

DEMOS



THE IMPACT OF THE COVID-19 PANDEMIC ON THE CHARITABLE SECTOR, AND ITS PROSPECTS FOR RECOVERY

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JANUARY 2021

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Published by Demos January 2021

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ACKNOWLEDGEMENTS

We would like to thank our research partners for their collaboration and thinking behind the report, New Philanthropy Capital. Thanks also to James Sweetland at Demos for his input and proofreading.

We are grateful to Martin Lewis OBE for making this report possible.

All errors are of course the authors' own.

Claudia Wood

January 2021

EXECUTIVE SUMMARY

The Covid-19 crisis will decimate the charity sector in the UK unless the Government takes urgent action. Major fundraising windfalls experienced by some charities - mostly supporting the NHS - obscure the dire situation faced by many others, which have been forced to cut back services despite rising demand, pause or cancel lifesaving research programmes, and make sweeping redundancies among their skilled staff.

Without urgent and targeted intervention, grassroots charity organisations - those less likely to have adequate reserves - risk being wiped out altogether. At the same time, public giving throughout the crisis risks being used as a stopgap to fill widening deficiencies in statutory provision. The UK is proud to support one of the most developed non-profit sectors in the world and is home to some of its most generous citizens. Yet, without urgent action, much of it will fail: at an incalculable cost to our society, and its future generations.

We call on the Government to:

1. Immediately announce a new short-term emergency funding package, offering targeted support to those charities most affected by the pandemic.
2. Urgently review existing Covid-19 policies and how they apply to charities, including rules which prevent furloughed workers from volunteering for their employers and by considering special status for charity shops once they can safely reopen.
3. Ensure that public generosity during the pandemic - particularly towards NHS charities - is used as intended, by clarifying guidance and actively prohibiting the use of charitable funds to provide statutory services.
4. Provide longer term investment in the hardest-hit charitable sectors, to prevent an irreversible slowing of progress - particularly in the field of medical research.

INTRODUCTION

Charities have been at the sharp end of the Covid-19 crisis. From NHS charities working hard to support burnt-out hospital workers, to domestic abuse hotlines experiencing spikes in call rates, to food banks supporting millions of families through the worst recession on record. And they have been doing all this while shifting face-to-face support services online, with little to no preparation time, at the same time as thousands of fundraising events have been scrapped and charity shops have closed across the UK.

While this has placed enormous pressure on charities in general, the sector is also known for its size and diversity. In reality, 2020 has been a year of mixed fortunes. Certain parts of the sector have experienced a windfall in public donations, but this redirection of public giving has exposed an uncomfortable truth: that vital parts of our social and economic infrastructure are reliant, even dependent upon public goodwill.

Many charities entered the pandemic financially vulnerable, with little or no reserves. Many more lacked critical digital skills and the infrastructure required to keep up with changes in consumer trends. Necessity has been the mother of invention and charities have innovated and adapted as best they can. But, for many of these organisations, 2020 has been a year in which delivering the usual services has been an extremely difficult endeavour.

Now, we need to learn lessons from this crisis, and look ahead to how charities can not only recover, but become stronger and more resilient in 2021 and beyond. We have experienced the worst recession on record and our economic recovery is uncertain and fraught with a raft of social problems. Charities are needed now more than ever, to deliver the types of support and community services that are so critical in such periods. This paper looks at how charities, with the support of the Government and grant funders, can come back even stronger from the trials of 2020: to become even more resilient and more capable of fulfilling the crucial role they will undoubtedly play in our post-Covid recovery.

SUMMARY

This paper explores the impact of the Covid-19 pandemic on the charity sector, its prospects for 2021 and beyond, and how the sector – with the support of the Government and grant makers – can put itself on a more sustainable footing as the UK recovers from the crisis.

We review the evidence on the impact of the pandemic on charity services and revenues, to ascertain how they have been adapting to and coping with this period. We also look at the varying challenges for 2021 – those that directly result from the pandemic, the impact of the broader economic picture, as well as challenges the charitable sector was grappling with pre-pandemic, which will no doubt come to a head in the months and years which follow it.

Section 1 presents the state of the charitable sector before the crisis. Section 2 then looks at how the pandemic has affected charity services and revenues. Section 3 discusses how the charity sector will fare in 2021. And finally, Section 4 presents a series of recommendations for the government, grant funders and charitable organisations respectively, to achieve more resilience, recovery and future growth.

SECTION 1

THE CHARITY SECTOR BEFORE COVID

The UK charity sector is known for its size and variety. The latest figures from the NCVO Almanac¹ found that there were 166,592 voluntary organisations in the UK. 0.03% have budgets over £100million and are responsible for 30% of the sector's grantmaking, while 80% of the sector has an income of less than £100,000. Both total income and spending in the voluntary sector has been growing, though this has slowed somewhat over the past five years. The NCVO's latest figures show the sector's income increased by £1.2bn to £53.5bn, with 47% coming from public donations. Charity shop sales grew by 3% to £12.6bn. The amount of income from government, £15.7bn according to NCVO's latest figures, has remained largely stable in recent years – but as income from other sources has grown, so income from government as a proportion of the sector's total income has fallen almost every year since NCVO began monitoring such data.

The charity sector employs just over 900,000 people (about 3% of the UK workforce): this figure has grown annually since 2010. Volunteering rates have remained stable in the same period, with just over 1 in 5 working people in the UK volunteering at least once a month. This rises to 28% among people aged 65–74. Nine in ten UK households have accessed services provided by voluntary organisations at some point – these are most often children and young people's services.

It is difficult to measure the value of the voluntary sector in the UK, with many (including Andy Haldane, chief economist at the Bank of England²) suggesting the sector needed to more accurately measure its wider social value. However, a narrow and highly conservative measure of economic contributions suggests the voluntary sector contributes nearly 1% of GDP, while volunteering contributes a further 1%.³

WHAT WERE THE SECTOR'S CHALLENGES BEFORE THE PANDEMIC?

The Charities Aid Foundation's 2019 study of the sector gives a useful snapshot into the issues the sector was grappling with before the pandemic began.⁴ For example, 59% of charity leaders said fundraising was their top concern, followed by meeting demand for services (33%) and reductions in public/government funding (32%). 83% reported an increased demand for their services over the previous 12 months, while 14% of charity leaders reported their charity was struggling to survive, rising to 21% amongst smaller charities with an income of less than £1 million.

The UK charity sector is certainly characterised by financial vulnerability. Analysis of accounts filed with the Charity Commission just before the pandemic began uncovered the precarious state of charity reserves, with a fifth of charities having less than

1. NCVO. UK Civil Society Almanac 2020, 2020. Available at <https://almanac.fc.production.ncvocloud.net/executive-summary> [accessed 08/01/21]
2. Blythe, T. Bank of England's chief economist calls for charity sector productivity review, 2019. Available at <https://www.civilsociety.co.uk/news/bank-of-england-s-chief-economist-calls-for-charity-sector-productivity-review.html#sthash.d2Jb7noC.dpuf> [accessed 08/01/21]
3. Charity Commission for England and Wales and Frontier Economics. The Value of the Charity Sector: An Overview, 2019. Available at <https://assets.publishing.gov.uk/media/5c9d1d1d2000013600000000/charity-sector-value-overview-2019.pdf>
4. Clay, T, Collinge, T, et al. State of the Sector 2020, 2020. Available at <https://www.thinknpc.org/resource-hub/stots2020/> [accessed 08/01/21]

one month of expenditure in reserve; a third had less than two months worth of reserves; and 43% had less than three months.⁵ Many charities had virtually no reserves at all – 10% of charities with less than £100 million of income only had a few days of reserves and 10% of charities with more than £100 million income had just two weeks' worth.⁶

It is also important to bear in mind that this study only looked at charities with incomes of over £500k – the point at which reporting on reserves becomes a requirement. Therefore, the vast majority of the sector has been excluded from this analysis and many in this “long tail” of very small grassroots organisations, who do not need to report to the Charity Commission, are likely to be operating with close to zero reserves.

Therefore, the impact of the pandemic on charity incomes – which we come on to below – represents a critical blow for many charities with no financial safety net.

Of course, before the pandemic, Brexit was the charity sector's big issue, with 63% of leaders believing it would have a negative impact on their charity (due to everything from difficulty in recruiting EU-based staff, to a reduction in EU grants). However, a close second was digital transformation. 87% of leaders had invested in new IT systems, or were planning to by 2020, but only 59% said that they used new technology and social media effectively and only 29% agreed that charities are using new technology effectively to increase giving. 45% had a strategy in place for dealing with technological change, but only 38% of small charities did.⁷ The Chartered Institute of Fundraising's Charity Benchmarks Sector Report 2019, using a sample of 21 charities, found that a mixture of GDPR rules, Brexit, austerity, and a hostile media had made the fundraising environment more difficult, with many charities accepting they had a problem adapting to consumer expectations around personalisation and transparency.⁸ They also had a significant lack in digital skills, meaning they were behind

the curve regarding new ways of fundraising and social media engagement, as well as completing transactions online, data ownership, and so on.⁹ New Philanthropy Capital (NPC) found that 41% of the charities they surveyed said they were not confident in digital skills – an increase from the 29% recorded in 2017.¹⁰

Another long-standing issue is the line drawn between service delivery and campaigning. Charities have grappled with this for many years, finding that the increase in Government contracts for service delivery can come at a price when charities seek to criticise the Government or campaign on an issue. NPC found that in 2017, 40% of charities held public sector contracts, while by the start of 2020 this had risen to 45%.¹¹ This can have negative consequences – for example, NPC found off-mission contract delivery – where charities are fulfilling contracts which were not central to their stated purpose – had increased from 15% to 22% between 2017 and 2020.¹² The CAF found 92% of charity leaders believed they would be expected to fill in gaps in public service provision in 2020, while 59% thought the government would see charities as a nuisance for criticising government policy over the coming five years.¹³

5. Weakley, K. One tenth of charities could operate for just a few days if forced to rely on reserves, 2020. Available at <https://www.civilsociety.co.uk/news/one-tenth-of-charities-could-operate-for-just-a-few-days-if-forced-to-rely-on-reserves-says-research.html> [accessed 08/01/21]

6. Ibid.

7. Charities Aid Foundation. CAF Charity Landscape 2019, 2019. Available at https://www.cafonline.org/docs/default-source/about-us-publications/charity-landscape-2019_web_2620a_290319.pdf [accessed 08/01/21]

8. Chartered Institute of Fundraising. Charity Benchmarks Sector Report 2019, 2019. Available at [https://ciof.org.uk/IOF/media/IOF/Policy/charity-benchmarks-iof-members-\(2\).pdf?ext=.pdf](https://ciof.org.uk/IOF/media/IOF/Policy/charity-benchmarks-iof-members-(2).pdf?ext=.pdf) [accessed 08/01/21]

9. Ibid.

10. Clay, T, Collinge, T, et al. State of the Sector 2020, 2020. Available at <https://www.thinknpc.org/resource-hub/stots2020/> [accessed 08/01/21]

11. Ibid.

12. Ibid.

13. Charities Aid Foundation. CAF Charity Landscape 2019, 2019. Available at https://www.cafonline.org/docs/default-source/about-us-publications/charity-landscape-2019_web_2620a_290319.pdf [accessed 08/01/21]

SECTION 2

THE IMPACT OF COVID-19

The UK's charitable sector – large, diverse, but financially vulnerable – has been affected enormously by the Covid-19 pandemic, but of course no two charities will have experienced this year in exactly the same way. A small cat-rescue charity, for example, will have had a very different experience from a national domestic abuse hotline. In the next two sections, we consider the impact of the pandemic on: 1) services and 2) revenues in the charitable sector, taking into account this variation wherever possible.

THE IMPACT ON SERVICES

Rising demand

The pandemic and its economic and social consequences has led to a spike in demand for many charities. For example, food banks, domestic abuse and mental health support services have all been on the sharp end of significant social upheaval, as millions of people have been furloughed, made redundant, or isolated from their regular social networks and support.

Pro-Bono Economics found that 63% of the charities they surveyed reported higher levels of demand compared to last year. 15% estimate they are facing more than 25% higher demand.¹⁴ The Community Foundation's annual Third Sector Trends survey of charities in the North East¹⁵ and the monthly barometer survey on the impact of Covid-19 on the

voluntary sector¹⁶ both found similar results – 69% and 57% of organisations surveyed in these studies respectively reported increases in demand.

Using these findings, Pro Bono Economics has developed a useful categorisation of different drivers of increasing demand:

1. **Pre-pandemic problems:** existing sources of rising demand which charities were experiencing prior to Covid-19, such as the rapid increase in homelessness occurring over the last decade (temporarily addressed during the pandemic phase, but likely to return to pre-pandemic levels imminently.)
2. **Direct Covid consequences:** the immediate increase in demand resulting from the pandemic – including mental health and domestic abuse support. The Refuge Helpline experienced a 120% increase in calls over one night in April, for example.¹⁷
3. **Build-ups and backlogs:** services that have had to have been delayed due to social distancing or illness, including various health support services (e.g. cancer home help) and family mediation.
4. **Crisis spillover effects:** ongoing services experiencing new demand due to the worsening economic situation – such as food banks.

14. Pro Bono Economics. November 15-20 Covid Charity Tracker Survey results, 2020. Available at <https://www.probonoeconomics.com/november-15-20-covid-charity-tracker-survey-results> [accessed 08/01/21]

15. Williamson, R. Coronavirus (COVID-19): a message from our CEO, 2021. Available at <https://www.communityfoundation.org.uk/wordpress/wp-content/uploads/2020/08/Third-Sector-Trends-Covid-19-19-Impact-Survey-August-2020.pdf> [accessed 08/01/21]

16. Centre of People, Work and Organisational Practice at Nottingham Trent University. Respond, recover, rest: the voluntary sector and COVID-19, 2020. Available at <http://cpwop.org.uk/wp-content/uploads/sites/3/2020/11/Respond-recover-reset-the-voluntary-sector-and-COVID-19-November-2020.pdf> [accessed 08/01/21]

17. Refuge. Refuge sees calls and contacts to National Domestic Abuse Helpline rise by 120% overnight, 2020. Available at <https://www.refuge.org.uk/refuge-sees-calls-and-contacts-to-national-domestic-abuse-helpline-rise-by-120-overnight> [accessed 08/01/21]

5. **Shrinking supply:** the transfer of demand due to other service closures. Some charities have already closed due to the economic pressures placed on them (something we consider in the following section). The remaining charities need to fill the void and support households who might otherwise be cut adrift when services close down.

39% of the charities surveyed reported that increased demand had been driven by both new and existing clients needing help. 19% said it was due to existing clients needing more help, and 11% said it was due to new clients.¹⁸ The Trussell Trust reported for example a 61% increase in food bank use over the pandemic period, and found that half of the users at the start of the pandemic had never used a food bank before.¹⁹

It is felt that, in the wake of a vaccine, some of the additional demand related to lockdown and social distancing will decline by mid 2021, but that demand related to the recession and resulting contraction of the charitable sector, as well as longer term health effects (mental and physical) of the pandemic, will lead to an overall increase in demand for potentially many years to come.²⁰

How are charities responding?

The CPWOP survey mentioned above found that while 41% of charities reported the range of their services had increased this year, 41% reported the range had decreased.²¹ This suggests some organisations are cutting back on “non-essential” services and focusing on triage and crisis support, while others are having to spread themselves thinner as the variety of support from existing clients is increasing. This is reflective of the diversity of the sector. NPC has also noted that some charities have experienced a drop in demand – they use the hypothetical example of a charity providing health services at football matches – and report these kinds of charities are unsure what to do, given this drop in demand is strictly temporary.²² Still other charities have changed the focus of

their services entirely, responding flexibly to needs arising from the pandemic. However, NPC notes the ability to respond rapidly to this crisis has at times been stymied by funders who have not eased restrictions on their grant spending, or have maintained onerous reporting requirements even in these exceptional circumstances.²³

Regardless of an increase or reduction in demand, this is clearly a time of significant organisational upheaval. The pandemic has wholly changed some charities’ organisational mission – for example homeless charities are now focused on achieving #everyonein – namely, ending rough sleeping outright in response to the mass move to bring homeless people off the streets during the first lockdown phase.²⁴

Another major shift is a move to online and remote services, with 92% of charities which responded to the CPWOP barometer survey in October reporting that services delivered online had increased.²⁵ This represents a significant challenge to a sector which, before the start of the pandemic, was concerned with an overall lack of digital skills and being technologically inadequate. It is also important to remember that many charities cannot readily shift to an online offering – they may need to deliver face to face support services, or in settings that have closed down or closed to visitors (such as schools, prisons, care homes). NPC noted that, in addition to shifting to more remote services, some charities felt they were campaigning and representing their communities less often and engaging with their clients (beneficiaries) less frequently. This meant moving from an empowering, asset-based approach to a deficit one (for example, delivering short term hand-outs) to tackle crisis needs.²⁶

Overall, the impact of the pandemic on the charitable sector’s services is highly mixed. While the headline picture is one of significantly increased demand across the board, the reality is a little more nuanced. Some charities have experienced a significant drop in demand for some or all of their services, and have had to respond accordingly.

18. Ibid.

19. The Trussell Trust. New report reveals how Coronavirus has affected food bank use, 2020. Available at <https://www.trusselltrust.org/2020/09/14/new-report-reveals-how-coronavirus-has-affected-food-bank-use/> [accessed 08/01/21]

20. Pro Bono Economics. November 15-20 Covid Charity Tracker Survey results, 2020. Available at <https://www.probonoeconomics.com/november-15-20-covid-charity-tracker-survey-results> [accessed 08/01/21]

21. Centre of People, Work and Organisational Practice at Nottingham Trent University. Respond, recover, rest: the voluntary sector and COVID-19, 2020. Available at <http://cpwop.org.uk/wp-content/uploads/sites/3/2020/11/Respond-recover-reset-the-voluntary-sector-and-COVID-19-November-2020.pdf> [accessed 08/01/21]

22. Clay, T, Collinge, T, et al. State of the Sector 2020, 2020. Available at <https://www.thinknpc.org/resource-hub/stots2020/> [accessed 08/01/21]

23. Ibid.

24. Crisis. Government response to homelessness and COVID-19, 2020. Available at https://www.crisis.org.uk/media/241941/crisis_covid-19_briefing_2020.pdf [accessed 08/01/21]

25. Centre of People, Work and Organisational Practice at Nottingham Trent University. Respond, recover, rest: the voluntary sector and COVID-19, 2020. Available at <http://cpwop.org.uk/wp-content/uploads/sites/3/2020/11/Respond-recover-reset-the-voluntary-sector-and-COVID-19-November-2020.pdf> [accessed 08/01/21]

26. Clay, T, Collinge, T, et al. State of the Sector 2020, 2020. Available at <https://www.thinknpc.org/resource-hub/stots2020/> [accessed 08/01/21]

Many have had to reprioritise and focus on triage and crisis response, narrowing their service offering at least temporarily. This aligns with Pro Bono's "build up and backlogs" risk outlined above – whereby some important services are being postponed or cut back as charities grapple with more immediate Covid-related needs. This may see a delayed swell in demand for these neglected services next year, an issue we consider in Section Three.²⁷

THE IMPACT OF COVID-19 ON REVENUES

There have been a number of studies exploring the financial impact of the pandemic on charity income, with many concluding that there have been large and widespread losses across the sector. Surveys of charities consistently show the vast majority of charities predict significant losses, while a growing minority feel they will not survive 2021. For example, 83% of charities now forecast a decline in their income over the next 12 months, and 69% think it will take more than a year to return to pre-crisis income levels.²⁸ In August, 39% of charities reported they had furloughed staff – compared to 33% of private employers. Just under a third still had furloughed staff in November and would continue to do so into 2021.²⁹ The Charities Aid Foundation found that over half of the charities they spoke to in May 2020 had seen a drop in donations, and half had sought or received some form of emergency grant funding to get them through the crisis.³⁰

Taking this into account, Pro Bono Economics estimates the funding gap between income and expenditure across the charitable sector could reach £10bn, leading to 60,000 redundancies. This is based on a projected £6.7bn drop in income combined with a £3.4bn demand increase.³¹ NPC also modelled the impact of the crisis on 27 of the largest service-delivery charities in the UK who they estimated would have an increase in demand in 2020-21. They estimated there would be a £500m funding shortfall for these charities over the financial year. They then calculated the impact of

the government's furlough scheme and financial support announced in April (see below), the use of redundancies, costs savings and fundraising drives, and estimated there would still be a £155m-£200m shortfall.³² If these figures are accurate, it is unsurprising that around one in 10 charities and community organisations believe they will be forced to close within a year.³³

There are a number of possible reasons for this drop in income.

- First, social distancing has decimated traditional fundraising channels – cake sales, concerts, fun runs have been cancelled and with them a significant source of income for smaller charities. Larger organisations have also been badly hit – the Royal British Legion estimates it will fall millions of pounds short of its Poppy Appeal target as door to door collections were cancelled for the first time in its history.³⁴
- Second, with the economy slowing down, people will donate less to charity as household finances tighten. Although this fear has (thus far) been misplaced, as we discuss below.

Third, charity retail income has fallen dramatically, as charity shops have had to close. Charity shops raise around £330m a year to support charitable activity, but the Charity Retail Association estimates that during the first national lockdown shops lost around £285m in customer sales, and will lose a further £91.8m during the second wave of national restrictions.³⁵

- Finally, the nature of donations seems to have shifted – towards NHS support charities and away from non-Covid-19 related causes. One of the most significant falls in funding has been in non-Covid-19 related medical research funding – which we explore further below.

The Government has recognised this challenging time by providing a £750 million package of funding, announced in April.³⁶ This includes £370m for small and medium-sized charities, in

27. Centre of People, Work and Organisational Practice at Nottingham Trent University. Respond, recover, rest: the voluntary sector and COVID-19, 2020. Available at <http://cpwop.org.uk/wp-content/uploads/sites/3/2020/11/Respond-recover-reset-the-voluntary-sector-and-COVID-19-November-2020.pdf> [accessed 08/01/21]

28. Pro Bono Economics. November 15-20 Covid Charity Tracker Survey results, 2020. Available at <https://www.probonoeconomics.com/november-15-20-covid-charity-tracker-survey-results> [accessed 08/01/21]

29. Ibid.

30. Bennet, A. How will the Coronavirus recession change giving?, 2020. Available at <https://www.cafonline.org/charities/resilience/survive/how-will-coronavirus-recession-affect-charitable-giving#:~:text=In%20short%3A%20yes,.donate%20to%20charity%20every%20month> [accessed 08/01/21]

31. NPC. Briefing: Britain's largest charities still face income hole, 2020. Available at <https://www.thinknpc.org/resource-hub/briefing-britains-largest-charities-still-face-gaping-hole/> [accessed 08/01/21]

32. Ibid.

33. Centre of People, Work and Organisational Practice at Nottingham Trent University. Respond, recover, rest: the voluntary sector and COVID-19, 2020. Available at <http://cpwop.org.uk/wp-content/uploads/sites/3/2020/11/Respond-recover-reset-the-voluntary-sector-and-COVID-19-November-2020.pdf> [accessed 08/01/21]

34. Fisher, L. Poppy Appeal hit by huge drop in donations, 2020. Available at <https://www.thetimes.co.uk/article/poppy-appeal-hit-by-huge-drop-in-donations-0c8zq3dg5> [accessed 08/01/21]

35. Osterley, R. Charity Retail Association, Letter to Exchequer Secretary to the Treasury, 2020. Available at <https://www.charityretail.org.uk/wp-content/uploads/2020/11/HMT-Letter-17-11-20.pdf> [accessed 08/01/21]

36. HM Treasury. Chancellor sets out £750 million coronavirus funding for frontline charities, 2020. Available at <https://www.gov.uk/government/news/chancellor-sets-out-extra-750-million-coronavirus-funding-for-frontline-charities> [accessed 08/01/21]

part distributed by a grant to the National Lottery Community Fund. This money has been given to organisations including those delivering food, essential medicines and providing financial advice. The remaining £360m has been directly allocated by government departments to charities providing key services and supporting vulnerable people during the crisis, including hospices, St John's Ambulance, vulnerable children charities, survivors charities, and Citizens Advice.³⁷ Commenting on this fund, Diana Barran the Charities Minister said: "We have provided support to about 12,700 charities. But the sector is huge with more than 160,000 charities. The sad truth is that we can't help everyone. We are trying to focus in a way that helps communities to the maximum extent."³⁸ Moreover, data suggests that by August, less than half of the fund had been spent, including just 29% of the Community Fund.³⁹

However, even taking all of this evidence into account, the headline finding of massive financial losses across the charitable sector does not necessarily capture the whole picture.

A nuanced picture

First, we must remember that charities rely on a mix of grants, public donations/legacy and public service contracts for income. The exact combination of these sources will affect how each individual organisation has fared during the pandemic, so it would be an oversimplification to suggest the entire sector had been impacted equally. NPC's review of 27 large charities found that some faced no funding shortfalls at all, while others were very severe, and that this was dependent on how the charity in question was funded.⁴⁰ For example, organisations reliant on donations and charity retail may be most exposed to the immediate negative impacts of the crisis. Those who receive significant support from grant makers may be better off, as some of the larger grant-giving organisations have worked quickly to provide emergency funding and made their grants unrestricted, such as the Esmée Fairbairn Foundation who increased their spending by £16 million to help their grant recipients this year.⁴¹ Charities who primarily deliver service contracts for government departments may have

been spared the worst of the financial disruption, but meeting their contractual obligations will have become extremely challenging. NPC found that some of the organisations that fell into this last category were relieved to find they were able to move some services online, but there were longer-term concerns – including whether they were missing needs by using a remote model, and whether local authority commissioners, keen to generate cost savings after the pandemic might request services continue online instead of face to face.⁴²

Second, there may be a self-selection bias in the evidence. Charities participating in one of the various surveys cited in this report may be more likely to be those badly affected by the pandemic, understandably keen to raise awareness of their current plight. Those noticing little change (or indeed an increase in resources) are possibly less likely to participate. Also, we must remember that fears about future incomes and longer-term survival will be coloured by the current situation – many of these surveys were carried out at the height of the pandemic, with lockdown in full effect, and no prospect of any imminent vaccine. It is understandable that many charity leaders felt their future prospects were bleak.

Finally, and most importantly, the pandemic has in fact prompted a large increase in charitable giving to some specific charities. The overall number of people who donated money to charity has remained within normal levels throughout 2020, while average donations have been higher than in previous years – significantly so in the first half of 2020. The median donation rose to £30 in May 2020 – the highest recorded monthly median to date, and significantly higher than the long-term average of £20. This means that, with the number of donors staying constant but each donating more, a total of £5.4 billion was donated to charities by the public in the first six months of the year – an increase of £800m compared to the same period in 2019. When surveying the public, CAF found that although 1 in 10 said they would be donating less than usual due to financial pressures associated with the pandemic, 1 in 4 said they would be donating more.⁴³

37. Ibid.

38. Financial Times. Charity sector faces £10bn funding shortfall and 60,000 job losses, 2020. Available at <https://www.ft.com/content/ea40845e-d0cc-4163-929b-4eb6520a0319> [accessed 08/01/21]

39. Collinge, T. How much government funding has the charity sector really received?, 2020. Available at <https://www.thinknpc.org/blog/how-much-government-funding-has-the-charity-sector-really-received/> [accessed 08/01/21]

40. Clay, T. Behind the figures: What has been the impact of the coronavirus crisis on larger charities?, 2020. Available at <https://www.thinknpc.org/blog/behind-the-figures-what-has-been-the-impact-of-the-coronavirus-crisis-on-larger-charities/> [accessed 08/01/21]

41. Financial Times. Charity sector faces £10bn funding shortfall and 60,000 job losses, 2020. Available at <https://www.ft.com/content/ea40845e-d0cc-4163-929b-4eb6520a0319> [accessed 08/01/21]

42. Clay, T. Behind the figures: What has been the impact of the coronavirus crisis on larger charities?, 2020. Available at <https://www.thinknpc.org/blog/behind-the-figures-what-has-been-the-impact-of-the-coronavirus-crisis-on-larger-charities/> [accessed 08/01/21]

43. Charities Aid Foundation. Covid-19: What it means for giving, 2020. Available at <https://www.cafonline.org/about-us/research/coronavirus-and-charitable-giving> [accessed 08/01/21]

Thus while many charities report a fall in income, there are a significant minority enjoying a Covid-19 'windfall'. These tend to be charities supporting the NHS and other Covid-19 related services. The CAF survey found a large increase in the number of people donating to the cause 'hospitals and hospices', whilst a fifth of people they surveyed specifically reported donating to charities which support the NHS.⁴⁴ NHS Charities Together, a body representing NHS charities, had raised £130 million for its Covid-19 Appeal by August 2020, in large part thanks to Sir Tom Moore's sponsored garden walk.⁴⁵

When YouGov asked the public which causes they donated to in April 2020, the differences from previous years were significant - 35% had donated to NHS charities and hospices in the previous four weeks, compared to the long term average of 21% and just 19% in the year 2018.⁴⁶ 23% of donors had donated to animal charities (compared to 31% in the previous four weeks, which captured the period just before the pandemic – versus 34% in 2018⁴⁷). 18% of donors said they donated to children's charities, compared to 21% in March and a long-term average of 26%. Similarly, medical research fell to 19% from 26% in just one month, disability charities fell from 15% to 8%, physical and mental health care (from 16% to 10%) and homelessness (from 23% to 18%).⁴⁸

It has also been noted that 28 of the 50 biggest charities in the UK had launched emergency Covid-19 appeals and had raised more than £60 million by June. Age UK was the biggest single fundraiser (hitting £8 million in new donations), but even the RSPCA had raised £1 million in that period.⁴⁹ This suggests that, for some charities at least, Covid-19 relevance has not been necessary to secure additional financial support from the public. Of course, these are large charities, launching high-profile campaigns, using their national brand.

Smaller local charities, more reliant on traditional grassroots/cake sale (etc) style fundraising, will have been less adept at using the crisis to secure emergency donations.

The reduction in donations for medical research is of particular concern. The CAF estimated that the amount of money donated to medical research between January and June 2020 was £174m less than expected, as such charities would normally take 12% of all charitable donations in a six month period, when in 2020 they only took 7%.⁵⁰ This is in part due to the fact that such causes often use high profile events to generate donations (such as the London Marathon), but also because individual donors have shifted their giving habits to NHS/Covid-19 related charities.⁵¹ Estimates suggest charities investing in medical research will lose up to 38% of their income this year and over 25% next year, leading to an overall loss of up to £7.8bn of investment in medical research by 2027.⁵² The British Heart Foundation has announced it is halving its research activities this year due to a lack of funding, while Cancer Research UK has reduced its research investments by £44m.⁵³ Breast Cancer Now, predicting a drop of £16m in research income, has announced potential redundancies in June and cancelled two research grant rounds.⁵⁴ A recent survey of Alzheimer's researchers found 95% had had their projects and trials delayed, with one in five having had research projects cancelled completely. Of course, this will partly reflect the need to socially distance or shield potential participants, but a reduction in research funding also plays a part. The survey found 29% of researchers have had their funding suspended or cut, and 72% said future funding opportunities have decreased.⁵⁵ This reduction in funding will certainly have a long-term impact on the development of cures and treatments for a range of diseases - unless this lost funding is recovered.

44. Charities Aid Foundation. UK Giving and COVID-19: A Special Report, 2020. Available at <https://www.cafonline.org/docs/default-source/about-us-publications/caf-uk-giving-2020-covid-19.pdf> [accessed 08/01/21]

45. Green, C. Our Covid-19 Appeal in numbers, 2020. Available at <https://www.nhscharitiestogether.co.uk/our-covid-19-appeal-in-numbers/> [accessed 08/01/21]

46. Smith, M. "Animal" vs "Human" charities: What type of people prefer which?, 2018. Available at <https://yougov.co.uk/topics/politics/articles-reports/2018/02/26/what-kind-person-would-rather-donate-animal-charit> [accessed 08/01/21]

47. Ibid.

48. Shakespeare, S. Changing Consumer Landscapes: Charities, 2020. Available at <https://yougov.co.uk/topics/finance/articles-reports/2020/06/19/changing-consumer-landscapes-charities> [accessed 08/01/21]

49. Cipriani, V. Covid-19 appeals at largest 50 fundraising charities have raised more than £60m so far, 2020. Available at <https://www.civilsociety.co.uk/news/covid-19-appeals-at-top-50-fundraising-charities-have-raised-more-than-60m-so-far.html> [accessed 08/1/21]

50. Charities Aid Foundation. UK Giving and COVID-19: A Special Report, 2020. Available at <https://www.cafonline.org/docs/default-source/about-us-publications/caf-uk-giving-2020-covid-19.pdf> [accessed 08/01/21]

51. Ibid.

52. Thomas, C and Nanda, S. Research at Risk: Mitigating the impact of Covid-19 on health R&D investment, 2020. Available at <https://www.ippr.org/research/publications/research-at-risk> [accessed 08/01/21]

53. Pringle, P. Leading charity CEOs warn of damage to research caused by Covid-19, 2020. Available at <https://www.bhf.org.uk/what-we-do/news-from-the-bhf/news-archive/2020/november/charity-ceos-warn-damage-research-caused-coronavirus-pandemic> [accessed 08/01/21]

54. Whitehead, H. Breast Cancer Now plans redundancies to deal with impact of Covid-19, 2020. Available at <https://www.civilsociety.co.uk/news/breast-cancer-now-to-make-approximately-60-redundancies.html> [accessed 08/01/21]

55. Alzheimer's Research UK. One in three dementia scientists consider leaving research due to COVID-19, 2020. Available at <https://www.alzheimersresearchuk.org/one-in-three-dementia-scientists-consider-leaving-research-covid-19/> [accessed 08/01/21]

SECTION 3

OUTLOOK FOR 2021

In this section, we consider the prospects of the charitable sector in 2021. In principle, the initial crisis will abate as we progress through this year and the vaccine will be gradually rolled out, but the long-term social and economic impacts will be severe. How will charities fare? Unsurprisingly, there is considerable consternation – the vast majority of charity leaders predict significantly lower income and significantly higher demand, over the coming 12 months. In spite of the various caveats we set out above regarding selection bias and Covid-19 “windfalls”, the evidence suggests 2021 will be a year of doing more with less. For a minority, this could be a step too far, with 14% of those surveyed already reporting that they are struggling to survive.

CHALLENGES ARISING FROM THE PANDEMIC

There are a variety of factors which may dictate the fortunes of the charitable sector in 2021, including those directly arising from the pandemic and the three national lockdowns:

- As explained above, there is a predicted £10bn funding gap and up to 60,000 redundancies are likely to occur in the charity sector by 2021. NPC’s redundancy monitor has already captured 6580 redundancies announced in the charity sector between May and October 2020.⁵⁶
- There has been no follow up to the Government’s relief package of April 2020, and no indication as yet that a further tranche of funding is being lined up for 2021.
- There is significant unmet need stored up for 2021. Charities have cut back on services, focused on triage and crisis support, and delayed their

regular activities this year. Needs have gone unmet, many situations may have deteriorated as a result – and so there is a lot of ground to make up for in 2021.

- There will be new, additional needs related to the long-term effects of the pandemic – everything from poverty to isolation, educational inequalities and mental health, as well as people living with ‘long-Covid.’
- Ongoing PPE expenses will need to be factored into running costs. Securing adequate PPE has been a huge challenge for non-NHS organisations during the pandemic, and supply chains have prioritised equipping health workers. It is likely the difficulties in securing, and then paying for, adequate PPE will continue into 2021, with some organisations already passing the costs onto their clients⁵⁷, or pursuing crowdfunding.⁵⁸

THE BROADER ECONOMIC PICTURE FOR 2021

While the economy grew in the third quarter of 2020, in recovery from the first lockdown, the second and third set of restrictions could see a prolonged economic contraction. Even if we do avoid this, the UK economy is now 9.7% smaller than before the pandemic.⁵⁹ This could have a variety of implications for the charitable sector:

A drop in charitable giving

We know from the last recession that the public donates less money in times of economic downturn. CAF found that between 2006/07 and 2008/09, charitable donations in the UK fell by 11%.⁶⁰ Thus far, the recession created by the pandemic has bucked this trend, with people donating more on

56. NPC. 2020 charity redundancies monitor, 2020. Available at <https://www.thinknpc.org/resource-hub/covid-19-charity-redundancies-monitor/> [accessed 08/01/21]

57. McDonald, H. Higher PPE costs of care homes passed on to clients, UK charity says, 2020. Available at <https://www.theguardian.com/society/2020/may/04/higher-ppe-costs-of-care-homes-passed-on-to-clients-uk-charity-warns> [accessed 08/01/21]

58. Clarke, S. Care providers resort to crowdfunding to cover PPE costs as NHS Supply Chain denies diverting all stock to hospitals, 2020. Available at <https://www.homecareinsight.co.uk/care-providers-resort-to-crowdfunding-to-cover-ppe-costs-as-nhs-supply-chain-denies-diverting-all-stock-to-hospitals/> [accessed 08/01/21]

59. Financial Times. UK economic rebound leaves output far below pre-pandemic levels, 2020. Available at <https://www.ft.com/content/dd35a8a5-a1e3-493b-a08b-787bfbcdd174> [accessed 08/01/21]

60. Bennet, A. How will the Coronavirus recession change giving?, 2020. Available at <https://www.cafonline.org/charities/resilience/survive/how-will-coronavirus-recession-affect-charitable-giving#:~:text=In%20short%3A%20yes.,donate%20to%20charity%20every%20month> [accessed 08/01/21]

average, not less. As the pandemic is a social and economic crisis, with the NHS on a war footing, people have been moved to help accordingly.

However, 2021 is a very different picture. The initial crisis and social awareness has passed, while 2021 is likely to be punctuated by local spikes, further lockdowns restrictions, and a “stop-start” economy as the public try to live with the virus. They will certainly notice the smaller and more sluggish economy – the OBR has predicted, for example, that unemployment will peak at 7.5% in Spring 2021 once the furlough scheme ends and suggests that spending cuts or tax increases of about £40bn will be needed. The 2020 Spending Review has announced a pause on public sector pay rises in 2021, and a significant cut to the overseas aid budget.⁶¹ This could signal a return to more normal recession behaviours amongst the public when it comes to charitable giving.

Local authority cuts

Secondly, an economic downturn inevitably spells a period of increased local authority cutbacks. Local authorities are entering 2021 with a large funding gap already – in August the IFS warned that local authorities were spending considerably more tackling the pandemic than the government had provided in grants, and would also see £2.8bn losses in fees and charges as council tax and business rate collections collapse.⁶² In November 2020, Croydon Council declared bankruptcy – retrenching on all services except those they are legally obliged to carry out. As local authorities predict a £6bn funding shortfall for 2021, it is believed that 8 in 10 councils are at risk of bankruptcy.⁶³ This could mean many services currently delivered by charitable organisations are cut back, and these charities – who have thus far been relatively protected – could find their main source of income cut off. Following the last recession, local authorities across the UK radically cut their grants to local charities, in some cases halving the funding available and completely defunding some projects, as well as placing considerable downward pressure on the money available for service contracts. There is no reason to believe this will not occur again in 2021.

CHALLENGES THAT EXISTED BEFORE THE PANDEMIC, ARISING IN 2021

Financial vulnerability

As outlined in Section One, very few charities have adequate reserves to operate sustainably in times of financial crisis, with 10% of charities (pre-pandemic) only able to operate for a few days if their incomes were to halt. While we do not have comparative figures post-crisis, a survey in November 2020 found only a third of charities had six months or more in reserves going into 2021, while another third had three months’ worth of reserves or less.⁶⁴ The pandemic has put a spotlight on the instability of the UK charity sector and navigating 2021 will be particularly challenging for those operating on a hand to mouth basis.

Digital transformation

In Section One, we saw how many charity leaders were not confident in their organisation’s technological skills and use of social media or digital platforms before the pandemic. Progress had been slow, particularly for small, grassroots charities. Yet 2020 has necessitated a rapid digital revolution - charities had to shift their services online wherever possible, launch virtual fundraising events, social media fundraising campaigns, and online/cashless payment processes with little to no preparation. For many this was a baptism of fire, and it has exposed the limited skills and infrastructure in many parts of the sector. Charities will need to prioritise building these skills in 2021 and beyond – to keep step with modern consumer preferences for interactive and personalised organisational relationships, but also because remote working, remote giving and remote service delivery will become a far bigger part of life for most charities.

Brexit

Brexit was always likely to be a challenge in 2021 – but this has been magnified in the context of a Covid-19-related downturn. While a no-deal WTO outcome would have meant a fall in GDP of 5.5%, the OBR estimates that even a free-trade agreement with the EU will not mitigate this effect

61. Butler, P. English councils facing £2bn ‘perfect storm’ may be forced to slash services - IFS, 2020. Available at <https://www.theguardian.com/society/2020/aug/19/cuts-threaten-english-councils-covid-19-ifs> [accessed 08/01/21]

62. Ibid.

63. Butler, P. Eight out of 10 English councils at risk of bankruptcy, says study, 2020. Available at <https://www.theguardian.com/society/2020/jun/23/at-least-8-in-10-english-councils-need-help-to-avoid-going-bankrupt> [accessed 08/01/21]

64. Weakley, K. One tenth of charities could operate for just a few days if forced to rely on reserves, 2020. Available at <https://www.civilsociety.co.uk/news/one-tenth-of-charities-could-operate-for-just-a-few-days-if-forced-to-rely-on-reserves-says-research.html> [accessed 08/01/21]

- instead it will lead to a reduction of 4% in the UK's GDP, which is still a significant decline.

Although the precise impacts of Brexit remain unclear at the time of writing, some broad conclusions might be drawn about this projected fall in GDP. Brexit could have a variety of consequences for the charitable sector linked to a deeper recession (lower public charitable donations) and local cuts (fewer public service contracts), combined with greater demand for support associated with increases in unemployment and poverty. Brexit may also have more direct consequences – there will be difficulties for some charities in securing staff from the EU, for example, and the winding down of EU grant funding to the UK charity sector, worth up to £300 million a year may not wholly be replaced by UK matched funding.

SECTION 4

RECOMMENDATIONS

In this section, we consider the ways in which the charity sector can recover from the pandemic and gain a more sustainable footing in 2021 and beyond. We present a series of recommendations for each of the stakeholders related to this important sector.

GOVERNMENT

Additional short-term funding for the charitable sector

The government is committing billions of pounds to support people and businesses through the pandemic and beyond. It has already provided more than £750m to the charity sector, and any further support will no doubt be planned carefully, to make the most efficient use of the funds available.

To this end, it is important to target any future support funds where it is needed most. As we have outlined in this report, the impact of the Covid-19 crisis has been varied across the charitable sector. Given the evidence gathered here, we believe an additional injection of financial support for the charity sector is critical, but we recommend the government couples this with a sectoral 'health check', to ensure those organisations worst affected are helped most. The Government should then target this additional funding in four streams:

1. **Emergency core funding** to those charities whose incomes have been decimated by the pandemic and whose bankruptcy is imminent, especially given the context of a third lockdown. This could be established by considering a charitable organisation's reserves relative to their revenue and identifying those in need of crisis intervention. It is important to intervene in these cases, as the sudden closure of small,

grassroots charities can have significant social consequences.

2. **Recovery funding** to the sector as a whole, perhaps calculated as a percentage of revenue lost, taking into account that charities may have had an increase in donations. This, along with boosting Gift Aid and changing furlough volunteering rules (see below) would form a sector-wide package of help.
3. **Future-focused funding** to help particular charities tackle the wider social impacts of the pandemic that will continue beyond 2021 – everything from food banks to mental health support, domestic abuse, unemployment support etc.
4. **Resilience grants** for charities who wish to carry out digital transformation, mergers or structural reforms to put them on a more sustainable footing. Very much like grant funders, the government needs to encourage the charity sector in the UK to build reserves, improve their digital capabilities, and become more organisationally resilient by diversifying their income streams and reforming their working practices.

Extend gift aid

The government could temporarily increase Gift Aid, perhaps from 25p to 50p per £1, to help charities make up for falling donations and encourage the public to donate. It also increases the value of purchases in charity shops. The Conservative peer Lord Wei suggested a temporary increase could be funded by "windfall taxes on certain industries and businesses that are clearly doing very well out of this crisis."⁶⁵

65. Weakley, K. Society will be weaker in the future if charities don't get help now, warn peers, 2020. Available at: <https://www.civilsociety.co.uk/news/society-will-be-weaker-in-the-future-if-charities-don-t-get-help-now-warn-peers.html#sthash.hdEFOH3X.dpuf> [accessed 08/01/21]

Allow furloughed charity workers to volunteer

Large numbers of the UK population remain on furlough, including around 20% of charity employees.⁶⁶ Furthermore, a third of charities say they will continue to furlough staff in 2021.⁶⁷ However, furlough rules currently prevent charity employees from volunteering with their employer, to avoid abuse of the scheme (i.e. there were fears that workers would be furloughed then compelled to come back and work for free). We recommend this decision is reviewed and more flexibility is introduced, allowing furloughed charity staff to volunteer with their employers, to ease the pressure on charities with dwindling funds and burgeoning caseloads.

Provide statutory funding for hospices and NHS support services

The government needs to look closely at the funding of hospices and NHS support services and, we believe, endeavour to support these properly through statutory funding.

Every NHS Trust has a charity attached. Overall, there are 240 NHS charities across the UK, giving £1 million every day to the NHS for innovation and research, which enables the provision of additional facilities, services and equipment. The largest NHS charity is the Great Ormond Street Hospital Charity, which gave £14m to the hospital last year.⁶⁸ The outpouring of support among the public for the NHS this year has been expressed in charitable donations - NHS Charities Together, representing all NHS charities, received £130m in donations during the first five months of its Covid-19 appeal, akin to a Covid windfall.⁶⁹

However, there has been growing criticism that, through government cut-backs, NHS charities have increasingly been asked to subsidise core NHS services. The NHS itself is not a charity, and should be funded through tax-based, statutory sources. Yet research conducted in 2018 found that charities were increasingly subsidising public services⁷⁰ – and

importantly, it is not explicitly prevented by law. As the HMFA has clarified: “There can be problems in identifying when it is appropriate for charitable funds to be spent on services that are usually funded by the public sector state.... there is no legal prohibition on charities delivering public services subject to meeting the requirements of charity law. In the UK, the provision of medical care and treatment is a public service – NHS charities would not normally provide healthcare services or make grants that subsidise the provision of healthcare services. However, NHS charities can and do contribute to the improvement of healthcare services.”⁷¹ This “improvement” of healthcare services allows enough room for interpretation for NHS charities to provide services such as respite and counselling that, one might argue, should be the responsibility of the state. As a Guardian opinion piece expressed, “[the NHS] shouldn’t have to be relying on charitable money to provide essential services... There needs to be a clear division between what charities are for, and what the state is for... charities are not there to replace universal state intervention.”⁷²

Then there is the case of hospices. This arm of the NHS in fact only receives a third of its income from the NHS, while children’s hospices receive only 17%. The remainder comes from charitable donations, to the tune of £1bn a year.⁷³ Hospices have therefore been severely impacted by the pandemic – while public donations did not dry up entirely, the income from hospice shops and normal fundraising events has been cut off, with the hospice sector losing £70m of charitable income in the first month of the crisis. The Government’s charity aid package contribution was only a sticking plaster, and it is said that two thirds of hospices are now considering redundancies.⁷⁴ The pandemic has highlighted an unacceptable situation: a sector that provides free, universal palliative care for NHS patients at the end of life is dependent on public goodwill for its survival. Adequate statutory funding is long overdue.

66. Ricketts, A. A fifth of sector staff have been furloughed, say government figures, 2020. Available at <https://www.thirdsector.co.uk/fifth-sector-staff-furloughed-say-government-figures/management/article/168661> [accessed 08/01/21]

67. Pro Bono Economics. November 15-20 Covid Charity Tracker Survey results, 2020. Available at <https://www.probonoeconomics.com/november-15-20-covid-charity-tracker-survey-results> [accessed 08/01/21]

68. Great Ormond Street Hospital for Children (NHS Foundation Trust). Annual Reports and Accounts 2019 to 2020, 2020. Available at <https://www.gosh.nhs.uk/file/50101/download> [accessed 08/01/21]

69. Green, C. Our Covid-19 Appeal in numbers, 2020. Available at <https://www.nhscharitiestogether.co.uk/our-covid-19-appeal-in-numbers/> [accessed 08/01/21]

70. Preston, R. More charities subsidising public service contracts, finds CFG research, 2018. Available at <https://www.civilsociety.co.uk/news/charities-paying-more-to-subsidise-public-service-contracts.html> [accessed 08/01/21]

71. Healthcare Financial Management Association. Spending NHS charitable funds, 2020. Available at https://www.hfma.org.uk/docs/default-source/publications/Briefings/using-nhs-charitable-funds.pdf?sfvrsn=11ac7be7_2 [accessed 08/01/21]

72. Ainsworth, D. Giving is good – but we should never forget that the NHS is not a charity, 2020. Available at <https://www.theguardian.com/commentisfree/2020/apr/22/giving-nhs-charity-fundraising-coronavirus-state-taxes> [accessed 08/01/21]

73. Hospice Info. UK Hospice Facts and Figures, 2017. Available at <http://www.hospiceinfo.org/uk-hospice-facts-and-figures/> [accessed 08/01/21]

74. Hewitt, D. Covid: Two thirds of hospices facing redundancies as government help runs out, 2020. Available at <https://www.itv.com/news/2020-10-19/covid-two-thirds-of-hospices-facing-redundancies-as-government-help-runs-out> [accessed 08/01/21]

Provide new and ongoing funding for medical research

The government must compensate the health charity sector for the funding it has lost for medical research and development, which was not included in the government's charity support package. The losses in non-Covid-19 health research funding – cancer, heart disease, Alzheimer's and so on – are eye-watering: dozens of clinical trials are being scrapped, health researchers are being driven from the sector, and without an injection of funding the progress in finding treatments and cures for some of the UK's most prevalent diseases will be permanently undermined. The AMRC has suggested the government establish a "life sciences-charity partnership fund" as a matched-funding programme, lasting at least three years, with the government contributing £310m over the financial year 2020-21 to bridge the initial funding shortfall from 2020.⁷⁵ This would be reduced in the following two years as donations from the public picked up, hopefully encouraged by the matched fund.

The pandemic has shone a light on how medical R&D is funded in the UK. Much like NHS support services and the hospice sector, it is clearly inappropriate that such a fundamental part of the UK's social wellbeing, not to mention economic picture, is reliant on public donations. The Partnership Fund may be a short-term solution to the immediate funding crisis, but over the longer term, the government needs to review its life sciences strategy and commit more public funding to medical research: especially so in an era where health resilience is at a premium.

Compensate local authorities

Many charities are reliant on local authority grants and service contracts, particularly in social care. The financial pressures of battling the pandemic have left many local authorities in dire financial straits, and more may follow Croydon in cutting all services except those they are legally obliged to provide, while reducing the funding available for outsourced public services. This would be a huge financial loss for the charity sector. The Government needs to

fully compensate local authorities for the costs of implementing three nationally-imposed lockdowns and other measures, and also relax rules that prevent councils from borrowing money to fund day-to-day services, so that, as the chairman of the Local Government Association explained "councils aren't faced with making tough decisions on in-year cuts to services to meet their legal duty to set a balanced budget."⁷⁶

Give charity shops special status

Charity shops raise £330 million a year for the sector. Several small charities have a single shop as a fundraising tool, but also as a form of public visibility. Demos' research into the social value of charity shops demonstrates how they represent an important source of reduced cost goods for low-income households, which is particularly vital in this period of high unemployment.⁷⁷ The Charity Retail Association rightly suggests this places charity shops in a unique category of "non-essential" retailer – and argues they should be the first allowed to reopen after current lockdown restrictions are lifted. State aid rules should also be amended so that all charity shops can access business closure grants – the CRA believes chains of more than around 30 shops will have likely exceeded the state aid cap and so are unable to access these important sources of funds.⁷⁸

GRANT FUNDERS AND THE CHARITABLE SECTOR

Many grant funders have moved quickly to help support their grant holders – releasing additional funds or making them unrestricted to give charities more flexibility in using grant income. Nonetheless, in a study of charities' financial health just before the pandemic hit,⁷⁹ NPC found that only 47% of charities felt their funders offered appropriate core funding, and only 45% thought their funders had collaborated well. They concluded: "A lack of flexible core funding could affect charities' resilience, and a crisis on this scale demands more collaboration between funders."⁸⁰

As we move into an extended period of economic instability, grant funders should consider dedicating

75. Davis, N. A generation of UK researchers could be lost in funding crisis, 2020. Available at <https://www.theguardian.com/science/2020/jun/24/a-generation-of-uk-researchers-could-be-lost-in-funding-crisis> [accessed 08/01/21]

76. Butler, P. English councils facing £2bn 'perfect storm' may be forced to slash services – IFS, 2020. Available at <https://www.theguardian.com/society/2020/aug/19/cuts-threaten-english-councils-covid-19-ifs> [accessed 08/01/21]

77. Harrison-Evans, P. Shopping for good: the social benefits of charity retail, 2017. Available at <https://demosuk.wpengine.com/wp-content/uploads/2017/09/Shopping-for-Good-the-social-benefits-of-charity-retail-.pdf> [accessed 08/01/21]

78. Osterley, R. Charity Retail Association, Letter to Exchequer Secretary to the Treasury, 2020. Available at <https://www.charityretail.org.uk/wp-content/uploads/2020/11/HMT-Letter-17-11-20.pdf> [accessed 08/01/21]

79. Clay, T, Collinge, T, et al. State of the Sector 2020, 2020. Available at <https://www.thinknpc.org/resource-hub/stots2020/> [accessed 08/01/21]

80. Ibid.

resources towards more core and unrestricted funding. This should be used by the charitable sector to help cement their sustainability, de-risking their income streams wherever possible and building financial reserves. This could be helped through:

- **Digital transformation.** This crisis has necessitated a rapid and dramatic shift to digital presence and infrastructure: social media campaigning and virtual fundraising events, cashless donations and sponsorship, and delivery of online services have all been critical to survival. It is unlikely these activities will cease in 2021, and indeed, may represent a permanent shift in how the public engages with their favourite charities. Many organisations have been learning on the fly, but building up skills and capabilities in digital fundraising, campaigning and service delivery, as well as data security and data management skills, must now be a priority for the sector.
- **Mergers and organisational transitions.** We have seen a shift to remote working and remote service delivery for many charities this year. While this was born of necessity, it is likely this will be part of the “new normal” in 2021 and beyond. Charitable organisations need to take stock, with the support of core funding, and consider how they are staffed and operate in 2021, particularly in light of widespread redundancies. The experience of unprecedented fundraising pressures may prompt some smaller charities to merge, or form local networks to pool their back office functions, for example, to build future financial resilience. Additional core funding will be needed to plan and implement any such organisational changes.

CONCLUSION

It is clear that the UK charity sector was facing significant challenges – around financial resilience, digital transformation, the pressures of Brexit – long before anyone had heard of Covid-19. The pandemic has therefore amplified existing problems and created new ones, ensuring that radical reform has often been necessary for survival. It has been a tumultuous process and charities have had to adapt and innovate quickly. Necessity has been the mother of invention as charities have tried new ways to fundraise and deliver services.

But now, as we face a long economic and social recovery, we need to take stock and place the charitable sector on a more sustainable footing. This comes from within, through learning lessons around digital delivery and fundraising, remote working and diversifying fundraising strategies, and from without – through grant funders and the Government supporting these endeavours with targeted resources. The Government also has another important task ahead as it “builds back better” and reshapes the economy in a post-Covid, post-Brexit world: to protect vital social and economic infrastructure, including medical research, hospices and parts of the NHS support sector, from a dependence on public donations, as has become apparent by this major crisis.

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