Giving back: How to foster a stronger and more resilient charity sector

TWO MINUTE SUMMARY

April 2023

SMF Social Market Foundation

The challenge

While charities showed great adaptability in the face of the pandemic, the cost of living crisis may prove even more challenging.

Financial losses during the pandemic ended up being minimal and brief, and were borne through institutional adaptation, reserves and innovative changes.

Whilst it is too early to tell how damaging the cost of living crisis will be, polling data for this project finds that 41% of the British public are donating less than they were three years ago, and 26% expect their donations to continue to decrease over the coming year. The majority of them (80%) blame the rising prices for their decision to donate less.

Coinciding with these crises, Brexit has further destabilised the charity sector, with the Government failing to fully replace European Structural and Investment Funds.

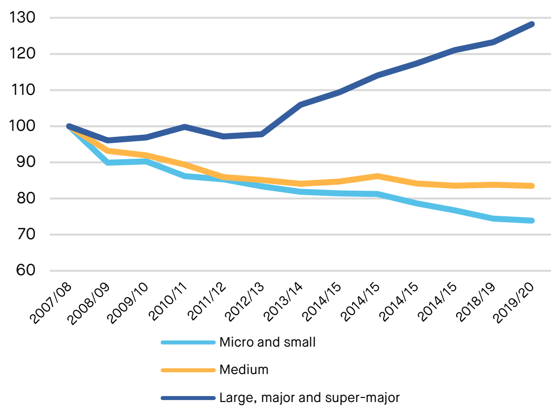
Size does matter

The charity sector has been remarkably resilient to recent shocks, though larger charities have fared better than smaller ones.

Overall, UK charity income has held up well in recent years. However, the aggregate picture masks polarisation between bigger and smaller organisations:

- Since 2007, charities with a turnover of over £1 million have seen their budgets grow by 28%, adding over a billion pounds a year.
- Meanwhile, smaller charities (income under £100,000) have lost 26% of their budgets, while medium charities (£100,000-£1 million) have shrunk 17%.

Figure: Charity income by size indexed to 2007/08



Source: NCVO Civil Society Almanac 2022; SMF analysis

How long can charities rely on public generosity?

Since 2010, private donations have offset lost government funding – but it is unclear how long this can last

Since 2010, government funding for charities has fallen 14%. Increased support from individual donors and the private sector has thus far compensated for lost government funding.

Households and firms may not be able to continue to take the strain.

- Wage stagnation and the cost of living crisis has started to reduce individual giving, and may push public generosity to its limits. This particularly affects rural and left-behind regions which are less capable of offsetting lost government funding through donations.
- In addition, the UK's changing demographics pose potential threats. Generational inequality makes it unclear if charities younger donors can provide a reliable future source of income

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Small charities make up 80% of the UK's voluntary sector, and often provide front line services to communities

The multiple crises facing charities have highlighted their inability to make viable long-term spending plans

Likewise, experience of austerity has decreased trust between the public and third sector, and made charities wary of relying too heavily on government as a source of income.

The UK's charity sector often acts as a frontline provider of public service, and their resilience may be tested to its limits by the cost of living crisis.

RECOMMENDATIONS

Solutions lie in looking beyond short term measures and instead instilling long term planning and sustainable financial opportunities across the third sector. Proposed measures include:

FOR POLICYMAKERS

- **Establish a new Micro and Small Charity Action Fund** delivering annual grants to smaller organisations. This would be countercyclical, providing money for vulnerable charities in moments when public generosity is exhausted, helping make small charities less reliant on donations and donation-linked funding (like Gift Aid).
- **Review regulation requirements for small charities.** Currently a charity with just £25,000 annual income must submit similar returns to a charity with over £1 billion in revenue. This harms small charities that lack the staff, time and resources to meet these extreme hurdles. Proportionate regulation should replace existing rules, cutting red tape for small charities.
- **Coordination with the public sector at national, subnational, and local levels** to improve service delivery through mutual synergies. Charities can provide insights generated from experience on the ground, but to apply this they must be included in the policy process through increased connections with legislators, local authorities and the civil service. Place-Based Giving Schemes should be managed by local authorities which incentivise donors to fund community-based charities

FOR CHARITIES

- **Invest in an umbrella organisation** to help lobby for these policies and other needs. This organisation would represent the third sector to public and private actors. The organisation would further be able to catalogue and communicate innovations in technology, finance, and best practices.
- **Establish partnerships with private sector** to increase private sector donations and help meet the market's ESG demands. Micro and small charities receive just £34 million annually from private sector compared to £2.1 billion going to large, major, and super-major charities. To maximise social and economic returns, partnerships should take place over the long term and on an equal footing.

Ultimately, British policymakers will have to engage in an open and honest conversation about the third sector – the sector cannot be both the victims of and responders to economic hardship.

The Social Market Foundation is Britain's leading cross-party think tank. A registered charity, our mission is to educate the public and their representatives about how better policies can deliver greater wealth, happiness and fairness.

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