CFG INSPIRING FINANCIAL LEADERSHIP

SPONSORED BY

Kingston Smith
Helping clients succeed

THE YEAR AHEAD: ECONOMIC OUTLOOK BRIEFING 2018/19

INTRODUCTION

The good news for charities is that the overall economic picture is broadly positive over the next 12 months. Although Brexit has created significant uncertainties, these are outweighed by the positive global outlook and one of the lowest periods of unemployment the UK has enjoyed for over 40 years.

There are, however, warning signs on the horizon. The UK is still depending on support provided by the Bank of England through low interest interests and this has meant creeping inflation. Over the next few years we estimate that to maintain purchasing power, the charity sector will need to find an additional £3.7bn in income so that it can deliver the same outputs. We know this is not good enough and that most organisations are looking to expand to meet growing demand for services. The challenge will be how this can be achieved given overall market conditions.

There is positive news for charities that depend on investments or have made inroads into property markets.

But the picture for raising income from individuals is more of a mixed bag. Higher inflation is eroding household incomes and weak wage growth means that the public won't have much money in its pocket to give to charities. This will have an impact on the rate of return that investment in fundraising or trading with the public will bring. Those that depend on government contracts and grants know that keeping hold of these funds remains challenging, particularly at a local level.

On the expenditure side we are concerned that the sector has got used to holding down pay as a way to make money go further, but this may not be sustainable in the medium term. All the conditions for significant rises in pay are on the horizon, particularly now that the government has decided to increase pay awards in the public sector. Charities need to plan accordingly.

This Economic Outlook Briefing will help charities in your strategic decision making.

Charities do not operate in a vacuum and it is important that the overall economic picture is taken into account when making decisions.

We hope this publication will aid the work of CEOs, trustees and finance professionals in making the right choices for your organisation.

ANDREW O'BRIEN
Director of Policy and Engagement
Charity Finance Group

CONTENTS

KEY ECONOMIC STATISTICS

UK GDP GROWTH

1.5%

UK GDP growth is predicted to be 1.5% in 2018, 1.3% in 2019 and 1.3% in 2020. This compares to forecasts before the Brexit Referendum of 2.3% GDP growth in 2018 and 2019.

INTEREST RATES

0.5%

The Bank of England's Interest Rates are due to hold steady at 0.5% in 2018 before rising to 0.8% in 2019 and 1% in 2020.

THE FTSE ALL-SHARE INDEX

(a measure of equity prices) is due to fall by 0.6% in 2018/19, increase by 2.8% in 2019/20 and 3% in 2020/21.

UNEMPLOYMENT

4.3%

Unemployment is due to fall slightly to 4.3% in 2018 before rising up to 4.4% in 2019 and 4.6% in 2020.

THE UK GOVERNMENT'S BUDGET

is due to increase from £812.9bn in 2018/19 to £834bn in 2019/20 and £853.6bn in 2020/21.

THE BANK OF ENGLAND'S FORECAST UK CPI INFLATION

is predicted to peak at 2.9% in 2018 before falling to 2.3% in 2019 and 2.2% in 2020.

EARNINGS

2.7%

Average earnings will stay flat at 2.7% in both 2018, 2.4% in 2019 before rising to 2.5% in 2020.

UK LOCAL AUTHORITIES BUDGETS

2.3%

UK Local Authorities will see their total budgets rise by 2.3% in 2018/19 to £52.5bn but then fall in 2019/20 to £51.6bn – although the Local Government Association maintains that there will still be a funding gap of £5.8bn for local services by the end of the decade.

CHARITY SECTOR FINANCIAL RISK DASHBOARD 2018/19

ECONOMY

UK GDP

There is uncertainty but overall growth is holding up.

GLOBAL ECONOMY

A strong US and Europe combined with a healthy global outlook is likely for the year ahead.

UNEMPLOYMENT

Unemployment continues to be at low levels.

INCOME

INDIVIDUALS

Higher inflation is eroding household incomes and means that there is less room for discretionary spending.

GOVERNMENT

Central government income is holding up, but the picture for local councils is gloomy.

INVESTMENT

Markets are forecasting strong dividend pay outs and the property market looks robust.

EXPENDITURE

INFLATION

Inflation is above the 2% target and is likely to be higher than we have been accustomed to in recent years.

STAFFING AND WAGES

Wages are predicted to increase strongly, but all the conditions for an upturn are present.

TAXATION

Charity tax reliefs are coming under pressure. Charities need to plan for further tax increases or loss of reliefs.

HEADING IN THE RIGHT DIRECTION

COULD BE A CAUSE FOR CONCERN OVER THE NEXT 12 MONTHS

COULD HAVE SIGNIFICANT IMPACT IN THE NEXT 12 MONTHS

THE BIG PICTURE: THE ECONOMY

SUMMARY

- **The overall economic picture remains fragile with strengthening of key global markets such as the USA being offset by uncertainty around Brexit.**
- **Inflation will remain high in 2018 before falling in future years, this will further squeeze household finances and increase operating costs.**
- **Wage growth remains weak due to rising inflation but also concerns about a permanent reduction in the UK's productivity.**

The overall economic picture remains fragile with strengthening of key global markets such as the USA being offset by uncertainty around Brexit. Before the referendum in June 2016, the economy had been predicted to grow reasonably strongly at over 2%. However, the fall in the value of the pound combined with a reduction in business investment over the past 18 months has seen growth fall to below 2%.

Charities must also be conscious that we are probably closer to the next recession than we are further away from the previous downturn in 2009. Business cycles are usually considered to last five to seven years, so given the length of time since the previous recession, we are likely to see another recession in the medium term.

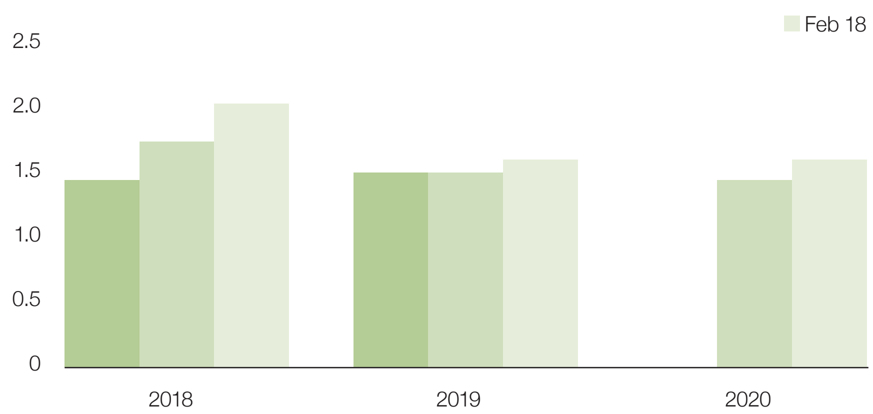
The rally of the US stock markets under Trump followed by sweeping tax reform has boosted prospects for global growth. The World Bank has estimated that the Trump Tax cuts will increase US GDP by 1.2% by 2020. If US growth continues to pick up, then this will have a positive impact on the UK economy as the US is the single biggest destination for UK goods and services outside of the European Union. Growth in the Eurozone is also predicted to be higher than previously forecast, driven mainly by significant improvements in France and Germany. The Chinese economy is also expected to be stable and growth in the Indian economy is due to pick up.

Global economic risks remain, but the overall environment is benign and is not acting as a drag on the UK.

The UK inflation outlook has been changeable since the referendum in June 2016. The Bank of England has predicted inflation would be around 2% in 2018, but the 21% fall in sterling since the referendum has added to UK inflation. Oil prices are set to remain stable over the coming year and with wage growth subdued, domestic pressure on inflation remains limited.

Bank of England Inflation Forecast 2018–2020

Source: Bank of England



BREXIT WATCH – WHAT WILL THE IMPACT OF BREXIT BE ON THE UK ECONOMY?

Most economists have predicted that anything less than remaining in the Single Market and the Customs Union would have a negative economic impact on the UK economy. The National Institute of Economic and Social Research (NIESR) is broadly representative of this opinion. In its most optimistic scenario, where the UK signs a "Norway Style" free trade deal with the EU, the economy will fall by 2.1% in 2019. Its most pessimistic scenario, where the UK signs no deal with the EU, would see the UK economy fall by 3.5% in 2019.

To put this in perspective, the Great Recession in 2009 saw the UK economy fall by 4.2%.

This had a lasting impact on the financial picture of the UK charity sector, so charities would need to brace themselves for such a scenario.

A minority of economists, in particular, Economists for Free Trade have predicted that Brexit will have a positive impact on the economy. Although they have not made short term predictions of GDP, they estimate that Brexit which involved a free trade agreement with the EU and other free trade agreements around the world could boost the economy by 2–4% of GDP by 2034.

If this was to happen, the impact of the UK public finances would be very positive. Instead of the deficit being eliminated in the mid-2020s, the UK could be back in surplus by 2021.

The likely scenario is going to be somewhere between an economic crash and a mini-boom. However, as outlined in the rest of this publication, charities need to be sensitive to the upside and the downside risks of the performance of the UK economy.

Charities should consider the data that they have collected since 2008/09 and see how the previous downturn impacted their income. Models can then be constructed from these to see how income/expenditure may respond. Although every recession/boom is different, it is better to have some form of model than nothing at all.

According to most economic analysts, markets have priced in a "soft Brexit" deal between the UK and the European Union. Following the Prime Minister's most recent speech in London on 2nd March 2018, sterling fell slightly as markets became concerned that the UK may a looser arrangement with the European Union. As a consequence, charities will need to watch the Brexit negotiations carefully. If it becomes certain that the UK will leave the EU without remaining in the Single Market/Customs Union and does not look likely to achieve a relatively comprehensive free trade, then sterling could tumble again. This could see inflation rise higher than expected.

THE BIG PICTURE: INCOME

SUMMARY

- **Weak household income growth means that increasing income from individuals will be challenging.**
- **Charities need to reforecast expected returns accordingly.**
- **Income from central government is holding up, but at a local level the picture remains gloomy.**
- **Investment income is likely to be positive in year ahead subject to Brexit and other geo-political events.**
- **Property investments are likely to be an area of good news for the sector.**

INCOME FROM INDIVIDUALS

Giving and fees from individuals are the biggest source of income for charities according to the NCVO Civil Society Almanac. Before the recession, government was larger than income from individuals, but austerity (particularly at a local level) has seen financial relationships with the public become more important.

So what are the prospects for income from individuals 2018?

Charities Aid Foundation in its UK Giving Index 2017 has rightly pointed out that charitable giving does not seem to be affected by events such as Brexit, changes in GDP or rises in the stock exchange. We agree with this overall analysis.

Fluctuations in public trust and confidence in charities over recent years have also indicated that scandals or negative media attention does not have a significant impact on overall charitable giving. For example, 2016 which saw a lot of negative media stories around charities and fundraising, did not see a substantial fall in donations for charities, with levels of giving remaining similar to 2015. However, there is a strong connection between disposable household income and income from individuals overall.

This is not surprising, as effectively people can only spend the money that they have. Most money spent with charity, bar services which beneficiaries depend on and have to pay for, is discretionary. As a consequence, the public can only give more if they have more money in their pocket available to spend.

In 2016, using the predicted increase in household disposable income given by the Office for Budget Responsibility, we estimated that in 2014/15 (the latest year for which data would be available) that income from individuals would increase from £19.8bn to £20.6bn.

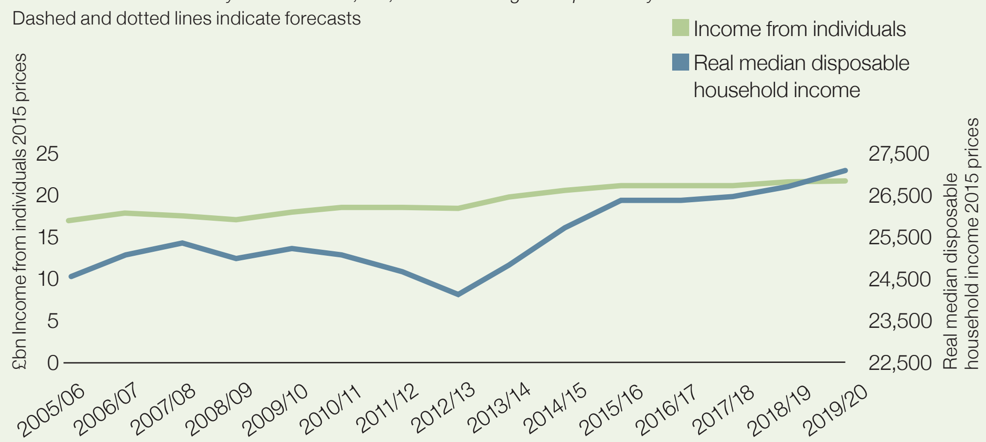
This was borne out by the data provided in the NCVO Civil Society Almanac 2017, which saw income from individuals (voluntary, legacies and earned income) increase to £20.55bn.

The Office for Budget Responsibility's latest forecast in March 2018 found that real disposable household income had barely grown by 0.2% in 2016 and the next few years was to see further a reduction in disposable household income of 0.2% in 2017, before picking up to 1.2% growth in 2018 and 0.5% growth in 2019. This was due to higher than expected inflation and weaker pay growth due to lower than expected levels of productivity.

Income from individuals v real median disposable household income

Source: NCVO Civil Society Almanac 2017, OS, Office for Budget Responsibility

Dashed and dotted lines indicate forecasts



As a consequence, we believe that there will be little in the way of growth in individual income overall for the sector in 2017 but that this will pick to more modest growth in 2018 and 2019. Overall if we are able to growth in line with household income, there is an additional £400m in additional income from individuals to be gained for the sector. There will be significant variation within the sector, however.

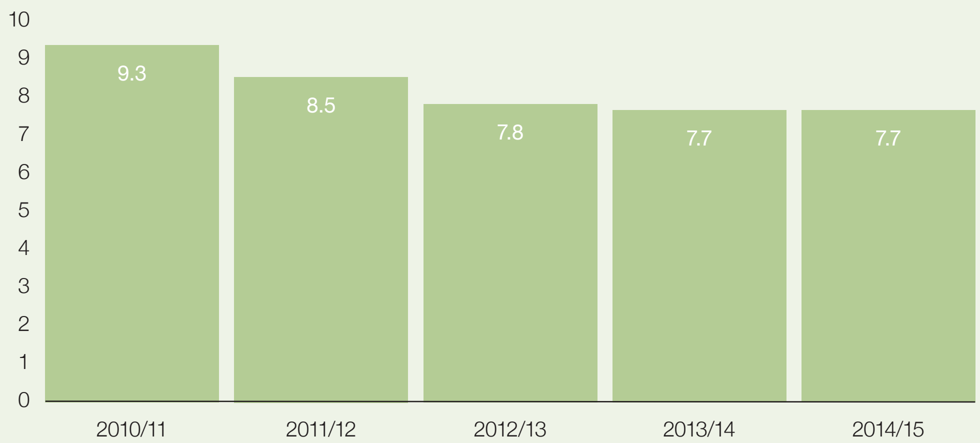
Within this, there will be significant variations. Charities which depend on legacy income, for example, are likely to do better due as demographics continue to be in its favour.

By contrast, those that depend on fundraising from the general public are likely to find the waters slightly choppier. It is important that charities factor in these trends into their plans for their income over the coming years.

A levelling out of growth in individual income will have an impact on the relative rate of return from investing in different types of fundraising and trading. The long run trend is that fundraising generates lower levels of return for every pound invested than it used to. For example, the Institute of Fundraising's fundraising ratios survey 1999, showed a rate of return fundraising investment was £5.31 for every £1 spent.

Generating funds to overall income ratio

Source: NCVO Civil Society Almanac 2017

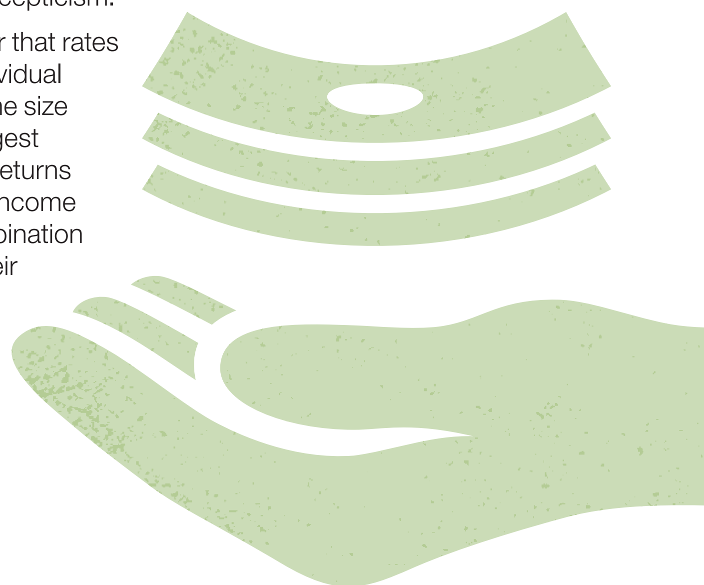


The most recent data from 2013 shows it has declined to £3.16 for every £1 spent. This will particularly be the case in 2017 where increased competition, new GDPR regulation and low growth in disposable income will all force charities to push harder to deliver the same level of return.

It is not possible from the data to identify exactly how much competition for individual income has weakened rates of return, but the overall trend which includes government income and investments is a downward trend. The fact is that it costs more to generate money than it used to, we do not expect this trend to be reversed given current economic conditions. Ambitious growth rates should be treated with scepticism.

It is also important to consider that rates of return from investing in individual income differ depending on the size of organisations. The very largest charities have posted strong returns from fundraising and earned income in recent years, due to a combination of economies of scale and their household name status.

Small organisations also have relatively strong rates of return because they are starting from a low base and so a small investment in fundraising can generate good returns. However, medium size organisations (between £500k to £5m) can find it harder to generate returns because they are working from a higher base and lack the benefits that accrue to larger organisations. They are also likely to be squeezed by increased competition from the top and the bottom. It is this "squeezed middle" that should plan for lower rates of return in fundraising compared with larger and smaller organisations.



INCOME FROM GOVERNMENT

The overall picture of government income remains essentially a tale of two cities. In Whitehall, the picture is broadly positive. Charities which are part of centrally funded programmes, such as international development organisations, have seen their government income rise as Whitehall has protected its own spending power.

At City Hall (or Town Hall) level, austerity has significantly undermined local councils spending power. This has created incredibly challenging circumstances for charities which are funded through local government grants of contracts.

Over the medium term, this picture is not likely to change. However, the Chancellor in his most recent Autumn Budget 2017 loosened the purse strings due to continued concerns about Brexit and how this will impact the wider economy.

Government spending (not on buildings but on services) is going to go up by £7.5bn over the Parliament, compared to what he had planned in March 2017. This is due to a combination of giveaways in the Budget to the NHS but also due to predicted increases in public sector pay. At least half of this amount is going to go away in pay, but this loosening will be welcomed by charities which are delivering services in the public sector.

Recent news stories have highlighted the continued challenges facing local councils, with some close to running out of money.

The Office for Budget Responsibility (OBR) has found local authorities are spending more than they were expected to do so. Councils have also now been forced to dip into their reserves, after several years of threatening to do so. Over the coming years, £1.8bn in reserves will be drawn down by councils to finance their spending. This is good and bad news, good news that they are spending them and keeping services funded, bad news that the financial situation has forced them to do so and this is not a financially sustainable position.

The OBR has also broken down where the overspending and underspending is taking place at a local level, which gives an interesting insight into councils spending. Children's social care (which Children England have highlighted in their work recently) and adult social care are unsurprisingly overspending due to a lack of government investment. The environment, transport and cultural services appear to be bearing the brunt of the cuts.

Worryingly at a local level the OBR has found that councils are becoming less adaptable to changes in their financial situation. In 2010–11, around 63% of their income was spent on debt-serving and social care. In 2016–17 this had risen to 73%. The level of reserves to cover this spending has also fallen from 55% in 2014–15 to 50% in 2016–17. This means that we could see more councils in a situation where they have stop any discretionary spending as happened in Northamptonshire.

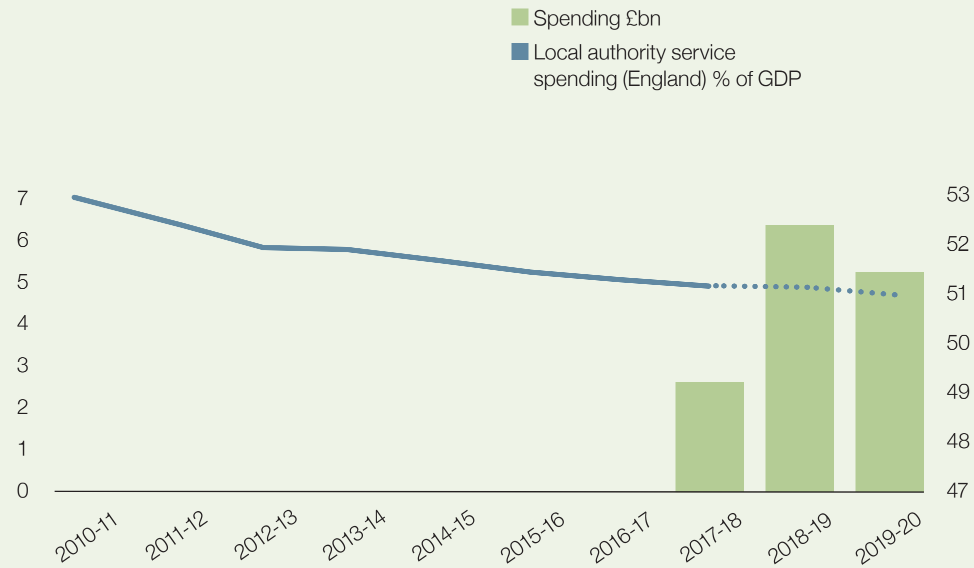
As noted above, the significance of government income to the sector has reduced over time – with local government funding being the most marked. This means that growing income within this area is challenging. However, even maintaining sustainability could be a problem.

The chart below is taken from *Finance Count* CFG's benchmarking tool for finance teams.

Local government spending 2010/11 to 2019/20

Source: Office for Budget Responsibility

Dashed line and bars indicate forecast, not outturn



Organisations were asked to say what surplus/deficit they were making on the contracts and service level agreements that they had with government (central and local). As can be seen, only health care/medical research organisations were able to generate surpluses from their work with government. Most other sectors were subsidising contracts and service level agreements. This puts further pressure on generating income from the public and increases competition between organisations.

INCOME FROM INVESTMENTS

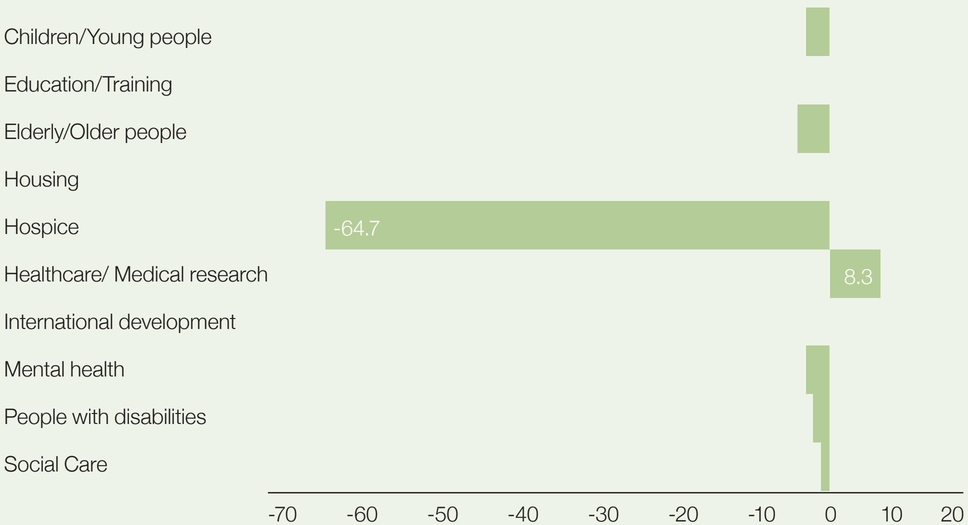
Overall income from investments over the past few years has been broadly flat, increasing by only around £300m between 2010/11 and 2014/15 – the last year that we have data. This is before we saw a significant rise in the stock market, so it is likely that returns have been slightly understated.

However, within the data there are clear trends. Low interest rates have hampered the performance of deposits, forcing organisations to invest more into equities and riskier investments. Government bond and gilts have also performed poorly, and are likely to do so in the future with the Office for Budget Responsibility estimating that interest rates of gilts will not reach 2% until 2021–22.

Within the overall investment portfolio of the sector property has become much more important. Income from property rents has grown by 33% over the past five years covered by the data. This compares with an 8% increase in dividend income.

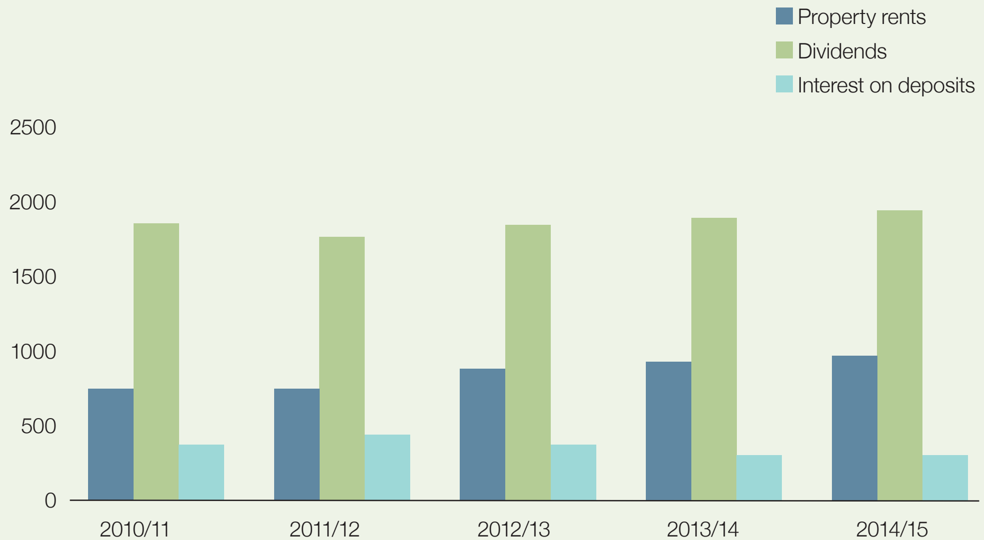
Median surplus/deficit as % of income from contracts/service level agreements (2015)

Source: Charity Finance Group



Charity income from investments 2010/11 – 2014/15

Source: NCVO Civil Society Almanac 2017

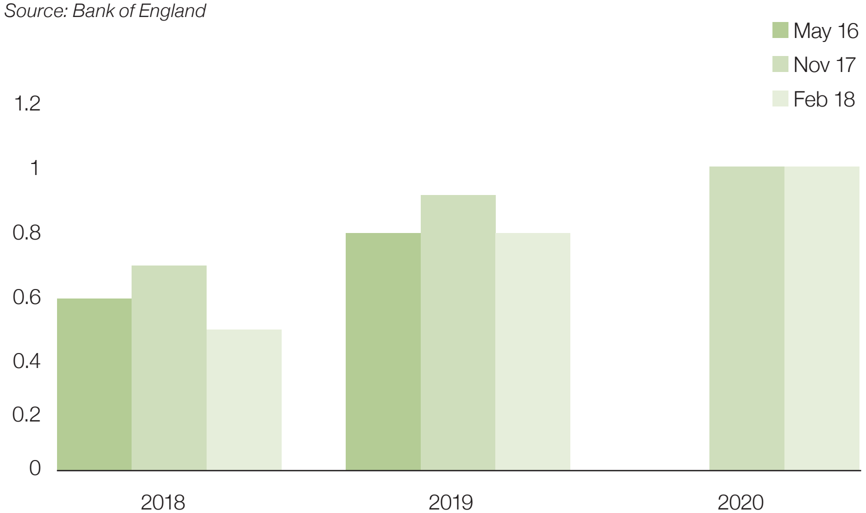


Looking ahead, deposits and bonds look likely to continue to disappoint. The Bank of England's interest rates forecast indicates that interest rates will still be at only 1% by 2020 assuming that there isn't any further weakening of the UK's financial position following the Brexit deal. This means that returns in these areas are likely to be low.

Charities also need to be alive to risks in the stock exchange. Although equities are still predicted to perform well overall, with a little dip over the next 12 months due to the exceptional results on the previous years, this could change depending on wider geo-political events (for example, the recent Trump administration decision to put tariffs on aluminium and steel imports).

Bank of England Interest Rates Forecast 2018–2020

Source: Bank of England



Dividends are an income source of income for charities, yet they are narrowly concentrated with 8 companies responsible for 50% of the predicted dividend income in 2018 according to the AJ Bell Dividend Dashboard, December 2017. This means that if some of these large companies encounter difficulties, overall dividend income could significantly reduce.

According to Savills World Research, the UK commercial property market looks firm over the next 12 months and the Investment Property Forum expects total returns on commercial property between 4–5% in 2018.

This is likely to drive continued investment in this space. Again, according to Savills UK Cross Sector Outlook, the residential property market looks like it will perform strongly in the next few years, particularly outside of London. Organisations which do have the ability to invest in property or have done so in the past are likely reap significant benefits. Most forecasts do not believe that Brexit will have a significant impact on the property market at this stage, but this could change depending on the final deal and the private sector's reaction to the final arrangement.

THE BIG PICTURE: EXPENDITURE

SUMMARY

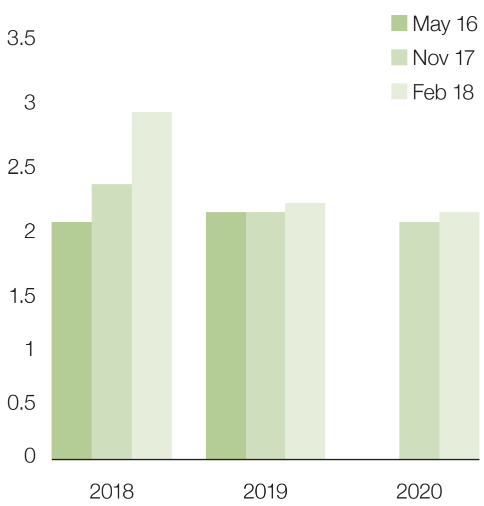
- **Inflation is creating significant cost pressures for charities, worth about £3.7bn by 2020 if predicted inflation rates are accurate.**
- **Wage growth remains subdued but the conditions for significant increases in wages appear on the horizon.**
- **Staffing costs at the lower end of the pay scale are going to increase significantly due to enforced National Living Wage and auto-enrolment pension increases.**
- **Charity tax reliefs are likely to come under significant pressure and this could add to operating costs.**

INFLATION

Inflation is the biggest risk for charities on expenditure. According to the Bank of England inflation is due to higher than originally predicted before Brexit, which will further erode real terms increase in income and make it more expensive to deliver services.

The scale and threat of inflation to the charity sector was highlighted in the cross-sector *Financial Sustainability Review of the Voluntary Sector 2015*.

Bank of England Inflation Forecast 2018–2020
Source: Bank of England



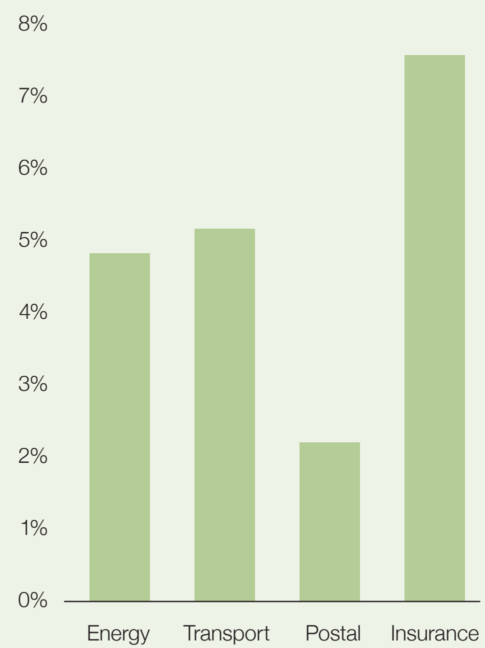
This calculated that in order to maintain current spending power (i.e. be able to afford to deliver the same level of outputs), charities would need to generate over £3bn in additional income between 2012/13 and 2018/19. For the first few years of this forecast, inflation was below long term trends and the Bank of England target of 2%. However, as can be seen from the data above we are now moving into a period of relatively higher inflation.

As a consequence, the costs are increasing. According to our analysis of the current level of charity spending and the level of inflation predicted by the Bank of England, charities are going to need to raise £3.7bn by 2020 in additional income in order to maintain their purchasing power from 2014/15. This is a significant amount when considering the pressures that charities are dealing with and the overall operating environment.

£3.7bn
THE AMOUNT OF ADDITIONAL INCOME THAT CHARITIES WILL NEED TO RAISE BY 2020 TO MAINTAIN THEIR CURRENT PURCHASING POWER

Every organisation has its own rate of inflation, and charities have different cost pressures compared with businesses, but for the most part cost increases will be hard to avoid. The rate of inflation is also different for different types of products or services. This graph shows some basic items that lots of charities will use such as energy bills and postal services and how they have risen faster than the average rate of inflation.

Cost increases Jan 2017 – Jan 2018



STAFFING AND WAGES

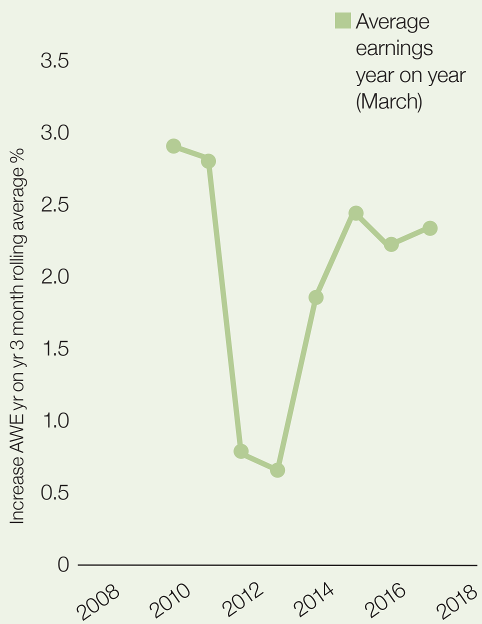
Staffing costs are around one third of the total expenditure of the sector according to the latest available data. In some organisations this can be far higher and in others lower, but for many organisations people will be their greatest source of expenditure.

The overall picture for employers has been relatively good in recent years as wages have not risen sharply which has helped to keep costs for organisations down. However, with inflation creeping up and unemployment at historically low levels, standard models would assume that this would lead to higher levels of pay. The so called "productivity puzzle" has been held responsible for why pay has struggled to creep up. Others have pointed to the historically weak bargaining power of trade unions which reduces the ability of employees to use collective bargaining to push for higher wages.

In our engagement with charities, organisations have used pay freezes have commonly used as a way to keep costs down. This is rational given the inflationary pressures highlighted above and the challenges for organisations in recovering their full costs from funders. Yet there is a risk that this rational behaviour ends up harming charities, undermining morale of staff and seeing a drain of talent to competitors in the private and public sectors which may be able to offer higher salaries.

Charity sector staffing levels continue to grow strongly in recent years, with the sector adding 27,000 workers between 2015 and 2016. We understand that this growth has continued in subsequent years. This is creating increased competition for staff and further adds to pressure to increase wages.

Average earnings year on year (March)



The well documented issue of sleep-ins has further created additional staffing costs for some sub-sectors. There is also the ongoing Living Wage Campaign which is backed by an increasing number of organisations. The Living Wage as calculated by the Living Wage Foundation has been increasing far quicker than the government's National Living Wage (NLW). At present there is a 17% gap between the NLW and the Living Wage Foundation's calculation, this rises to 36% for London.

Weak wage growth overall has held back uplifts in the NLW. The Low Pay Commission's updated path for the NLW indicates that it will now hit £8.89 an hour by 2020 compared with the original target of £9 – a fall of 1.2%. Although this is marginal it will save charities money compared to where it could have been.

A shallower increase in the NLW will also reduce pressure to increase wages higher up the scale, one of the points that CFG made to the Low Pay Commission when we gave evidence to them last year. Increasing wages at the lower end of the scale puts pressure further up the ladder as employees seek to maintain their "differentials" with those below them. In absolute and relative terms, the pressure to increase salaries further up the scale can be just as expensive as increases in the NLW.

The Third Sector Research Centre had predicted that the NLW would cost charities around £250m by 2020, but this was with a wage of £9 per hour in 2020. This does not currently appear likely, but the TRSC figure did not take into account differentials. In any case, the NLW increases are going to add hundreds of millions of pounds to the overall sector wage bill.

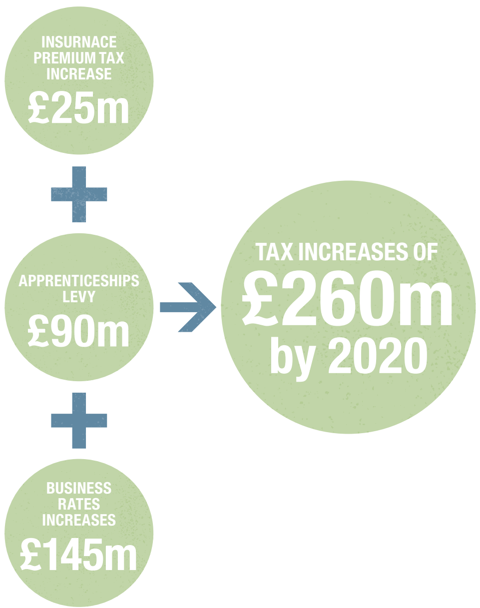
The overall picture remains one of weak wage growth, but the conditions for significant increases in wages are manifesting themselves. Low pay increases have been the norm for several years but charities must not be lulled into a false sense of security. At the lower end, there will be enforced increases through the NLW which charities will have to prepare for.

Charities ned to remember that pension costs are going to increase over the next few years. Employer contributions till triple between April 2018 and April 2019 from 1% to 3%. Assuming the median charity sector salary (£32,673), this will increase pension costs by £653.46 per employee assuming that they paid the current minimum through an auto-enrolment pension.

For organisations which are struggling to pay existing staff due to pressures on their finances or cuts to funding, this will be particularly challenging.

TAXATION

CFG has documented the steady increase in taxation on the charity sector over recent years. Although charities are able to access a number of tax reliefs, the consensus that charities should be protected from increases in taxation has been eroded due to pressures on the public purse and ideological pressure from both left and right. This graphic indicates the range of cumulative impact of a small number of tax increases which the sector is subject to in the years ahead.



Source: Ecclesiastical Insurance, NCVO, DCLG

The overall environment for taxation for charities does not look positive, given the pressures on the public finances and the lack of political will for further cuts. The Chancellor in his last budget, as noted above, has loosened the purse strings but there is still a significant deficit remaining. The government's target has been pushed back in the hope that better than expected growth could avoid the need for further tax increases, however given the current economic environment this is unlikely to appear.

Charities are unlikely to avoid these tax increases and in fact charitable reliefs may come under further political pressure as a way to avoid making cuts in other areas. A traditional area of focus has been on private schools. The decision in Scotland to end business rate relief for private schools will bring impact other parts of the United Kingdom. It is an example of how the need to make budgets balance could put pressure on long standing tax reliefs on which organisations depend.

The overall picture for business rates across England and Wales is one of sharp increases over the coming years. In part this is due to new charities registering and only receiving 80% relief which will make it seem like bills have increased. However, there is a clear trend towards councils giving less relief to charities as they come under pressure to deliver services with reduced support from central government. In our 2015 briefing on business rates and our consultation response to the government's review of the system, we highlighted a number of councils that have publicly cut back on relief to charities in order to focus resources more closely on their priorities.

Business rates create uncertainty for charities because unlike other tax reliefs there is the opportunity for significant local variation.

Given the overall outlook for local government as outlined above, charities that currently receive discretionary rate relief should plan for further cuts or the loss of such relief in the coming years.

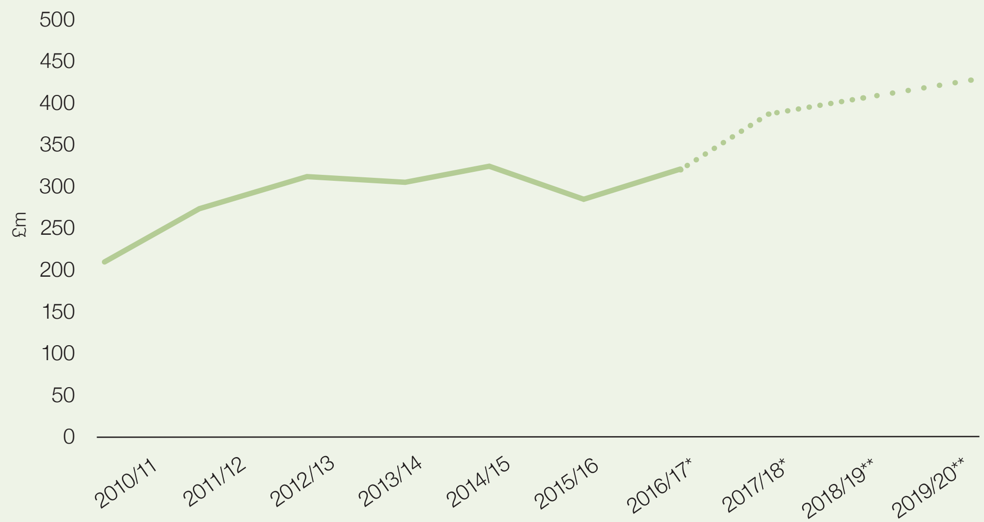
The government has also brought forward the revaluation of business rates to 2021, with triennial reviews in subsequent years. This could be good or bad news for charities depending on the property market in their local area.

Total business rates bill for charities (2010/11–2019/20)

Source: DCLG

* indicates DCLG forecasts

** indicates CFG forecast based on long term trend line



FINANCIAL SUSTAINABILITY CHECKLIST

1. ANALYSE YOUR MARKET

What are the current pressures on your key funders whether that is the public, foundations, government or investments? Do these create "ceilings" for how much you can realistically expect to grow your income?

2. CONSIDER YOUR BENEFICIARIES

Charities are demand-led organisations. Is demand for your services likely to increase? Is it possible to estimate this?

3. THINK ABOUT HOW YOU WOULD BE IMPACTED BY ANOTHER RECESSION

It has been nearly a decade since the last recession and normally we would expect another downturn in the near future. What as the impact of the last downturn on your charity? What resources would you need if a similar event occurred?

4. SCENARIO PLANNING IS ESSENTIAL

The world is uncertain but you can plan for a range of scenarios with the final outcome likely to be somewhere in the middle. What would the loss of a key tax relief mean for your charity? What would you do if you had to increase wages by 4% instead of 2%? Stress testing your organisation and its business model will identify areas that need to be considered.

5. LOOK AROUND YOU

What are your partners doing? What are other charities doing in response to cuts in their local area? There may be lessons that you can learn from them.

6. DON'T PUT ALL YOUR EGGS IN ONE BASKET

Sometimes dependence on one form of income or delivery one type of service is unavoidable, but consider whether there are other options open. Looking at what other organisations have done to raise money in your sector could open up opportunities.

7. CREATE A TIMELINE FOR MAKING FINANCIAL CHANGES

Whether it is investing in new income streams or making savings internally, change will take time. Make sure that you are giving adequate time for your organisation to make changes.

8. DON'T UNDERESTIMATE THE POWER OF INFLATION

The compounding effect of inflation means that in two or three years' time, costs could rise could be significantly higher than today. If you are operating with tight margins, this could make all the difference.

INSPIRING
FINANCIAL
LEADERSHIP

Charity Finance Group (CFG)
15–18 White Lion Street
London N1 9PG

0845 345 3192
info@cfg.org.uk
www.cfg.org.uk

Registered charity no. 1054914
Company no. 3182826
Design by Steers McGIllan Eves