

COVID-19 and the charity sector in a global context

2020



Introduction

We are living through unprecedented times as the world grapples with a pandemic not seen on this scale since the early twentieth century. There are few people who will not have been touched in some way by COVID-19; fortunately for most it will have been through disruption to ‘normal’ life. For those individuals or causes that are dependent on the work of charities and the wider not-for-profit sector, there is an increasing risk of a more profound and long-term impact.

Different countries have managed the crisis in a different way, or at least to a different timescale, and this has inevitably caused variation in how society has been impacted. Therefore, we wanted to try and understand a little more about how the COVID-19 pandemic has affected the global charity sector while we have all grappled with the challenges lockdown brings, the gradual easing of restrictions and now the re-imposition of certain restrictions either locally or nationally; and how we might expect the charity sector to be able to deliver to its beneficiaries in the ‘new normal’ that we all expect to emerge once the pandemic has subsided. We have therefore reviewed the challenges that our member firms in the likes of France, Italy and Botswana have identified and engaged globally with our clients in the UK, US, Canada, Australia, and New Zealand to seek their views in order to help inform this piece.

Even as we enter August, there remains considerable uncertainty – the pandemic still growing in South America and India, a resurgence in the US, Europe, Asia and Australia with the need to impose new restrictions and slow down the easing of existing restrictions. Further lockdowns cannot be ruled out and certainly in the UK, we are starting to see local lockdowns where outbreak clusters form. We have all needed to adapt, and very quickly, to be able to continue working and ensure the basics of life (access to food, emergency healthcare, key public services etc.) can be fulfilled. This has meant embracing digital technologies far quicker than we might have otherwise and thinking laterally about how we might achieve the same things remotely that we previously expected to do at the office or face to face with colleagues and clients. Inevitably the charity sector has needed to follow the same path and so this piece seeks to explore how the sector is managing now and how it might expect to evolve for the future under the broad concepts of digital and behaviour.



Navigating the lockdown

How do we keep operating?

The first thought when a lockdown is announced is how are we going to keep operating? It is fair to say that most organisations still operate out of offices and working from home is something only the minority do or can do, and then for only a small portion of the working week. Suddenly everybody needed to work from home, so a key challenge has been whether the IT systems are set up to enable this and if they are robust enough to suddenly cope with the entire workforce logging on remotely. Furthermore, challenges around cyber security and the following of established internal controls needed to be considered.

Coupled with this is the speed of change and the frequent developments, both in terms of government advice and the evolution of the working and operating environment. Ordinarily the changes we have all faced would have gradually happened over a period of months or even years; but under COVID-19 they needed to happen instantly or, at most, over the course of a few days.

Although lockdown was implemented at different points in the early phases leading up to the peak of the pandemic across the globe, we have found from discussions with our clients that these immediate challenges were felt equally no matter where in the world the charity operates. Many of our clients had already embarked to some degree on an agile working journey, for instance a relationship support charity in Australia had already been going through a business transformation process where there was a focus on moving counsellors to a predominately work-from-home platform; COVID-19 simply sped up this process, but it did mean that the underlying infrastructure was already there to enable the transition.

However, not all charities were so far down the route of moving to an agile model, and we are aware of other organisations that were less able to make the seamless switch from office-based working to homeworking. The Business Continuity Plan was envisaged to cover a relatively short-term period of disruption, whereas the impact of COVID-19 is likely to be much longer term. We also heard from a charity in Canada where only some of their staff had migrated to laptops and

were able to easily switch to home working. The rest still relied upon desktops and in the interim, for those who didn’t have the necessary hardware or had challenges with what they had available at home, the charity moved their desktops to their “home office”. The IT team spent a good part of the first two weeks helping individuals get settled with a ‘help desk’ environment and fielding questions from staff.

Key insights and considerations

- Look at how things are now – how ready are you to move to a more agile way of working?
- Do your working practices and policies enable agile working?
- Do you have the right infrastructure to cope with remote working at varying times of the day?
- Reconsider your property strategy if you move to a more agile way of working – is all that space still needed and is it the right type of space?

Communication

The key to making a success of this tricky situation is good communication – that is both within the organisation and with key stakeholders. It is widely reported that platforms such as Zoom and Microsoft Teams have experienced enormous demand during the lockdown period, and this is no less true from what we have been seeing with our global client base. These platforms make staying in touch very easy and, as we will see when we start to look at what the future holds, it seems that their popularity means they are here to stay.

It is not just the platforms that are being used to enable good communication, our clients have also been highlighting some of the practices put in place to ensure regular communication. One of our Canadian charities has explained how they changed the frequency of team communications – instead of meeting every couple of months for an hour, they now meet weekly for 30 minutes. They quite rightly feel that keeping connected with their staff has been vitally important, particularly where there is a need to be transparent over the ways the organisation needs to be run (eg temporary layoffs).

One of the challenges raised by some of our UK clients is around the interaction between management and audit committees. We will explore this a little further later, but this

also partly falls under communication because it is so vitally important that all parts of the charity talk to one another to continue to operate effectively.

It is not just the way that staff at charities interact with one another that needed to change, but the way charities interact with beneficiaries. A good example is a care charity we act for in Australia, whose beneficiaries have varied access to digital technology. For this charity, a key challenge has been ensuring communication about critical information, such as health and policy information with their residents (beneficiaries), has been made in a timely manner. The geographic spread of their residents and the varying range of access to digital technologies has made this process particularly challenging. They have had to rely largely on hardcopy communication, hand delivered across a large portfolio. They also needed to carefully adapt messaging to different client groups with a rapidly changing environment. They have however used this as an opportunity to increase the interaction and exposure with their residents through social media, particularly Facebook.

Key insights and considerations:

- Take advantage of the technology that is available.
- Keep in touch with your staff and your beneficiaries – are you doing enough to alleviate the concern and uncertainty felt by employees and clients?

Staff – mental wellbeing, family challenges

In the last section, we touched upon the need for regular contact with staff on a collective basis. Linked to that is the need to understand the impact of measures such as lockdowns on mental wellbeing and family pressures on an individual staff member. It seems that mental wellbeing has really been brought to the fore with this crisis and it is likely to be an issue that will need attention beyond the current restrictive measures.

These are widely held concerns across our global client base, particularly highlighted by some of the discussions that have taken place with UK and Canadian clients. Some of the key themes that have come out of those discussions are:

- Helping staff overcome the anxiety of sharing their workspace with their partners/spouses and roommates, keeping their children occupied, and fielding questions such as ‘are we going to be ok?’ and ‘I don’t know how I can answer emails while trying to keep my two-year-old from wrecking the house?’
- ‘Always on’ mentality when work and home are the same, even if people aren’t expecting you to be available at all times, you make yourself available without realising it.

- Social cohesiveness amongst team members is diminished. Typically, this cohesiveness is built up through regular but ad hoc interactions that are often not about work. It is impossible to pre-schedule off-the-cuff chatter. This might be manageable with an existing team, but on-boarding new staff in this environment is not ideal.
- Those working from home will have developed practices and a working culture which is now very different from those who remained on the front line. The furloughed staff may have seen salary reductions and face greater uncertainty over their livelihoods and careers. The overlap and interaction between them is an interlocking set of quandaries that will exercise people and culture teams for months to come.

Key insights and considerations:

- Be aware of the mental health of your team.
- Recognise that working from home results in additional stress to individuals – how are you supporting them and reassuring them?
- Be prepared for little people to appear in video meetings – far from being a problem, it could be seen as a lovely way of diffusing tension or anxiety, and enables everyone to get to know each other better.
- Manage expectations for your team – don’t let them feel like they must always be online and ensure they are able to separate work from private life.
- Think about how you will maintain and build team spirit – what online activities can you introduce to encourage this?

Financial

Aside from staff, the other critical factor for any organisation is the generation of revenue and cash management. For some charities, COVID-19 has not created that big an impact, while for others it can be as though the tap to their funding has been turned off overnight. Charities in the arts and hospitality sectors have been worst hit, while those in the health and care sectors have been somewhat shielded and, in some cases, have received additional funding due to the critical role they play. Aside from the operational challenges this poses, it also creates a tremendous amount of uncertainty for the future and for the individual both working for the charity and benefiting from its outputs. Unsurprisingly, this is one of the other main areas that our clients commented on across the globe.

Individual governments have needed to put in place many different schemes (but all with similarities to one another) in order to support the wider economy during the crisis. For instance, in the UK we have seen measures such as the Government Retention Scheme (to furlough staff), Coronavirus Business Interruption Loans, VAT deferral and business rate relief. The New Zealand and Australian governments have also put in place similar or equivalent schemes to support the economy.



The charity sector is largely fortunate in that it is able to tap into at least some of these measures, however as the crisis continues we are seeing cases of charities that have been unable to benefit because their activities perhaps fall between the cracks of what is covered by the various schemes. For instance, in the UK, some well-known and high-profile zoos, such as the Zoological Society of London, are facing considerable challenges – the need to close the site to visitors but still look after the welfare of the animals means that funding largely stops but the costs do not really change. This means that charities in this situation need to fall as best they can on other means of survival.

Many of the UK charities we spoke to have discussed the importance of brought forward reserves. From being another area of charity operation disliked by the media, where they were often termed ‘excessive’, many charities are finding their unrestricted reserves are a lifeline in the present circumstances. However, there is great variability about whether those funds are sufficient.

At a recent UK event that we held (virtually), there was extensive discussion of reserves policies and how they need to be improved in both their accuracy and how they need explain their value with much greater clarity. In particular, attendees discussed how reserve policies now need to outline how they will be rebuilt now that they have been drawn down. Communicating better with the public about how charities actually function, is clearly more vital now than ever.

Almost universally across our global client base, the subject of financial management and forecasting has been highlighted as being more important than ever. These will be key for modelling the financial sustainability of the charity, and it will also prove to be a key source of evidence when it comes to the year-end audit and potentially for external stakeholders, should they ordinarily receive financial forecasts. There remains so much uncertainty, not least how long the crisis will continue and how restrictive measures will be over normal operations. Thus, we have seen from our global clients the careful consideration of assumptions and the use of different scenarios to attempt to map the impact of the unknown. One of our US clients, a youth charity, reported to us that they have done an extensive job of developing projections for exogenous factors including epidemiological, attitudinal, economic, government restrictions, technology. They also developed three scenarios for 2020 and four for 2021 based on these external factors.

Key insights and considerations:

- Ensure you are aware of the government support that might be available and take advantage of it.
- Ensure you have robust financial planning – reverse stress testing will start to tease out where the cliff edge might lie for your organisation and what will push you there.

Governance

This report has already hinted at the relationship between management and trustees and how this has needed to evolve very quickly under the pandemic. The discussions we have had with clients in the UK and Australia have included the challenges that trustees face in their role, such as around seeing appropriate management data and supporting management. Other matters include:

- How do audit committees best utilise internal audit? Risks will have changed significantly, if not completely, with changes in controls, working procedures and a potential increase in the risk of fraud. So, is the internal audit plan still fit for purpose?
- Dealing with decisions around financial reporting and whether it is sensible to delay the submission of audited financial statements because of the uncertainties. Whether enough information is available to form a judgement over going concern.
- How does a board and executive judge the best time to return salaries to normal, given that it is unlikely that income and costs will stabilise in the short term for many charities? This will depend on individual circumstances, but boards need to be considering it as soon as possible.
- Boards and management are tending to focus on only what is necessary – this is giving management some leeway over less fundamental matters that are not the priority under the circumstances.
- Boards need to find the balance between becoming too operational or not challenging management enough and supporting what may be a stressed management team.
- Finding the right time to step back and look at the future is a key issue for boards – in the short term they may need to take more of the load on the strategic piece whilst management deal with the day-to-day.

Audit committees need to be alert to the high probability that a return of the virus or a slower than hoped for recovery would mean that charities need to activate their business continuity plans all over again. There is already an urgent need to learn how well business continuity plans and teams responded to the COVID crisis, and how well they matched the needs of the organisation in the most extreme circumstances. Audit committees which have access to internal audit resource are looking again at their business continuity provisions with a focus on the risks developing from a changed working method rather than on getting back to normal. This can include mental health of staff, fraud risks and reliance of IT services.

Key insights and considerations:

- It is essential that management and trustees work effectively together – what is the best way for the board to support the executive?
- Strike a balance between short-term and longer-term strategic thinking – this is likely to need to be flexed depending on the status of the pandemic, i.e. is it declining or is a second wave building?
- Be pragmatic over what is essential and what is nice to have, such as extending the audit timetable rather than sticking to the usual tight process.

How to keep helping your beneficiaries – go virtual and adapt

We have hinted at some of these already, where there is overlap between running a charity and engaging with stakeholders, but this is quite a variable challenge as it really depends on what an individual charity does. Therefore, some have hardly been affected where their output was delivered on a remote basis already. However, it has been a far greater challenge for those charities where face-to-face interaction or being out in the community is fundamental to achieving the charitable objectives.

A good example of needing to remain out in the community can be seen in one of our US clients, a food rescue organisation in New York City. It is not possible to distribute food to those in need online or remotely, so it was necessary for the charity to adapt its operations to ensure the safety of its employees and volunteers, whilst still allowing them to support the charity's beneficiaries:

“We determined what our response to the pandemic was going to be – that was to feed hungry New Yorkers. This allowed us to reallocate resources from our Nutritional Education programmes to our food distribution operations. We also determined who were the essential staff that needed to work at our warehouse and the staff that could work remotely. Prior to individuals relocating to the warehouse, we reallocated space to ensure that we had adequate social distancing – conference rooms into workspace, closets into offices. We rented construction trailers to isolate members of the same team, so in the event that one work area got infected, we didn't lose the whole team. Since we have long haul drivers we rented portable bathrooms so that these drivers did not need to enter the warehouse. We rented vans so that drivers did not have to be in the same truck when going to an agency to make a delivery. The safety of our employees was the biggest concern. One risk that was underestimated was the willingness of employees to come to work. With warehouse workers and drivers being

part of the core business we needed to ensure that they were healthy and willing to come to work. Our quick response to implementing safety procedures, getting staff PPE, implementing a cleaning regiment assisted in the ensuring employees were comfortable with coming to work.”

Another US client (a youth charity), which also operated on a face-to-face basis, has been able to move their outreach work online. This has meant a new way of accessing potential participants directly rather than through an intermediary, which in turn has meant the charity has been able to attract more young people, including those not already directly engaged in some way with the charity.

These two examples show some of the ways in which charities are adapting to the challenges we are all currently facing. Adaptations are driven by the needs of beneficiaries and how it is possible to meet these needs, along with the changes that are required to minimise the risk of transmission of COVID-19, such as social distancing. As we will look at next, these adaptations will need to evolve further as we enter the ‘new normal’ post the pandemic.

Key insights and considerations:

- Think laterally – do your charitable activities have to be done in the same way to achieve the same impact, or could they be delivered differently?
- What are the practicalities of continuing as before, and under the dangers presented by the pandemic should you be asking your staff to continue in this way?
- Be aware of government and medical advice to ensure that delivery of charitable objects is done as safely as possible.



What does the ‘new normal’ have in store for us?

Whilst there is a good deal that remains unknown about the future and what the ‘new normal’ will look like, it seems reasonable that some of the measures we face today will remain in place to a lesser degree for some time to come. This inevitably means that we are likely to continue with many of the new practices that we have adopted at short notice. Additionally, some of these new practices have proved popular – it is not necessary to always commute to an office when we know that technology enables us to be just as effective from home; it is also not necessary to travel large distances for meetings when again, these can be effectively held virtually.

This is likely to mean a number of things:



Better mental wellbeing for staff – not having to travel so much reduces the pressure on their time and could enable a better work/life balance.



Costs are saved as less office space is needed and the cost of travel is cut.



There will be a positive environmental impact as the reduction in office space and travel will inevitably lead to a reduction in harmful emissions.

From the discussions we have had with our global clients, it seems that many of the practical factors listed above are expected to be implemented going forwards. Globally, there is an expectation that technology will be used far more and a lot more will be done virtually. Depending on what the ‘new normal’ looks like there will be impacts on funding, operating models and staff management. The use of technology can enhance team meetings where it is not practical to gather everybody together. It also increases the opportunity to provide more frequent training consumed in your own timeframe or as a group activity.

For direct service delivery entities, in terms of clients, the need to revert back to delivering that face-to-face service they require will have to be managed. An upside of having got used to digital engagement is entities may be more skilled at having all information at the staff members’ fingertips before they meet with the client.

In Australia some organisations have found that COVID-19 has shown that many are prepared to look for help online, and can be reached electronically with appropriate engagement strategies. Therefore, it is important that online service offerings continue to include online service delivery and online self-help tools. Whilst organisations have had to adapt to technology and virtual communication, so too has the general public. This means that there may be a greater expectation that delivery and outreach can be achieved online, rather than the more traditional face-to-face model.

The flipside to this is whether the existing funding models that are predicated on in-person contact and services will adapt to a more online approach and whether this will have a detrimental impact on the funding of a charity. This is clearly something that will need to evolve as new ways of working become better established.



The health crisis is likely to have highlighted deficiencies in services across a broad spectrum of sectors. For instance, this has been highlighted by a housing charity based in Australia, where the view is that the crisis has identified now more than ever the importance of safe, stable and secure housing which offers protections to individuals and the community in general. That charity will be reviewing the key challenges they have seen across their properties during this time and ensuring that future properties are designed with protections and additional safeguards should we face with another challenge of this nature in the future.

In New Zealand there was also a recognition that the financial challenges created by COVID-19 need to be future-proofed. This would include recognising the need to hold greater financial reserves and the possibility that struggling charities with similar aims and objectives should merge to create a more sustainable organisation.

We don’t know what the ‘new normal’ will be, but we have seen that there are a number of positives that can be taken from the crisis both in terms of new operating models and how beneficiaries might benefit and engage in the future.

Key insights and considerations:

- Establish an achievable agile working policy.
- Invest in technology to facilitate remote and new ways of working.
- Adapt to different expectations of beneficiaries, some of whom may now expect to deal with the charity digitally.
- Assess whether the service your charity provides is sufficient, or has the pandemic revealed gaps that can now be filled?

Conclusion

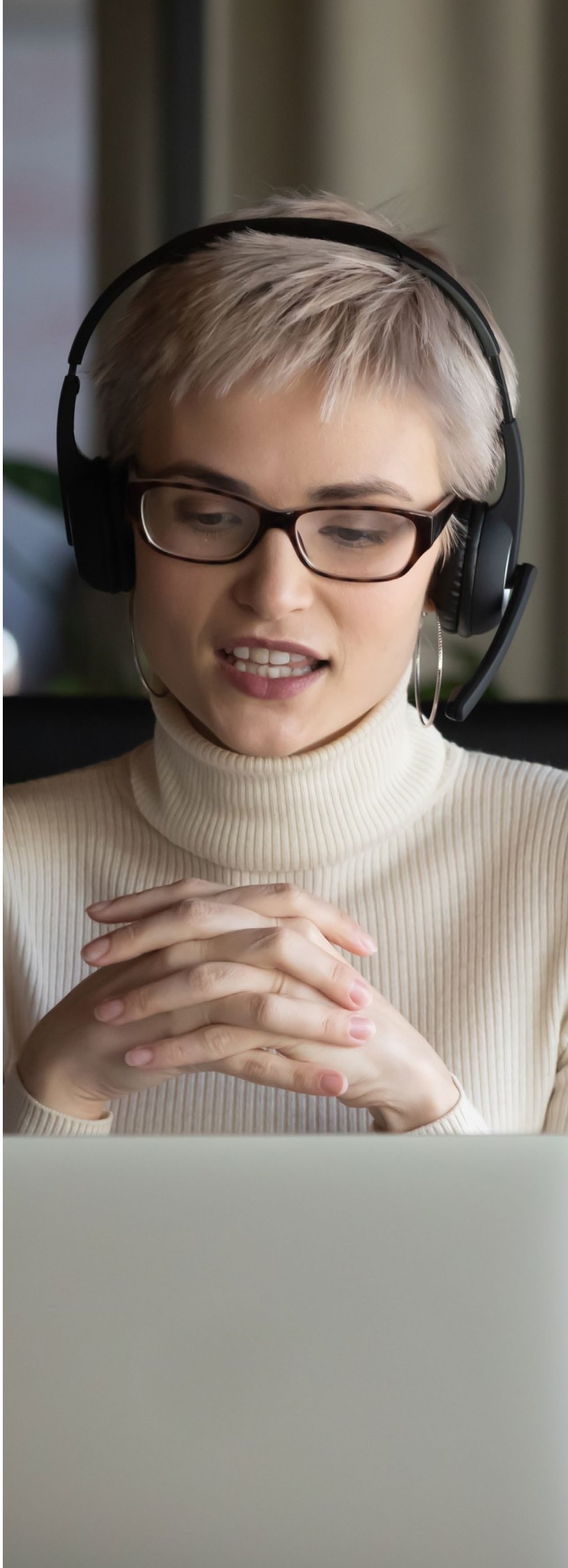
So, what does this tell us?

1. The impact of and adaptation to the pandemic has been felt consistently across the globe.
2. The key to enabling charities to continue functioning has been the embracing of digital tools and speeding up the adoption of new technologies.
3. There is a general realisation that the current operating model is not needed anymore – less office space is required, more staff can (and want to) work in an agile manner and it is not necessary to all meet in the same room when something like Zoom will be as effective.

The sector is changing and many of the areas that would have been thought of as disruptive actions a year ago are becoming the norm. Digital is a prime example and is now well and truly being embraced and it is exciting to see the number of possibilities this can now provide and how quickly it has proven change can be adopted. We all hope that the ‘new normal’ comes soon and eventually allows for some much-needed stability.

Key insights and considerations:

- Go digital – take advantage of technology to enable agile working and alternative ways to engage with beneficiaries.
- Be aware of the mental health of the team.
- Prepare regular and detailed financial forecasts to manage the business, including reverse stress testing.
- Don’t ignore the respective roles of management and the trustees and how they can/should interact during a time of crisis.



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