

## Economic downturns and the voluntary and community sector: a short review of the evidence<sup>1</sup>

A generally thin, conflicting evidence base leads us to conclude that any impacts are mixed: some organisations will fail; others will emerge stronger; some sectors will face increased demands, others fewer. Some income sources and costs will decline; others will increase. Evidence suggests the sector is relatively poorly capitalised and in the short-term mid-sized organisations in particular are financially vulnerable.

Government funding (grants/contracts) and donations/purchases from the public are crucial to the ability of the sector to emerge from any downturn: they account for three-quarters of total income. Evidence suggests philanthropy is relatively resilient; therefore, the funding practices and policies of statutory contractors and funders will have a major say on the health of the sector.

### 1. Introduction: what is different about the voluntary and community sector?

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- There is clearly a significant amount of analysis relating to the impact of a downturn upon the main sectors of the economy (public, private, households). A starting point for this review might therefore be: what is different about VCOs that necessitates a separate analysis?<sup>1</sup>
- The distinctive characteristics of the third sector economy are:
  - *Dependence* upon philanthropic support from individuals: unpaid time, charitable donations (whether actual or promised in the form of legacies)
  - *Dependence* upon statutory sources of income, increasingly contract income for the delivery of welfare services
  - *Reliance* upon philanthropic support from other institutions: grants from trusts and foundations (which implies significant recycling of capital within the sector) and government agencies (including BLF)
  - *Reliance* upon investment income, which in turn is a function of the performance of equity markets and property markets
  - *Distribution*. A heavily skewed resource distribution, with a small number of large organisations and a long tail of much smaller entities.
- Therefore, the main focus of this review is upon the distinctive characteristics of the sector

### 2. Key learning – the big picture

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#### 2.1 The evidence

- Our research examined both historical and contemporary evidence from the UK and abroad, with a particular examination of UK data emerging from previous recessions.
- We caution that the evidence is mixed and often conflicting. There is a limited amount of long-term trend data, and a considerable amount of media conjecture and anecdotes.<sup>2,3</sup>

#### 2.2 General resilience

- **The sector's total income does not necessarily decrease in economic downturns.** While in previous downturns, some charities reported decreases in income, approximately an equal number reported increases, with the other third reporting no change. This leads to the conclusion that organisations experience downturns differently, and that philanthropy is resilient. Responses therefore may need to be individual and targeted.

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- **Evidence indicates the sector is poorly capitalised.** The sector's assets are held by a relatively small number of organisations, mostly foundations. Mid-sized organisations in particular have been unable to build surpluses and therefore reserves. These organisations in particular are susceptible to short-term falls in income.
- **The largest organisations are more capable of resilience.** Although there is anecdotal evidence of large charities making redundancies or scenario planning for 10% cuts in income, evidence generally points to the resilience of large or more established charities during an economic downturn. Resilience reflects better strategic planning, capitalisation, relatively diverse income streams, and greater capacity to fundraise effectively.
- **Smaller or less established organisations are the ones more likely to suffer hardship.** A recurrent message from umbrella bodies is that during an economic downturn the strong get stronger and the weak get weaker. Whilst larger organisations typically have wider resources to draw from (including larger financial reserves) and a more specialised workforce (including professional fundraisers, campaigners, and volunteer co-ordinators) who can respond to shifting needs, smaller organisations may lack the capacity to adapt quickly in order to cope with increased financial or service pressures.

### 2.3 Income

- **In the last recession** approximately one-third of charities reported a cash fall in their total income over a two year period (1991-93) in the last recession. If inflation is taken into account (6% over two years) two-thirds of charities experienced a real fall in income. If the effects of inflation are ignored, it is noticeable that significant responses to many questions regarding income were 'no change'
- **Government funding policies, practices and attitudes are crucial.** 36p in every £1 is from statutory sources. However, evidence from the last recession suggests both central and local governments cut funding. Of those who experienced a change in their relationship with government, one third cited cuts in funding. More recently, evidence suggests practices (such as late payment) can still lead to problems with cashflow.
- **Charitable giving from individuals does not fall in economic downturns.** There is historical evidence from both the UK and US which demonstrates that recessions simply slow the rate of increase in charitable giving. Just as giving has failed to keep pace with increases in GDP, it will probably not fall proportionately as GDP contracts. Unpublished evidence from NCVO/CAF suggests in the last year charitable giving levels showed a small increase.
- **Donor attitudes and habits may change.** Anecdotal evidence suggests that donors focus on causes they already support; and they change giving mode so more reaches the cause.
- **Corporate giving varies with economic performance.** There is conflicting research on this issue, but it appears that falling profits may generate a reduction in corporate giving. In general corporate giving is more closely related to economic performance rather than a reaction to the wider economic climate, with corporate donations in the UK having increased steadily over time.
- **Charities' investment and legacy income will be affected by the falling value of assets (equities, bank deposits, property) and lower interest rates.** The value of legacies will be impacted upon by falling property prices and the fall in value of investment portfolios. Falling investment income will mostly hit trusts and foundations – evidence suggests that a majority will maintain or reduce grantmaking.

### 2.4 Paid workforce and volunteers

- **Some VCOs are cutting staff, but this may not be widespread.** Anecdotal evidence suggests some VCOs are making redundancies – staff costs represent almost 50% of total expenditure. However, the concentration of staff in contract-funded social care activities may limit redundancies in the sector. An easing labour market may place downward pressure on costs.

- **Skills gaps and shortages may ease.** The relatively widespread skills shortages reported in recent years may ease as the labour market slackens.
- **The impact on the unpaid workforce is mixed.** While there also may be a potentially larger pool of volunteers, there are costs associated with volunteering to both the volunteers themselves (e.g. transport), and organisations (e.g. training and management). Without organisational support (such as reimbursement of expenses) volunteers tend to drop off, and as the costs associated with volunteers rise, organisations' capacity to use them is reduced. Volunteer using organisations are expecting greater interest.

### 2.5 Differential impacts?

- **Sub-sectors fare differently.** In the last recession some sub-sectors in the UK saw an increase in income, such as international aid and faith-based organisations. Problematic areas of work (housing, general social services, community and economic development and the arts), where needs (unemployment, homelessness, poverty) have grown more severe whilst resources are constrained.
- **The impact of the downturn on need for VCS services will also be uneven,** both sub-sectorally and geographically. Levels of need are likely to change in both directions. There will likely be a higher need for welfare services, advice and counselling (e.g. debt, housing, employment), but a lower demand for fee-charging leisure and cultural activities (e.g. theatres).

## 3. Total income and scale of the sector

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### 3.1 Background

- **The sector has been growing significantly over the last decade and growth may continue.** This growth – more aggregate income, but also more organisations – disguises significant volatility in total income.
- It is therefore perfectly feasible that aggregate increases in income streams could continue, but that individual organisations will see falls, particularly if the number of charities continues to grow.<sup>4</sup>
- A number of academics have nevertheless remarked upon the disruptive impact of a downturn and in particular the likelihood of **income redistribution**, suggesting that a downturn could exacerbate existing trends (where larger charities are taking a greater share of the sector's income).<sup>5</sup> Some have argued that, at an aggregate level, this may lead to an improvement in efficiency.<sup>6</sup> This however only relates to the public services delivery function of the sector.

### 3.2 Total income: evidence from the last recession

- **Evidence from the last recession paints a mixed picture.** Approximately one-third of charities reported a cash fall in their total income over a two year period (1991-93) in the last recession. If inflation is taken into account (6% over two years) two-thirds of charities experienced a real fall in income.<sup>7</sup>
- **The answer will differ according to the outlook for inflation.** If the effects of inflation are ignored, it is noticeable that significant responses to many questions regarding income in the last recession were 'no change'.
- **Sub-sectors fare differently.** Some subsectors saw an increase in income, such as international aid. Problematic areas of work (housing, general social services, community and economic development and the arts), where needs (unemployment, homelessness, poverty) have grown more severe whilst resources are constrained.<sup>8 9</sup>

### 3.3 Total income: evidence from earlier periods

- **Evidence from the earlier 20<sup>th</sup> Century suggests downturns do not significantly reduce income.** Evidence from the UK<sup>10</sup> and the USA<sup>11</sup> inter-war period is relatively

optimistic, citing the resilience of donated income in particular. This of course disguised different experiences – a common theme in our analysis – and the evidence unsurprisingly points to the greater resilience of larger charities. For example, over the period 1908-27 a review of charity finances remarked upon:

*"the remarkable steadiness of the figures over the period...The period 1908-27 included the great war, the post-war boom and depression, large increases of taxation, the coming of state schemes of health and unemployment insurance and of old age pensions, and a great change in policy with regard to domiciliary poor relief. All these happenings might have been expected to produce great changes in the amount given to charity...yet the changes have been relatively small. the total 'real income' of the charities covered was about the same at the end as at the beginning of the period, and the tendency on the whole was a steady rise in money income, lagging behind the rise of prices"<sup>12</sup>*

### 3.4 Changes in the number of organisations

- **The total number of charities or the ‘birth rate’ is not related to changes in GDP.** Although more detailed analysis is required, there does not appear to be a link between the economy and the rate at which new charities are registered. Indeed, there may even be more registrations in recession years.<sup>13</sup>
- **There is no empirical evidence regarding levels of merger activity.** A number of observers have argued that merger levels will increase, whilst arguing that it remains difficult to merge organisations. Perhaps conversely, many have highlighted more competitive (rather than collaborative) behaviours will become more widespread.<sup>14</sup>

### 3.5 Charitable giving and philanthropy

2005/06: £9.7bn (31.5% of total income, excluding legacies) is from individuals. A substantial proportion of this amount (£5.6bn) is ‘purchase giving’, typically fundraising income.

Likelihood: Low/Medium?

Impact: High

#### 3.5.1 Individual philanthropic support: overall levels

- There is plenty of evidence from the US that charitable giving does not fall during economic downturns: in fact, evidence suggests that downturns simply slow the long-run growth of charitable giving. Giving USA reports:  
*In years with a recession, giving has increased 6.2 percent (current dollars). The average rate of change in giving during a recession is a drop of 1 percent. This decline compares with the total 40-year average of growth in giving of 2.8 percent for 1967 through 2007. During years without a recession, giving has increased an average of 4.3 percent. Using one definition of a slowdown, giving grows an average of 0.8 percent in years with a slowdown.*<sup>15</sup>
- UK evidence on household giving for the period 1974-1994 suggests a long term decline in participation. The proportion of households giving increased in 1980, 1984, 1986 and 1991. 1974, 1980 and 1991 were recession years – i.e. the evidence is mixed at best to say participation increases in downturns.

#### 3.5.2 Individual philanthropic support: distribution

- **Size of charity may matter.** There was also US evidence that the largest organisations were able to weather the storm: the four largest universities saw income increase at a time when others saw decreases.<sup>16</sup> However, a recent slowing of *growth* in fundraised income for the largest charities in the UK made bode badly for smaller organisations.<sup>17</sup>
- **Averages hide variation in experience.** Evidence from the US and the UK suggests that even when income from a particular source falls for the sector, many organisations will still see an increase. As one commentator notes, “organisations appear to experience

*economic downturns differently depending upon their missions, fund raising programmes and other factors”*<sup>18</sup> Giving USA reports that:

*Not all charities, or even all types of charities, experience the “national average rate of change” in any year, let alone in recession years. In fact, Giving USA surveys from 2001 through 2007 found that in all years, 49 to 59 percent of charities saw growth in giving. Even in the worst year surveyed (giving in 2002), less than half saw a drop in total gift dollars received*

- Survey evidence from the early 90s recession in the UK found that one quarter of charities reporting either an increase or decrease in donations; one third reported no change.<sup>19</sup>
- Evidence from the US suggests that during the Great Depression human services, health care and faith based organisations maintained philanthropic support.<sup>20</sup> More recent US evidence supports this.<sup>21</sup>

### 3.5.3 Individual philanthropic support: donor behaviour

- **Donors may carry on giving.** Evidence from the UK and US suggests donors reduce other commitments before gifts (clothes; holidays; eating out) and that they may in fact increase giving as need becomes more apparent.<sup>22,23</sup>
- **Employment levels probably matter.** UK evidence suggests that households where the head is in employment are more likely to give<sup>24</sup>. In particular, unemployment reduces the propensity of a household to give by 7%.
- **Donors focus on existing causes.** Evidence suggests donors focus giving on existing recipients during downturns, implying that those organisations or sub-sectors already attracting widespread support (e.g. faith based organisations; overseas development; animal charities; medical research) will emerge stronger. Some suggest in a downturn some causes are perceived as more deserving.<sup>23</sup>
- **Mode of giving changes.** Evidence from the US suggests that during the Great Depression, philanthropists changed the timing of their gifts: they deferred gifts, with the proportion of income from bequests rising significantly: *“although gifts showed a sharp decrease in depression years, the amount of bequests showed a sharp increase”*<sup>25</sup>
- **Donors cut back on fundraising events.** There is already substantive anecdotal evidence for the UK that fundraising events are being cancelled.<sup>26</sup> A US academic argues that donors *“pull back on the number of events that they will attend”* preferring to see all of their donation spent on the cause.<sup>27</sup>

### 3.5.4 Philanthropy

- It may be the case that in a ‘middle-class’ recession we could see a real impact on major gifts by high net worth individuals. However, it could equally be argued such people are most resilient to a downturn. Policy exchange recently argued:  
*Very few people will be unaffected by the global financial crisis, so it may seem an inauspicious moment to be discussing how to expand philanthropy among the wealthy in Britain. The first of our two reports on the subject, Give and Let Give – on building a culture of philanthropy among high-earning City professionals – was published when bonuses were still booming in December 2007. Despite the scale of the crash since then, the fact remains that wealthy people will fare much better than most in the imminent recession; what is more, their numbers have grown prodigiously in the past 15 years. The total wealth of the 1,000 richest people increased from £99 billion in 1997 to £412.8 billion in April 2008. Below them, the so-called mass affluent have also grown rapidly and now constitute about 10% of the population.*<sup>28</sup>
- The Community Foundation Network conversely argues that the last recession saw major donors increase their giving. Paul Bostock, incoming chair of CFN, is upbeat.  
*“Community foundations managed initiatives that saw increased charitable giving through the recession of the early nineties and through the teeth of the dot-com crash,”*  
*“Where major donors become involved with a local community then our experience is*

*that they respond first and foremost to increased demand, rather than a squeeze on finances."*

### 3.6 Legacies

2005/06: £1.8bn (5.8% of total income)

Likelihood: Medium

Impact: Large charities - High

Small/medium charities - Low

- The value of legacies will be impacted upon by falling property prices and the fall in value of investment portfolios. However, the deferred nature of legacies might mean the impact of falling asset prices is not realised until later years.  
*"Legacy income is well known to follow house prices, so will certainly fall – although I think death rates rise slightly in recessions which may have a very small offsetting effect."*<sup>29</sup>
- Legacies may however be relatively resilient. Evidence for the UK suggests that during the last recession legacies were the income stream least cited by charities as falling.<sup>30</sup> Given the particularly skewed distribution of legacies this may go some way to explain the resilience of large charities.

### 3.7 Corporate support for the sector

2005/06: £567m (4.4% of total income)

Likelihood: High?

Impact: Low?

- Empirical evidence from the US suggests that corporate support for arts charities is closely related to the business cycle: *"if earnings drop, this corporate generosity drops immediately too"*.<sup>31</sup> Wider corporate donations appear to have declined in recession years.<sup>32</sup>
- Evidence from the early 1990s downturn in the UK indicates declining corporate support for charities. However 45% of respondents identified no change in support.<sup>33</sup>
- However, UK evidence also indicates increases in profit (and presumably decreases) do not translate into proportionate increases (decreases) in corporate philanthropy. So, if company profits fall, corporate support might not fall by the same margin.<sup>34</sup>
- The same UK evidence also suggests that lower rates of corporation tax (a potential policy response in a downturn?) will reduce company giving;
- Evidence from the UK and internationally collated by BITC argues that corporate performance and CSR are positively correlated. Promotion of CSR is therefore a likely mitigating strategy.

### 3.8 Trusts and foundations

2005/06: maximum £3.5bn (11% of total income)

Likelihood: Medium?

Impact: Medium?

- **New formations likely to slow.** A number of commentators have highlighted the likelihood that formation of new trusts will decline: *"There will also be a big drop in new charitable trusts being established (or new endowments to existing trusts) as a result of falling city bonuses"*
- **Foundations will smooth out fluctuations in their own investment income.** Evidence from ACF suggests that the larger foundations are anticipating flat grant-making next

year. Greater problems are anticipated in 2010 & 2011.<sup>35</sup> Evidence from the US – where the foundation sector is much larger – supports the notion that foundations smooth-out the impact of recessions on their grantmaking.

- **Foundations are limited in their ability to support the sector in a downturn.**

Although foundations hold much of the sector's investment assets, they are generally small organisations. ACF argues that:

*Overall, financial crises in funded charities are extremely time-consuming for funders to deal with. Trusts...are small organisations with very few staff; they don't have the capacity to manage much of this. One consequence is that they will have to prioritise their time and so it is likely that they will focus on supporting charities and organisations known to them; and on protecting those key strategic bodies that are important to them or to the spheres of interest in which they are working.*

### 3.9 Statutory support for the sector

2005/06: £11.0bn (36% of total income)

Likelihood: Medium?

Impact: High?

- **Government funding policies, practices and attitudes are crucial.** 36p in every £1 is from statutory sources. However, evidence from the last recession suggests both central and local governments cut funding. Of those who experienced a change in their relationship with government, one third cited cuts in funding. More recently, evidence suggests practices (such as late payment) can still lead to problems with cashflow.
- **Government funding of the sector does not closely track public expenditure.** Trends appear to show a fall in central government funding of VCOs in the 1990/91 recession, though this was not limited to recession years. In a report on central government funding the Home Office remarked:  
*“in general, funding of voluntary and community organisations expands and contracts more markedly than government spending as a whole. In other words, central government departments appear to treat this kind of funding as a more flexible or discretionary element, to be increased or decreased in response to economic exigencies or policy changes in high-profile areas such as homelessness, unemployment or crime.”*<sup>36</sup>

#### 3.9.1 Local Government

- **There is widespread concern and even anxiety**– justified or otherwise – that local authorities will cut funding to VCOs.<sup>37</sup> There is concern that discretionary budgets in particular will be cut and that the scope and depth of such cuts will not be apparent until the end of the financial year. NAVCA argues:  
*When under pressure councils often take services in house or target voluntary sector grants. A lot of fear has been expressed that this will happen. The extent to which this is happening will become clearer as we approach April 2009.*
- This will be a problem for organisations of all sizes. The CEO of a large leisure trust argues:  
*As pressure on personal ‘discretionary’ spending mounts I can imagine that large holes will begin to appear in the revenue budgets of local groups. This will hit large companies such as [leisure trust] quite hard. My hunch is that local councils (and their officer/member core) will want to drive a harder bargain in setting annual grant levels to local groups than previously. The first signs of this are already showing. This raises huge questions not only about the model of commissioning to be adopted – just how many ‘intelligent commissioners are there out there able to construct imaginative tenders of the sort proposed in the Public Services Administration Select Committee report? – but also about the capacity of the sector itself to respond to such enhanced formal expectations.*

- **There is significant anecdotal evidence that local authorities are cutting funding.** Evidence from the last downturn suggests that one third of charities felt their relationship with local government changed – and where it did, cuts in funding was a common response.
- **In the crucial area of advice services, cuts are not yet apparent.** Citizens Advice report that:  
*Our member bureaux receive over half their income from local authorities. We are concerned that the economic downturn will have an impact on funding from this source, as non-statutory services such as advice become vulnerable to funding cuts, but we have no direct evidence of this so far. 38% of bureaux have said that they have already discussed the economic downturn (and the possibility of receiving extra funding to increase capacity) with their local authority.*

#### 4. Expenditure

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- The impact of relatively high inflation on the sector has been widely reported, with a particular emphasis on **fuel costs** and the knock-on impact on mileage allowances for volunteers. However, with inflation forecast to reduce significantly this may be less of an issue.
- We estimate **employment costs** are almost 50% of total expenditure. An easing labour market may reduce wage inflation in the sector, though we should not expect significant downwards pressure. Evidence continues to show that sector salaries generally remain below those in the public and private sectors.<sup>38</sup>
- Cashflow is widely argued to be problematic. This is highlighted here as we are aware that some organisations receive payment of grant funding on the basis of providing receipts for expenditure.

#### 5. Assets and reserve levels

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2005/06: £97bn assets; of which £56bn are investment assets

Likelihood: Medium?

Impact: Large Charities/Foundations - Medium

Small VCOs – medium/low

##### 5.1 Background

- **The sector's assets are narrowly concentrated** in the hands of a small number of organisations – approximately 50% of total assets are held by 743 charities. Therefore, many VCOs will not be *directly* affected by falling asset values.
- **Many VCOs are poorly capitalised with low reserve levels.** As a result they are relatively unable to withstand periods of uncertainty.

##### 5.2 Property

- **Falling property prices and credit unavailability may be deferring the construction of community assets.** We have received evidence that community asset building and social housing is threatened by falling property prices (some developments are no longer viable) or the unavailability of credit.<sup>39</sup>
- **Falling property prices are a problem for social housing providers.** In the case of The Environment Trust, a 15% revision of the market value of its property has left it with unsold property, resulting in the Trust going into liquidation.<sup>40</sup>
- **Falling prices may facilitate the purchase of community assets.** We have not received evidence of any increase in asset purchase, but a number of commentators have highlighted this potential.<sup>41</sup> Futurebuilders argued;

*The ongoing fall in property prices could also present an unexpected opportunity – some third sector organisations are considering taking advantage of the bargaining power afforded by a distressed market to increase their own long-term sustainability by acquiring an asset that might have been unattainable until very recently.*<sup>42</sup>

### 5.3 Reserves

- **Few charities have large reserves.** There is widespread anecdotal evidence that VCOs do not have sufficient reserves to withstand an even relatively short downturn. Charity Commission estimated in 2003 that the sector had, in aggregate, the equivalent of 12 months income in reserves, but that 90% of reserves were held by 10% of charities.<sup>43</sup>
- **Many medium-sized charities do not have enough reserves for 12 months.** The same Charity Commission research estimated 64% of medium charities did not have 12 months of expenditure in reserve. 43% of large charities did not have this level of reserves.
- As a member of staff at a social enterprise in administration noted, *'The long-term lesson is you need to preserve a big pile of cash and of course that's one of the things that is hardest to do.'*<sup>44</sup>

## 6. Paid workforce and volunteering

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2005: 611,000 paid employees

2005: 11.6m people formally volunteer once a month

Risks are particularly mixed in the area; there may be as many opportunities

### 6.1 Background

- Approximately 1 in 50 paid staff are employed in the voluntary and community sector. The number of paid staff has been increasing by 10,000 per year in recent years, but a tight labour market has brought problems of skills shortages and upwards pressure on employment costs.

### 6.2 Paid staff

- **Some VCOs are cutting staff, but this may not be widespread.** Anecdotal evidence suggests some VCOs are making redundancies – staff costs represent almost 50% of total expenditure. However, the concentration of staff in contract-funded social care activities may limit redundancies in the sector. An easing labour market may place downward pressure on costs.
- **Skills gaps and shortages may ease.** The relatively widespread skills shortages reported in recent years may ease as the labour market slackens.

### 6.3 Volunteers/Unpaid Workforce

- **It is difficult to generalise about the impact of a downturn on the economy.** Whilst some individuals seek to 'retool' their skills, other households substitute paid work for unpaid work to address money worries. Although lower wages and unemployment reduce the opportunity cost of volunteering, unemployment in particular damages the social networks that connect individuals to opportunities.<sup>45,46,47</sup>
- **Voluntary organisations are expecting more volunteers to come forward.** Evidence collected by Volunteering England suggests more professionals seeking new skills are anticipated: *"More people out of work looking to update their skills and CVs through volunteering"*.<sup>48</sup> Broadly speaking, there is mixed evidence as to whether voluntary work acts as a direct route to paid work.<sup>49</sup>
- **But those in work are more likely to volunteer.** There is evidence that those in paid work are more likely to volunteer, perhaps implying fewer volunteers in a period of rising unemployment – for example, VSO has struggles to fill its placements.<sup>50,51</sup> Finally, some evidence suggests volunteering levels are not related to the wider economy.

- **Individuals might find volunteering more costly.** While there also may be a potentially larger pool of volunteers, there are costs associated with volunteering to the volunteers themselves (e.g. transport).<sup>52</sup> Organisations are concerned this will deter volunteers.
- **Organisations might find volunteering more costly.** Organisations also need capacity to take on more volunteers (e.g. training and management). Without organisational support (such as reimbursement of expenses) volunteers tend to drop off, and as the costs associated with volunteers rise, organisations' capacity to use them is reduced.

## 7. Need for services

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- **Need for services in some (though not all) areas will increase.** There is evidence from the last recession and common agreement amongst current infrastructure bodies that the need for services provided by some VCOs will increase. Futurebuilders recently argued that:  
*The prevailing view is that economic conditions are likely to create increased demand for advice services, mental health support and services to combat drug and alcohol dependence – all areas in which the third sector's ability to provide added value are widely recognised.*<sup>53</sup>
- **Advice services are widely argued to face increased demand.** Citizens Advice has recently recorded a 9% year on year increase in clients, with a particular increase in demand for advice on redundancy and mortgage/loan arrears.<sup>54</sup>
- **Organisations working to increase labour market participation will face increased demand.** It has also been argued that their funding will be squeezed as a result of contractual performance targets being based upon a presumption of full employment. Someone with long experience of the sector argued:  
*“the recession will put a lot of pressure on the many organizations whose work centres on enhancing the employability of their clients. Here in the NE we could be back to the situation we had in the 80s when we were putting people through all sorts of training programmes but without much hope of a job at the end of it. That led to a lot of scepticism about ‘govvy schemes’, seen as being about massaging the unemployment figures. Clearly, in an era of higher unemployment there’s not going to be much prospect of people with labour market deficits getting jobs...and yet presumably the programmes which the third sector will deliver will still be paid for on the basis of outcomes”*

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<sup>1</sup> There are of course other sources of distinctiveness, not least of which is the non-distribution constraint, whilst behaviours (utility, not surplus, maximisation) are clearly different from the private sector.

<sup>2</sup> Please note that where individuals have been quoted they have frequently reminded me to note the lack of supporting evidence for what often are their opinions. As I have shortened quotes in many cases readers should be aware that my paraphrasing possibly misrepresents their opinions.

<sup>3</sup> A number of web-based reports have been accessed during the research. They are available at [www.delicious.com/3s4/downturn](http://www.delicious.com/3s4/downturn)

<sup>4</sup> The number of charities on the Charity Commission register has grown continuously since the register was created in the early 1960s.

<sup>5</sup> Rob MacMillan of Sheffield Hallam University, argues that although there is no empirical evidence: *“I think there is a lot of churn in the sector at the best of times (organisations growing, contracting, births, morbidity, comas, deaths).. I think the major impact of downturn/recession is likely to be severe disruption and redistribution of resources”*

<sup>6</sup> Typical is the following quote: *“At the risk of being controversial, you could pose the question of whether recession raises productivity - this was certainly argued to be the case for UK manufacturing in the 1980s - both through a process of internal change (firms improving efficiency in order to survive) and external change (exit of less efficient, entry of more efficient).”*

<sup>7</sup> CAF (1993) Charities in Recession. These findings are unweighted – i.e. the proportion of respondents does not reflect the profile of the population. Moreover, it does not follow that the *sector’s* total income fell.

<sup>8</sup> CAF (1993) Charities in Recession.

<sup>9</sup> Taylor-Gooby, P (1994) 'Charities in Recession: Hard Times for the Weakest?' in Saxon-Harrod, S and Kendall, J (eds)(1994) Researching the Voluntary Sector, 2nd edition, (Tonbridge, Charities Aid Foundation), pp101-112

<sup>10</sup> Mohan and Gorsky (2001) Don't Look Back? Voluntary and charitable finance of hospitals in Britain, past and present. London: Office of Health Economics. See [www.accaglobal.com/pubs/members/publications/sector\\_booklets/healthcare\\_sector/vcf\\_hosp.pdf](http://www.accaglobal.com/pubs/members/publications/sector_booklets/healthcare_sector/vcf_hosp.pdf)

<sup>11</sup> Sharpe, R (1991) Philanthropy in Uncertain Times: A retrospective 1931-1949. See [www.sharpenet.com/resources/pdf/UncertainTimes2.pdf](http://www.sharpenet.com/resources/pdf/UncertainTimes2.pdf)

<sup>12</sup> Braithwaite, C.(1938) The Voluntary Citizen. London: Methuen. p109.

<sup>13</sup> For example, in recession years the Charity Commission registered more charities than it had in previous non-recession years. Source: Unpublished analysis of Charity Commission data by NCVO.

<sup>14</sup> Rob MacMillan of Sheffield Hallam University, argues that although there is no empirical evidence: *“We might expect to see an exacerbation of the current (little remarked upon) trend for greater competitive relationships between organisations in the battle to secure scarcer resources. More pressure to get married maybe, but I'm not sure about whether there would be more or less willingness”*

<sup>15</sup> Giving USA (2008) Spotlight: Giving during recessions and economic slowdowns. See <http://www.ruotoloassoc.com/Spotlight3-2008Final.pdf>

<sup>16</sup> Sharpe (1991), op cit

<sup>17</sup> Pharoah (2008) Charity Market Monitor 2008 Vol 1. The top 300 charities' fundraising income only just grew above inflation in 2006/07. One-third of this year's top 300 actually saw a decline in fundraised income.

<sup>18</sup> Sharpe, R. (2008) Fund raising in times of uncertainty. [www.sharpenet.com/resources/pdf/SharpeUpdate2008.pdf](http://www.sharpenet.com/resources/pdf/SharpeUpdate2008.pdf)

<sup>19</sup> CAF (1993) Charities in Recession. Donations: increased (23%), decrease (24%), no change (32%); DK/NA (21%)

<sup>20</sup> Sharpe (1991), op cit

<sup>21</sup> Giving USA (2008) Spotlight: Giving during recessions and economic slowdowns. See <http://www.ruotoloassoc.com/Spotlight3-2008Final.pdf>

<sup>22</sup> Sharpe, R. (2008) op cit suggested cuts in other discretionary spending may facilitate increased giving; YouGov (2008) polling suggested 21% of the population would reduce giving to balance their household budget. Greater proportions of respondents cited holidays, clothes and eating out. See [www.yougov.com/uk/archives/pdf/RESULTS%20for%20Bright%20Young%20Things.pdf](http://www.yougov.com/uk/archives/pdf/RESULTS%20for%20Bright%20Young%20Things.pdf)

<sup>23</sup> Professor David Ulph (St Andrews University) suggests: *“[There may be an] increased need effect- there will be a perception that there is a greater need for charitable donations. This could cause a net*

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increase in donations but could also cause a switch in donations - people perceive poverty relief charities as being more deserving at the margin than, say, animal charities”

<sup>24</sup> Banks and Tanner (1997) The State of Donation. London: IFS. Over the period 1984-94 the study found households that gave were more likely to have a head of household in employment, whilst the mean number of employed householders was higher for households who gave (p.16)

<sup>25</sup> New York Times, 4/4/1939. Cited in Sharpe, R (1991) Philanthropy in Uncertain Times: A retrospective 1931-1949. See [www.sharpenet.com/resources/pdf/UncertainTimes2.pdf](http://www.sharpenet.com/resources/pdf/UncertainTimes2.pdf)

<sup>26</sup> For example, Brighton Ball <http://news.bbc.co.uk/1/hi/england/sussex/7635003.stm>

<sup>27</sup> Laura Fredricks, vice president for philanthropy, Pace University. Chronicle of Philanthropy (2008) How a Recession Would Affect Fund Raising: Certain Gifts Could Grow. <http://philanthropy.com/free/articles/v20/i08/08000801.htm>

<sup>28</sup> Policy Exchange (2008) Building Bridges: Philanthropy strengthening communities. [www.policyexchange.org.uk/Publications.aspx?id=756](http://www.policyexchange.org.uk/Publications.aspx?id=756)

<sup>29</sup> Gareth G Morgan, Professor of Charity Studies, Centre for Voluntary Sector Research, Sheffield Hallam University

<sup>30</sup> CAF (1993) Charities in Recession.

<sup>31</sup> Kirchberg, V. (1995) ‘Arts sponsorship and the City’ Journal of Cultural Economics 19, 305-320

<sup>32</sup> Leclair & Gordon (2000) Corporate support for artistic and cultural activities: What determines the distribution of corporate giving? Journal of Cultural Economics 24, 225-241

<sup>33</sup> CAF (1993) Charities in Recession. 45% reported no change; 35% less support, 8% increased support.

<sup>34</sup> Arulampalam & Stoneman (1995) “An Investigation into the Givings by Large Corporate Donors to UK Charities, 1979-86.” Applied Economics, October 1995, 27, 10, pp. 935-45

<sup>35</sup> ACF submission based on a survey of their membership.

<sup>36</sup> Mocroft and Zimmeck (2004) Central government funding of voluntary and community organisations. London: Home Office

<sup>37</sup> Ian Cunningham (Strathclyde University) argues: “*There appears to be an emerging sense of anxiety within organizations in Scotland regarding the impact of the credit crunch on local authority funding. This is coupled with some unease about the taking away of the Ring Fencing around Supporting People funding. In addition, there is increasing anxiety about EU Directives on competition and the SNP’s decision to freeze council tax levels*”

<sup>38</sup> [www.ukworkforcehub.org.uk/displaypage.asp?pageid=9982](http://www.ukworkforcehub.org.uk/displaypage.asp?pageid=9982)

<sup>39</sup> Louise Beaton, Acre’s village hall advisor, argued in a submission that: “*A £1.2 million project including a Children’s Centre in Sussex should have been on site now, but the developer building both the new community hall and housing (including social housing) on the old site has pulled out, another in Dorset has a £30K hole in funding owing to the fall in value of the old site.*”

<sup>40</sup> [www.socialenterprisemag.co.uk/sem/news/detail/index.asp?id=734](http://www.socialenterprisemag.co.uk/sem/news/detail/index.asp?id=734)

<sup>41</sup> It has been argued that local authorities see such transfer as preferable to closure – i.e. they may remain unviable, but a ‘solution’ has been found. Research by Rob Paton argues that handing over failing businesses to ‘reluctant entrepreneurs’ helped to smooth-out labour market disruptions in previous downturns.

<sup>42</sup> Futurebuilders (2008) Third Sector Commissioning Review, Autumn 2008. this argument was also argued in a submission from CCLA Investment Managers.

<sup>43</sup> Charity Commission (2003) RS3a Charity Reserves: key findings. See [www.charity-commission.gov.uk/publications/rs3a.asp](http://www.charity-commission.gov.uk/publications/rs3a.asp)

<sup>44</sup> Lorraine Hart, The Environment Trust, quoted in:

[www.socialenterprisemag.co.uk/sem/news/detail/index.asp?id=734](http://www.socialenterprisemag.co.uk/sem/news/detail/index.asp?id=734)

<sup>45</sup> DePoint and Brown (1998) Personal Philanthropy Over the Business Cycle: Does Volunteering Smooth Giving? ARNOVA conference paper

<sup>46</sup> Some academics have argued that standard labour supply explanations of volunteering do not stand up to empirical scrutiny; this may imply that volunteering levels are not related to the economy but instead to being asked. See Freeman, R. (1997) “Working for nothing: the supply of volunteer labor” Journal of Labor Economics, 15, 1.

<sup>47</sup> Steve Howlett (Roehampton University) points out an important driver of volunteer numbers has been employer supported volunteering. However, we don’t know what impact the downturn may have.

<sup>48</sup> Volunteering England (2008). Volunteering and the economic downturn. Evidence submitted to NCVO based upon survey data.

<sup>49</sup> Corden and Ellis (2004) “Volunteering and employability: exploring the link for incapacity benefits recipients.” Benefits, 12, 2, pp. 112-118

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<sup>50</sup> “*Much volunteer activity comes from employed individuals with high productivity, income, and therefore high opportunity costs*” Govekar and Govekar (2002) “Using economic theory and research to better understand volunteer behaviour” Nonprofit management and leadership, 13, 1.

<sup>51</sup> [http://business.timesonline.co.uk/tol/business/career\\_and\\_jobs/article4887845.ece](http://business.timesonline.co.uk/tol/business/career_and_jobs/article4887845.ece)

<sup>52</sup> Research in June 2008 by the Community Transport Association found that that 55 per cent of organisations believe that increasing fuel costs have resulted in the loss of volunteer drivers or delivered difficulties in recruiting new ones. See

[www.ctauk.org/uploadedFiles/News/CTA%20Mileage%20rate%20final%20\(2\).pdf](http://www.ctauk.org/uploadedFiles/News/CTA%20Mileage%20rate%20final%20(2).pdf)

<sup>53</sup> Futurebuilders (2008) Third Sector Commissioning Review, Autumn 2008.

<sup>54</sup> Citizens Advice (2008). The Citizens Advice Service’s Experience of the Impact of the Economic Downturn. Submission to NCVO.