brexit and the pandemic undoubtedly still having an impact on the country's financial position, Russia's actions in Ukraine, coupled with a far from settled political situation in the UK, exacerbated the situation. Energy bills have risen at unprecedented levels, as interest rates and inflation have also soared. The resulting cost of living crisis has affected almost everyone in the country, and it is therefore unsurprising to see that charities have failed to escape the impact.

A large majority (84%) of the charities surveyed have seen costs (excluding salaries) increase by at least 5% in the last year, while 46% have seen costs rise by over 10%. 20% have seen costs increase by over 15%. While not surprising, these increased costs, combined with a reduction in donations to charity, paint a concerning picture.

**Section 2:**

# Recruitment challenges

## In brief

Whilst there are contrasting financial positions for charities, one constant was that charities are facing rising costs and limited financial resources when compared to the private sector, with both causing challenges in recruitment efforts.

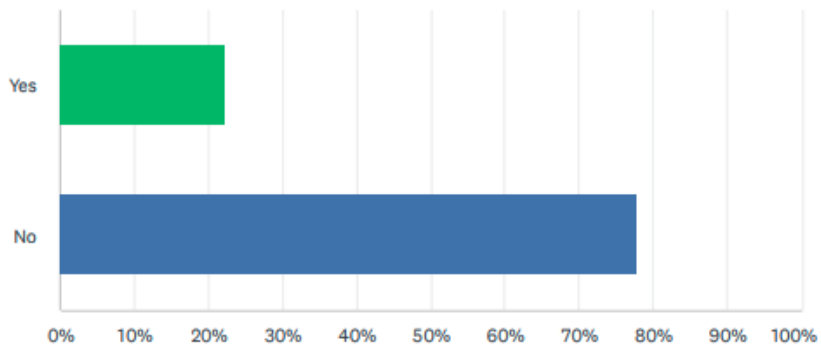
Inevitably our findings show a large majority of charities have not awarded pay rises that either match or surpass the current high levels of inflation. A major contributory factor that 64% of charities are finding the recruitment and retention of staff more of a challenge than even during the pandemic. 36% have said that the scale of the challenge has remained the same since the pandemic and, tellingly, no charity said it was less challenging now than it was in 2020.

Charities are instead looking to other, non-financial rewards to entice new recruits and convince existing employees to stay rather than seeking a more lucrative financial package elsewhere.

## Findings

### **2.1 - Charities struggle to keep up with rising inflation as 78% fail to offer pay rises at 10.5% or higher**

Have pay awards at your charity increased by at least the current rate of inflation in the last year (10.5%)?

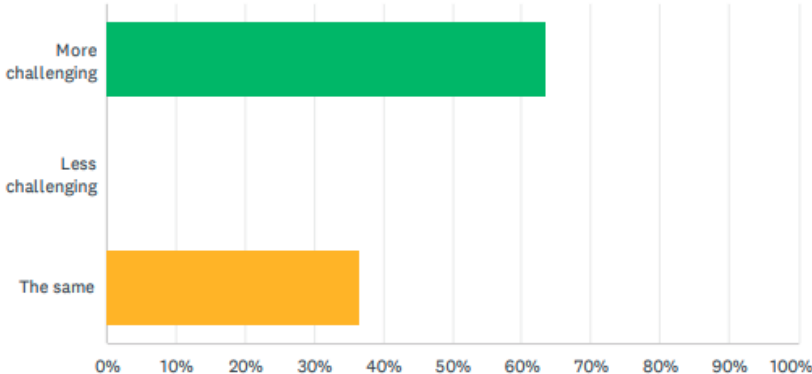


Whilst the majority of charities told us they haven't offered their employees a pay increase by at least the rate of inflation, it is perhaps more remarkable that 22% of charities have in fact managed to offer an above-inflation pay rise to staff.

It's therefore unsurprising that 78% of charities are finding it harder to recruit and retain staff with workers suspectedly looking elsewhere for higher remuneration to cover their own rising bills.

## 2.2 - Recruitment has either become more challenging, or as challenging as it was during the pandemic in 2020

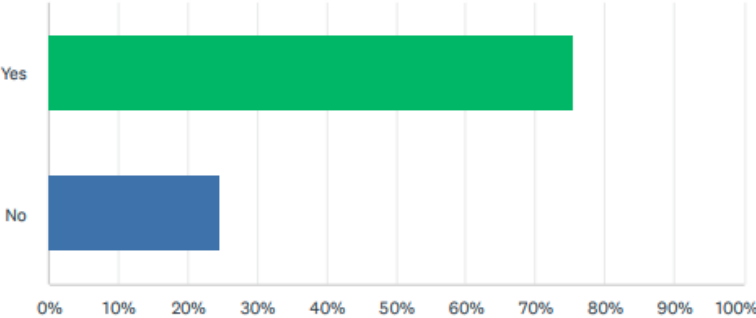
Has the recruitment and retention of staff become more, or less, challenging than it was during the pandemic in 2020?



Interestingly, no charity said that recruitment is less of a challenge now than it was during the Covid-19 pandemic in 2020. 100% of charities said that it had either stayed the same, or become more challenging than it was during the pandemic with the majority (64%) finding it more difficult to recruit and retain staff now.

### 2.3 - Charities are looking to offer a more diverse benefits package to attract and retain staff

Are you taking steps, other than by financial means, to make your charity a more rewarding place to work?



Aside from the demand for higher wages to combat increased living costs, there is an increasing expectation that employers should offer a much broader range of benefits. From flexible working arrangements and increased parental leave to mental health support and private medical cover, employees are continuing to place a high value on perks that go beyond their pay packet.

It is in this context that 75% of the charities we surveyed said that they are taking steps to make their organisations a more rewarding place to work. Despite the tightening of purse strings, charities are reacting proactively by offering a more varied benefits package to their employees. It will be interesting to see what impact this will have on recruitment and retention efforts going forward.

**Section 3:**

# Collaboration

## In brief

Our survey has found that many charities have collaborated more with other charities, public sector organisations and the private sector since the pandemic or cost of living crisis started.

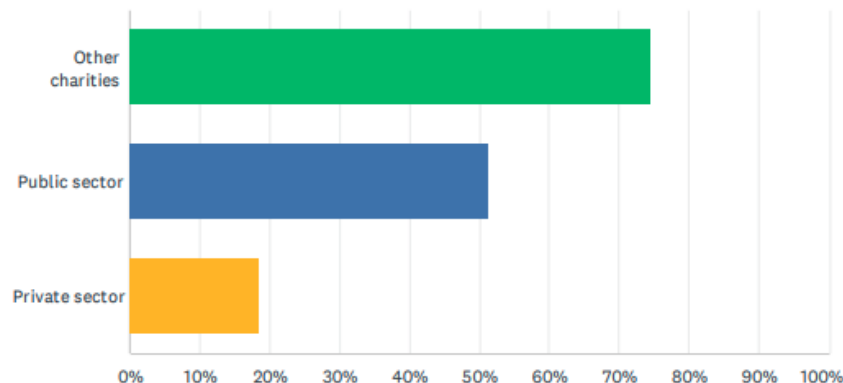
Furthermore, a third of charities would consider merging with another charity working towards similar objectives to themselves.

We can perhaps deduce that the difficult times over the last few years has led many charities to consider how best to continue to deliver for their beneficiaries, and are subsequently considering collaboration even more than they may have done previously.

## Findings

### **3.1 - Collaboration between charities seems to have increased since the pandemic/cost of living crisis started**

Have you collaborated more with other organisations including charities, public sector bodies or private companies, since the pandemic/cost of living crisis started? Please tick the ones you have collaborated with:



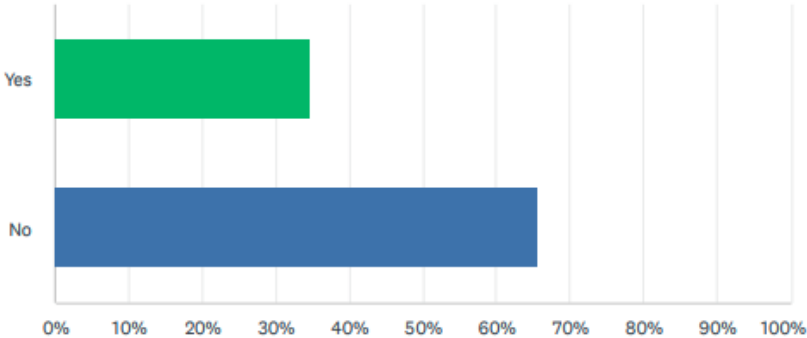
74% of charities who said they had collaborated more with other organisations since the pandemic/cost of living crisis have worked with other charities. While the pandemic and economic turbulence clearly had and continues to have many

negative impacts on the charitable sector, the fact that a great many charities have collaborated with each other is nice to see. Charities of course put their beneficiaries first at all times, but it is pleasing to see that in particularly tough times charities will increasingly work with each other to look after the individuals or organisations that they support.

Meanwhile, over half of respondents said that they had collaborated more with public sector organisations, while 19% said they had collaborated more with the private sector.

### 3.2 - With collaboration between charities seemingly on the rise, over a third would consider merging

Would you consider merging with another charity with similar objectives to your own?



In the context of increased collaboration between charities brought together by the pandemic and cost of living crisis, over a third of the charities we surveyed said that they would consider merging with another charity.

While on the surface this may seem high, it perhaps shouldn't be surprising. With costs on the rise and donations slowing down, a merger between two, particularly smaller, charities working towards similar objectives may make perfect sense to ensure survival, thereby continuing to deliver for their beneficiaries.

## Section 4

# Risk management

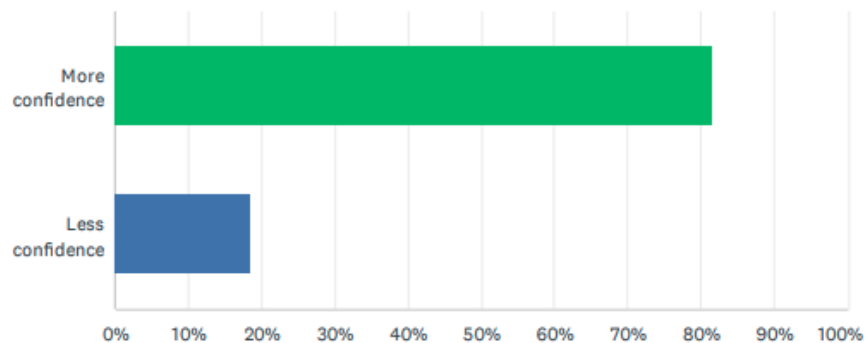
## In brief

A positive brought about by the pandemic is that charities are now more confident in their risk management processes, which given that over half of the charities surveyed are expecting another major event, is welcome news.

## Findings

### 4.1 - 81% of charities are now more confident in their risk management processes

Do you have more or less confidence in your risk management processes than you did before the pandemic/cost of living crisis?

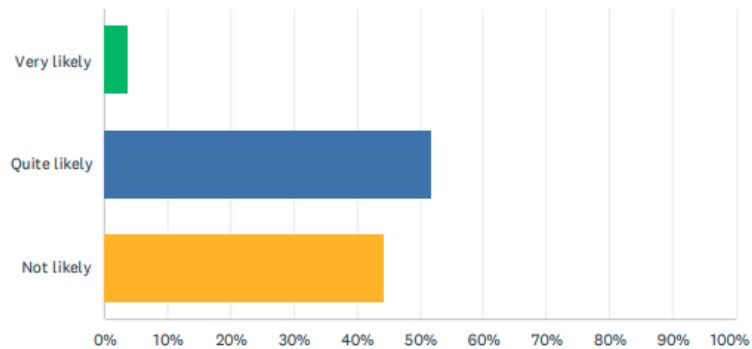


Our findings here show that 81% of charities have more confidence in their risk management processes, and 19% are less confident.

### 4.2 - 56% of charities think it is likely that we'll experience another event like a pandemic which will affect their organisation



How likely is it that we'll experience an event such as a pandemic which will impact on your organisation within the next few years?



We see the charities we surveyed quite split here. Just 4% said they think that it is very likely that we'll see another pandemic level event, but 52% think it is quite likely. Meanwhile, 44% think it is unlikely. Of course, this question is difficult to predict, which could explain the relatively even split between those thinking it is likely and unlikely. While we all of course hope not to see another pandemic, the fact that charities are now more confident in their risk management is reassuring as they face whatever the future may hold.

## Section 5

# Public perception of charities

## In brief

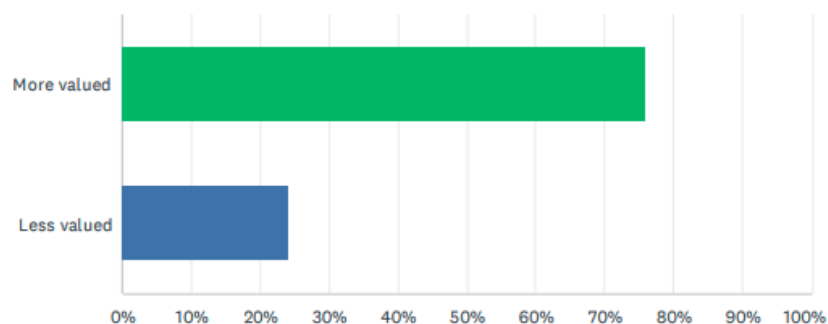
The pandemic brought about many challenges for the charitable sector with increased demand and limited funding. The pandemic did however help to shine a light on all of the fantastic work that UK charities do to support people, communities and organisations all across the country. Local news programmes were often full of stories about charities stepping in to help out the most vulnerable in society.

This increased focus on charities hasn't decreased in the period since, and 76% of charities surveyed said they felt that the charity sector as a whole is now more valued by the general public when compared to before the pandemic. It is also reassuring to see that high profile scandals/issues regarding safeguarding and accusations of misuse of funds at larger charities have not had a negative impact on the fundraising efforts of those that we surveyed.

## Findings

### 5.1 - The majority of charities think the charity sector is more valued by the general public

Do you feel the charity sector as a whole is more, or less valued by the general public than it was pre the Covid pandemic in 2019?



With 76% of charities saying that they feel the sector is more valued by the public, we have a clear perception among the charities themselves that the public are

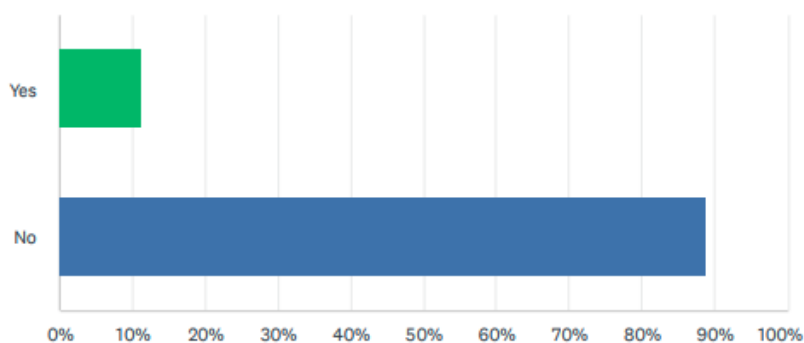
appreciating their work. On the other hand, nearly a quarter said that they felt the sector was less valued by the public.

A government report on public trust in charities<sup>2</sup> published in July 2022 found that the public believes that charities are an important part of society, and that they have higher trust in charities than in most other parts of society. The report explains that this is a “*reflection of the value the public thinks that charities can bring and have brought throughout the Covid pandemic*”.

This report certainly seems to correlate with the experiences of the majority of charities we surveyed.

## **5.2 - High profile scandals and issues regarding safeguarding and accusations of misuse of funds at larger charities are not negatively affecting fundraising for the charities we surveyed**

Have high profile scandals/issues regarding safeguarding and accusations of misuse of funds at larger charities negatively affected your ability to raise funds?



Recent years have seen a string of high profile scandals at big name charities around safeguarding and misuse of funds. Thankfully, 89% of the charities we surveyed did not believe that these issues were affecting their ability to raise funds.

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<sup>2</sup> Source: <https://www.gov.uk/government/publications/research-into-public-trust-in-charities-and-trustees-experience-of-their-role/public-trust-in-charities-2022>

**Section 6:**

# Cyber security

## In brief

For all organisations both large and small it is now widely recognised that having a comprehensive package of cyber security measures, training and insurance protection in place is an essential part of safeguarding assets. As cyber threats develop it is essential that protection measures are keeping up with the latest technology and innovations.

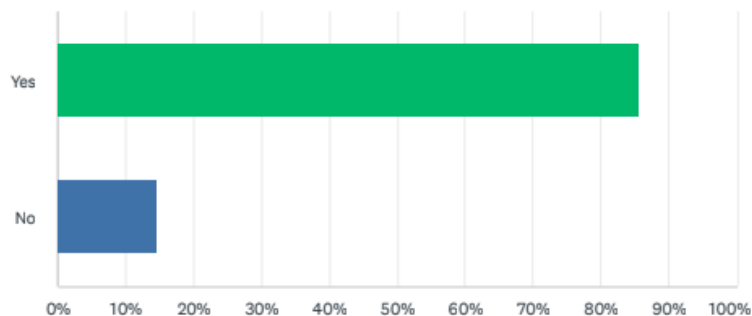
For charities, cyber security may not have always been top of the agenda, with stretched budgets generally prioritising the core work of the organisation. However, our survey results show that charities are increasingly beginning to prioritise cyber security. We found that a large majority of charities are satisfied that they have proportionate cyber security measures in place, with a smaller majority having insurance in place and increasing cyber security training among staff.

It may be prudent for those charities who responded to our survey saying that they do not have sufficient protection in place to prioritise cyber security in 2023.

## Findings

### **6.1 - Charities are generally well equipped to deal with cyber security issues**

Are you satisfied that your charity has reasonable and proportionate cyber security measures in place to protect it?

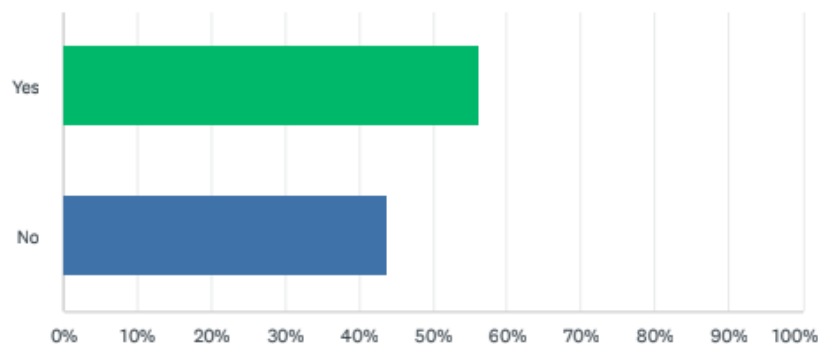


It is increasingly important for all organisations to protect themselves online by implementing the latest cyber security techniques to keep devices, software and systems secure. It's no different for charities, so it may be reassuring to know that 85% of the charities we surveyed are satisfied that their cyber security measures are reasonable and proportionate.

For the 15% that don't feel they have sufficient protection it will be worth prioritising cyber security to ensure they are protected going forward. Equally, feeling secure is not the same as *being* secure, so it may also be the case that many are unduly confident or unaware of the level of risk.

## 6.2 - Only just over a half of charities have cyber insurance in place

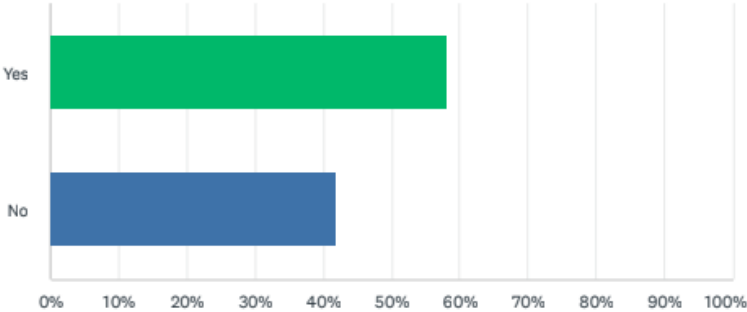
A cyber insurance policy provides a combination of coverage options to help protect an organisation from the impact of data breaches and other cyber security issues and may be included as part of a broader policy - does your charity have cyber insurance cover in place?



While having adequate cyber security measures in place is essential, even the best cyber security can't guarantee protection from potential cyber attacks or hackers. It is therefore prudent to also have a cyber insurance policy in place to ensure charities are covered should the worst happen. Worrying, only just over half of the charities we surveyed said they had such coverage in place.

### 6.3 - Cyber security training is on the rise across a majority of charities

Have you stepped up cyber security training for staff in the last 12 months?



58% of charities are also stepping up their cyber security training among staff to ensure they know how to safeguard against cyber threats.

**Section 7:**

# Equality, diversity and inclusion (EDI)

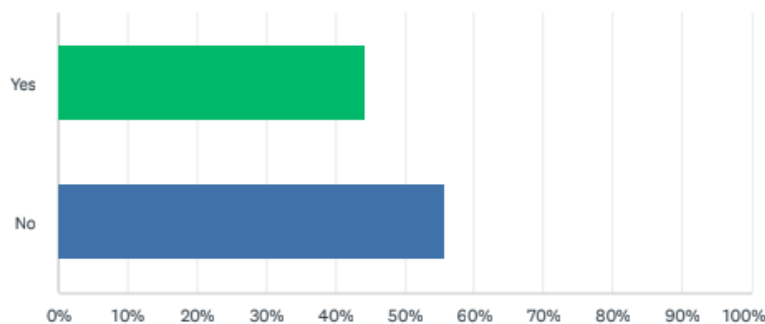
## In brief

In recent years, increasing attention has been placed on the lack of diversity at senior level among British charities. Our research supports that finding with a large majority of the charities we surveyed concerned about a lack of diversity at Board of Trustees level.

Additionally, we asked if funders or potential funders are asking for details of charities' EDI (equality and diversity) policies. While the majority say they are not being asked, a significant number are.

### **7.1 - Just under a half of funders and potential funders are asking for EDI policy details**

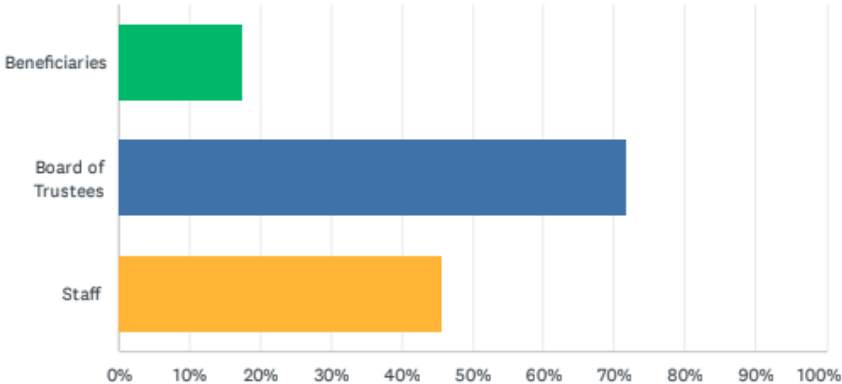
Have you been asked by funders or potential funders for details of your EDI policy?



While the majority of charities we surveyed are not being asked to provide details of their EDI policy to potential funders, it is intriguing that 44% said that they are, suggesting an increasing requirement of funders that a charity's EDI policy aligns with their own values.

### **7.2 - Lack of diversity at board level a concern among charities**

In what areas are you most concerned about a lack of diversity in your organisation?



A majority (72%) of the charities we surveyed are concerned about a lack of diversity among their Board of Trustees. Meanwhile, 46% are concerned about their workforce in general lacking in diversity.



## Section 8:

# Mental health

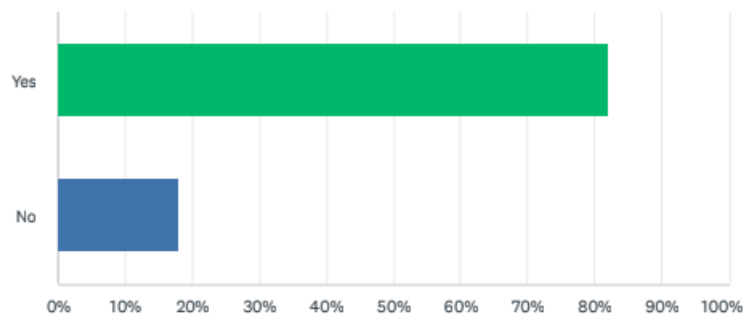
## In brief

Multiple studies have shown that the pandemic had a huge impact on mental health. It isn't hard to imagine that the cost of living crisis could well be having a similar impact on large sections of society.

Our research shows that mental health is a key issue that charities are dealing with as a huge majority of beneficiaries are more impacted now than they were before the pandemic or cost of living crisis started. To help combat the issue, many charities are increasing their mental health support provision for their staff and volunteers.

### 8.1 - Mental health is a growing issue as a large majority of charity beneficiaries are more affected

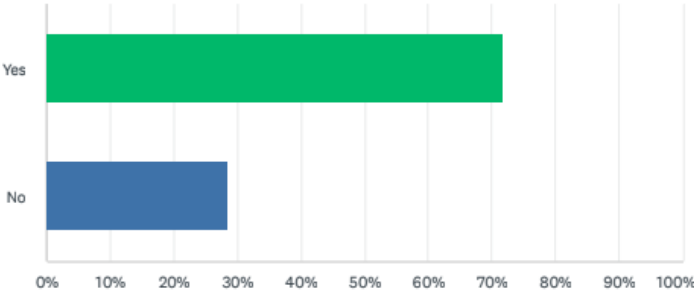
Are your beneficiaries more affected by mental health issues than they were before the pandemic/cost of living crisis started?



82% of the charities that responded to our survey said that their beneficiaries are more affected by mental health issues than they were before the pandemic or cost of living crisis began. The results show that it is far from just mental health charities themselves that are dealing with these issues. Indeed, the charities we surveyed cover a whole spectrum of different charitable causes, but the research shows that both providing and signposting to mental health support is an increasing expectation, whatever the type of charity.

## 8.2 - Mental health provision for charity staff and volunteers is growing

Have you increased the provision of mental health support for your staff/volunteers in the last two years?



It is not a surprise to see that a majority (72%) of charities have increased the provision of mental health support for their staff and volunteers over the last two years. The conversation around mental health has been ever present since the start of the pandemic, and there is now a widely accepted realisation that people can't be expected to perform to the best of their abilities at work if they are struggling with mental health. It can be argued then that it's in the best interests of employers to offer free support to those who need it.

**Section 9:**

# Environmental matters

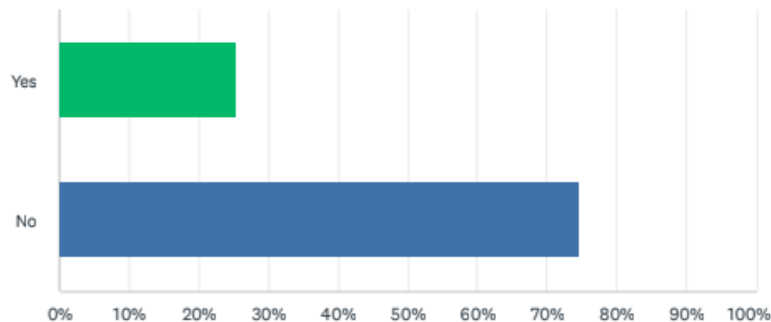
## In brief

Another key conversation at the moment, and one that is set to dominate headlines for years to come, is the one around climate change and the environment. Of course, there are a great number of charities whose sole focus is on climate issues, but is it something that the charitable sector as a whole is thinking about?

Our research shows that yes, the majority of the charities we surveyed are thinking about and addressing their environmental impact, but views vary when asked whether it is part of their broader goals or not. The results also show that funders and potential funders are less concerned with asking charities about their impact on the environment than they are about EDI.

### **9.1 - Majority of funders and potential funders are not asking for details of charities' environmental impact**

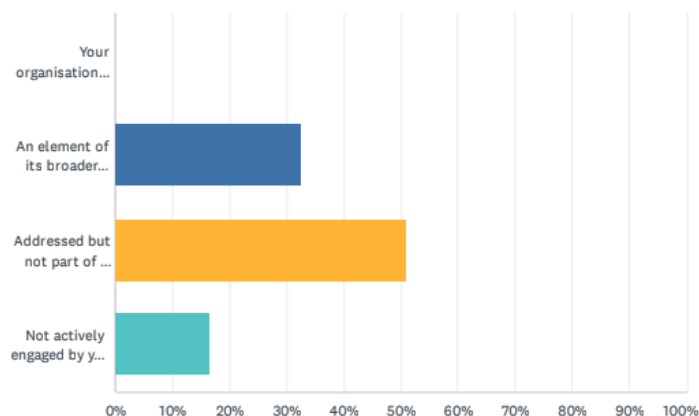
Have you been asked by funders or potential funders for details of what you are doing to lessen your impact on the environment?



Only a quarter of the charities we surveyed said that they had been asked by funders or potential funders for details of what they are doing to reduce their environmental impact. This compares to the 44% who had been asked for details of their EDI policy.

### **9.2 - Most non-environmental charities are addressing environmental matters**

## Are environmental matters....



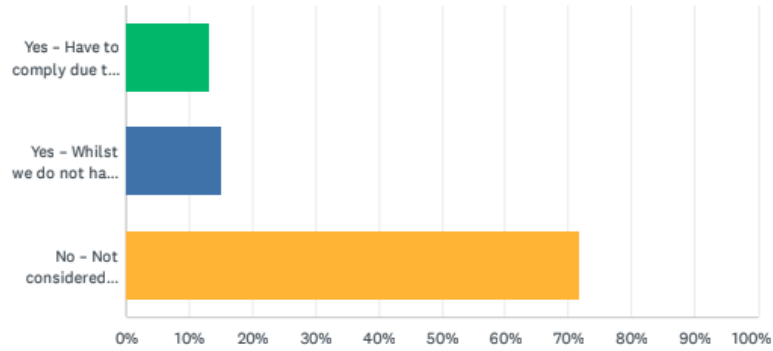
We asked charities if environmental matters are either: their organisation's primary purpose; an element of its broader goals; addressed but not part of its objectives or purpose; or not actively engaged by your organisation.

None of the charities that we surveyed listed environmental issues as their primary purpose, but a combined 83% said they are addressing them: 50% said they are addressing climate concerns despite them not being part of their objectives or purpose, while a further 33% said environmental matters are part of their broader goals. Meanwhile 16% said that their charity was not actively involved in environmental matters.

This paints an encouraging picture as the majority of charities, even though they are not environmentally focused as their primary objective, are still actively involved in efforts to help the environment.

### **9.3 - Most charities we surveyed are not reporting on their environmental impact**

Does your charity report on its environmental impact, for example streamlined energy and carbon reporting (SECR)?



Despite a large majority of the charities we surveyed actively engaging in environmental matters, the majority are not reporting on their environmental performance.

72% of charities are not reporting on their environmental impact as it is not deemed necessary. 13% do as a result of compliance, while 15% choose to voluntarily do so, as they want to show what the charity is doing.

# Where to now?

This report shows that a charitable sector already hugely impacted by various factors brought about by the Covid-19 pandemic, is now facing even more challenges due to the cost of living crisis and subsequent economic concerns.

A large majority of charities have seen costs increase over the last year, and over a quarter are concerned that they do not have sufficient resources to weather any further sudden increases in costs. When combined with declining donations as previous and potential charity donors feel the squeeze themselves, it is a concerning financial outlook for UK charities. Interestingly, over a third of the charities we surveyed would consider merging with a similar charity, a possible strategy many smaller charities could explore to ensure they can continue to deliver their services.

Most of the charities we surveyed are also struggling when it comes to staff recruitment and retention. Over three quarters of charities have been unable to offer pay rises to match or better inflation. Instead, charities are turning to alternative benefits to try and attract new staff and keep existing team members. It remains to be seen whether this approach will successfully keep workers from looking to other industries for better financial rewards.

A lack of diversity at board of trustees level is a concern for nearly three quarters of the charities we surveyed. Efforts to diversify could therefore provide many benefits. Charities are taking the environment and cyber security seriously, and we can expect this to continue.

Overall, charities are facing a number of different challenges that could, in some instances, threaten their very existence going forward. The cost of living crisis and subsequent economic situation in the UK is meaning that charities are battling increasing costs at a time when donations are decreasing and recruitment is challenging. The coming year will be a crucial time for charities to secure their futures and prepare for any further difficulties to come.

Boilerplate and appendix

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