

What is the impact of lack of access to finance on the voluntary and community sector?

Voluntary and community sector organisations are experiencing a decline in income

- Voluntary and community sector organisations access finance through a range of means including gifts and donations (both from individuals and business), investments and through delivering commissioned services. The economic downturn has had an impact on the sector across all three of these income sources.
- Donations and gifts have declined in 2011/12 by 20% in real terms (15% in cash terms). The proportion of people donating, and the amount they donated, both fell. In 2010/11 58% of individuals made a donation but in 2011/12 55% did so and they donated less - £10 on average (median) compared with £11 in 2010/11 and £12 in 2009/10.¹
- The effect of the recession is reflected in the evidence that income from the private sector and from charities' own investments had declined by more than 10% between 2008/9 and 2009/10²
- The change in income from gifts and donations is not the same across all charities. Larger charities with incomes over £10 million experienced a decrease of nearly 11 percentage points between 2007 and 2009 while those that had incomes of between £500,000 and £10 million had a 2.2 percentage point increase in the same time period³.
- A survey of Locality members in 2012 found that they had experienced an 8% decline in their income. 35% said that they were facing significant financial difficulties and a further 4% were likely to close.⁴

Public sector spending cuts have affected the income of charities that provide services for local authorities

- It is estimated that the voluntary and community sector will experience cuts of 7.7% between 2010/11 and 2015/16.⁵
- A survey of London voluntary and community sector organisations found that three out of five (60%) had experienced a reduction in their funding of, on average, 21%-40% in 2012/13. Around two in five (41%) had already ended some of their services and nearly a third (29%) expected to end some service in 2012/13⁶.
- A survey in 2011 in the North West showed that 42% of organisations anticipated that they might close in between 6 months and three year's time.⁷
- The ongoing cuts in public sector funding mean that charities not only have to reduce the services they offer but also may close. For example, charities that work with disadvantaged children, who are particularly vulnerable to cuts in public sector funding, are expected to experience cuts of £405 million between 2011/12 and 2015/16 and a minority expect to close.⁸
- More than 2,000 voluntary and community sector organisations have experienced cuts in Local Authority funding in 2011/12 of £110 million. The cuts experienced ranged from 4% to 100% (more than 700 charities experienced a 100% cut in Local Authority funding). This resulted in reductions in the services they can provide and, in some cases, closure of the organisation.⁹
- Around eight out of ten (79%) of NAVCA members who responded to a survey in 2012 said that the financial position of their organisation would get worse over the next 12 months while around 10% felt it would improve.¹⁰
- There are indications that reductions in funding will mean medical research charities will no longer be able to continue their work but will need to prioritise to make difficult decisions on where to focus their research¹¹
- Reductions in public sector spending affect more deprived areas to a great extent than less deprived areas and it may be that voluntary and community sector organisations in these areas will be more affected by reductions in their funding from the public sector.¹² Half of Local Authorities are making disproportionate cuts to the voluntary and community sector¹³

Demand for services is increasing and voluntary and community sector organisations are seeking to diversify their income

- The effect of the decline in income in the voluntary and community sector is yet to be evident but it is apparent that services are closing while demand is simultaneously increasing.
- Two-thirds (66%) of voluntary and community sector organisations in London surveyed said that they had already experienced an increase in demand for their services and more (71%) were expecting demand to increase in 2012/13.¹⁴
- A survey in 2011 of voluntary and community sector organisations in the North West also found that 68% believed that demand for services would increase in the next year and this was particularly the case among groups who worked with disadvantaged groups, 80% of whom said demand would increase.¹⁵

In response to this impact on the voluntary and community sector there have been some new developments in potential sources of finance

- Voluntary and community sector organisations are increasingly seeking to diversify their income streams. For example, in London, 60% of those surveyed were doing this in 2012 compared with 15% a year earlier.¹⁶
- Social investment, where investors consider the social as well as the financial outcome of their investment, has also grown over the last ten years and £200 million has been invested in 2010.¹⁷
- A 2012 survey of social ventures found that the majority (169 out of 188 or 90%) said that they needed finance in order to grow. For 60% this was to start a new service while for 70% it was to extend existing provision. In total these social ventures required £344 million to grow but were individually typically looking for £500,000. Of those requiring finance, most (70%) were willing to take a loan to achieve this.¹⁸
- It is apparent that the voluntary and community sector needs a variety of sources of income and funding, but this could include, for some organisations, investment that will be repaid over time. However, the return on loans to social ventures may be

less than is the case with more commercial loans and may take a longer time to be realised¹⁹.

- There are a number of sources of such finance available to the voluntary and community sector, as outlined below.
 - **Big Society Capital** was launched in 2012 by the Cabinet Office as a £600 million capital fund to assist charities, social enterprises and community groups to access finance through social investment. £400 million is from dormant bank accounts and £200 million from the four largest high street banks in the UK – RBS, Lloyds-TSB, Barclays and HSBC.²⁰ Big Society Capital was set up as an organisation that is independent of government to make decisions about the investments. They make investments through Social Investment Finance Intermediaries (SIFIs)²¹
 - **Social investment** entails investors considering the social impact of their investment in addition to the financial returns.²² Social investment is repayable, often with interest and the enterprises funded through social investment will generate their repayments through their income generating activities. It is estimated that £165 million of social investments were made in 2010.²³
 - **CDFIs** lent £145 million to voluntary and community sector organisations in 2010/11. 81% of loans were to social enterprises and the remainder was to charities, voluntary associations, social clubs and religious establishments. The average small lender loan was £35,000 and large lender loan was £400,000. ²⁴ The government says that it '*recognises that CDFIs can play an important role in facilitating access to finance in disadvantaged areas and to disadvantaged groups*'²⁵
 - **Community Investment Tax Relief (CITR)** provides 5% tax relief per year on the amount invested in a CDFI for up to five years. CDFIs can in turn use the investment to invest in social enterprises, the VCS and businesses in deprived areas.²⁶ The government remains committed to this as illustrated by not abolishing it in 2011 but encouraging its use.²⁷
 - The new **business bank** was announced 2012 to help lending to business²⁸ and ACEVO asked for some of the £10 billion to be protected for funding the voluntary and community sector.²⁹

To support the voluntary and community sector to access finance some interim support is available.

The need for support is recognised in the following initiatives:

- The **Investment in Contract Readiness Fund**³⁰ was launched in 2012 to provide funding to support social ventures to be able to bid for competitive public sector contracts and access different types of investment.
- The **Social Incubator Fund**³¹ provided funding at the early risky stage of new social ventures and focused on incubator support in order to help provide a source of social ventures that are investment-ready.

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¹ http://www.ncvo-vol.org.uk/sites/default/files/uk_giving_2012_full_report_1211.pdf

² <http://data.ncvo-vol.org.uk/almanac/voluntary-sector/finance-the-big-picture/what-are-the-sectors-different-sources-and-types-of-income/>

³ <https://www.cafonline.org/media-office/press-releases/2011/august-2011/larger-charities-worst-hit.aspx>

⁴ http://www.thirdsector.co.uk/bulletin/third_sector_daily_bulletin/article/1159412/total-income-community-groups-england-falls-8-per-cent-past-year-survey-finds?DCMP=EMC-CONThirdSectorDaily

⁵ http://www.ncvo-vol.org.uk/sites/default/files/counting_the_cuts.pdf

⁶ <http://www.lvsc.org.uk/media/117415/big-squeeze-2012-final%5b1%5d.pdf>

⁷ <http://www.tsrc.ac.uk/LinkClick.aspx?fileticket=ydxRXtMOLkQ%3D&tabid=565>

⁸ http://www.ncb.org.uk/media/705870/beyond_the_cuts.pdf

⁹ <http://falseeconomy.org.uk/blog/exclusive-more-than-2000-charities-and-community-groups-face-cuts>

¹⁰ <http://www.navca.org.uk/news/view-article/survey-shows-navca-members-improving-local-relationships>

¹¹ <http://www.cancerresearchuk.org/cancer-info/news/archive/pressrelease/2011-04-20-impact-of-cuts-on-research>

¹² http://www.ncvo-vol.org.uk/sites/default/files/counting_the_cuts.pdf

¹³ http://www.ncvo-vol.org.uk/sites/default/files/counting_the_cuts.pdf

¹⁴ <http://www.lvsc.org.uk/media/117415/big-squeeze-2012-final%5b1%5d.pdf>

¹⁵ <http://www.tsrc.ac.uk/LinkClick.aspx?fileticket=ydxRXtMOLkQ%3D&tabid=565>

¹⁶ <http://www.lvsc.org.uk/media/117415/big-squeeze-2012-final%5b1%5d.pdf>

¹⁷ http://www.cabinetoffice.gov.uk/sites/default/files/resources/404970_SocialInvestmentMarket_acc.pdf

¹⁸ <http://www.sibgroup.org.uk/category/news/2012/survey-shows-huge-demand-for-social-investment-from-ambitious-social-ventures-looking-to-grow/>

¹⁹ <http://www.nesta.org.uk/library/documents/BSFFUnderstandingthedemandprint.pdf>

²⁰ <http://www.cabinetoffice.gov.uk/news/launch-big-society-capital-worlds-first-ever-social-investment-market-builder>

²¹ <http://www.bigsocietycapital.com/bsc-role/>

²² <http://www.bigsocietycapital.com/what-is-it/>

²³ <http://www.cabinetoffice.gov.uk/news/launch-big-society-capital-worlds-first-ever-social-investment-market-builder>

²⁴ <http://www.cdfa.org.uk/wp-content/uploads/2012/07/Inside-Community-Finance-June-2012.pdf>

²⁵ <http://www.cdfa.org.uk/wp-content/uploads/2012/07/Inside-Community-Finance-June-2012.pdf>. HM

Treasury 2010 Financing Business Growth.

²⁶ <http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/community-investment-tax-relief>

²⁷ <http://184.172.165.25/~cdfa/policy/community-investment-tax-relief/>

²⁸ <http://www.bis.gov.uk/news/topstories/2012/Sep/new-business-bank-to-boost-lending>

²⁹ <http://www.thirdsector.co.uk/Finance/article/1152805/Acevo-asks-government-ring-fence-state-business-bank-money-finance-charities/?HAYILC=LATEST>

³⁰ <http://www.beinvestmentready.org.uk/index.php?id=789>

³¹ http://www.biglotteryfund.org.uk/prog_social_incubator_fund