



Institute of Fundraising's response to Postcomm's A Review of Royal Mail's Special Privileges: A consultation document

The Institute of Fundraising wishes to set out the likely impact that the removal of Royal Mail's exemption from VAT would have on charitable fundraising for voluntary and community organisations (VCOs).

Current information suggests that overall spend on postal services within the charitable sector is at least £100 million. This represents bulk purchasing including franking but excludes special services such as rapid delivery. It would not include purchases from post offices by smaller organisations.

The issue of irrecoverable VAT is critical for UK charities. The annual level of irrecoverable VAT stands at £4 billion for the sector. We do not wish to see that burden increased.

The Institute has canvassed our members about the likely impact that the implementation of VAT would have, once in 2001 and again in 2004.

The results consistently show that price increases due to VAT would have a detrimental affect on our members and the charitable sector as a whole. We received replies ranging from the largest VCOs with voluntary income of tens of millions through to small charities with income of less than half a million. All of our respondents made it clear that VCOs would have to reduce their postal activities due to increased costs or see an increase in costs that would draw money away from other activities. Spending on postage by VCOs from our study was between 1 and 8% of voluntary income, with the smallest charities generally spending the largest proportion of voluntary income on postage costs.

Increased postage prices would directly affect direct mail, a fundraising activity. In 2002/2003, direct mail accounted for 4.7% of new voluntary income; however, a very large percentage of on-going committed support to charities is initiated through this method. The impact is, therefore, considerable. VCOs informed us that they would rethink the use of direct mail as a fundraising technique due to increased costs. However, our members made clear that increased postage costs would affect other forms of fundraising, as mail is used to communicate with donors however they may have been recruited. Service delivery would also be affected, as VCOs use the postal service to inform both donors and beneficiaries of services.

Membership bodies would face increased costs in communicating with their members.

VCOs use a variety of fundraising techniques to enable them to recruit donors and each VCO will have its own unique mix of fundraising techniques; some VCOs would be more greatly affected by lost income if they reduced direct mail than others. Our study showed that spending on in house mail for fundraising activities accounted for between 4% and 60 % of all postage costs. Furthermore, not all charities would be able to take steps to reduce their postage costs by reducing mail volumes. One VCO stated that they would not be able to move directly away from paper based services due to the needs of their donors and beneficiaries.

As one respondent stated, 'We estimate that our postage costs would increase by £250 000. In other words, we would have £250 000 less to invest in fundraising and providing information and support.' Another charity stated that that they were sure that 'donors wouldn't add an extra 17.5% to donors to compensate us!'

The Institute accepts that the principle behind VAT is that the cost is passed on to the final consumer. However, increased postal prices due to the imposition of VAT, as Appendix B of the consultation document suggests, would add to VCOs' irrecoverable VAT bill and indirectly beneficiaries and charities' efforts to recruit and retain donors. We would urge Postcomm and the Government to ensure that any changes to Royal Mail's exemption from VAT are only made after full consultation with the voluntary and community sector and that steps are taken to ensure that VCOs do not suffer increased costs due to any changes.

Information about the Institute of Fundraising

The Institute of Fundraising (registered charity number 1079573) is a membership organisation committed to the highest standards in fundraising management and practice. Members are supported through training, networking, the dissemination of best practice and representation on issues that affect the fundraising environment. The Institute of Fundraising is the largest individual representative body in the voluntary sector with 4000 individual members and 160 organisational members. Membership reflects income to the sector of some 5 billion per annum and delivers more than £12 billion service-output covering all areas of social activity.

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