Can charities build financial sustainability during the cost-of-living crisis?

A number of headwinds are facing the charity sector, with the UK economy expected to shrink in 2023, a sustained reduction in donation levels, pressures on government funding and an increase in demand for some charity services. But might this be an opportunity to adapt to ensure long-term sustainability?

Collaboration

Through covid and beyond, there's been widespread expectation that we may see an increase in charity mergers, but in reality they're reported to have actually declined. We're yet to see the latest data on charity mergers during the cost-of-living crisis - we might expect to see a small uptick due to the financial implications on the sector, but anecdotally, they've been few and far between possibly due to the complexity and costs.

For some, the focus has instead been on more informal cooperation or shared service arrangements, which have been rising in popularity over recent years. Charities who are close (either geographically or via charitable purpose) can look to work together to fuel efficiency and drive cost reduction.

We've also seen a focus on corporate collaboration beyond that which has traditionally been funding or sponsorship. Charities are considering whether they could use corporate skills to plug gaps – could corporate commitments to volunteering hours in IT or HR be more valuable than a cash donation?

Digital

The pandemic accelerated the shift toward digital and a cashless society and forced many organisations to consider their digital proposition. Fundraising during uncertainty is challenging and charities are perhaps among the most impacted by the move towards cashless. Now dubbed by some the "cost-of-giving" crisis – fewer donations and cash representing a small proportion of donations mean charities need to adapt to meet a changing payment landscape.

Digital transformation is now a top priority for many organisations, with some service and operational delivery already forced to move online. The debate remains around office space – could costs be cut through remote working for head office employees and how to retain a culture remotely?

It's certainly a challenge, but as almost three quarters of charities look to introduce new methods of giving, and stand out from the crowd these solutions might require significant initial investment, for long-term sustainability.

What else?

Staff recruitment remains a key consideration, with charities facing losing talent to competitive corporate offers. This issue is compounded by a reduction in volunteers, who may be less able to give up their time to support the charity during the cost-of-living crisis.

Charities have always differentiated themselves with the opportunity to work for an organisation focused on "doing good" but more may be needed in a competitive market. We've seen a variety of approaches to moving staff packages in line with corporates but what else is important to staff and volunteers?

ESG naturally remains important, but plans may have been delayed as some charities focused on short term financial sustainability. However, they may now be facing more scrutiny on their ESG credentials from volunteers and staff as well as donors and so may benefit from a review of their strategy. Some thought-provoking guides may be helpful including the Charity Finance Group's net zero hub for charities.

Closing thoughts

There's always a need to adapt and with further challenges on the horizon, some changes may seem out of reach. However, investing in change today can help organisations to stay ahead of the curve, find efficiencies and increase their financial sustainability - presenting an opportunity to "future proof" for the challenges of the future.

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