GSC0006

Pro Bono Economics

Pro Bono Economics (PBE) uses economics to empower the social sector and to increase wellbeing across the UK. Co-founded by Bank of England Chief Economist Andy Haldane and chaired by Lord Gus O'Donnell, PBE combines project work for individual charities and social enterprises with policy research to drive systemic change. Since the beginning of the crisis, PBE has been the leading source of independent analysis and economic insight on the charity sector.

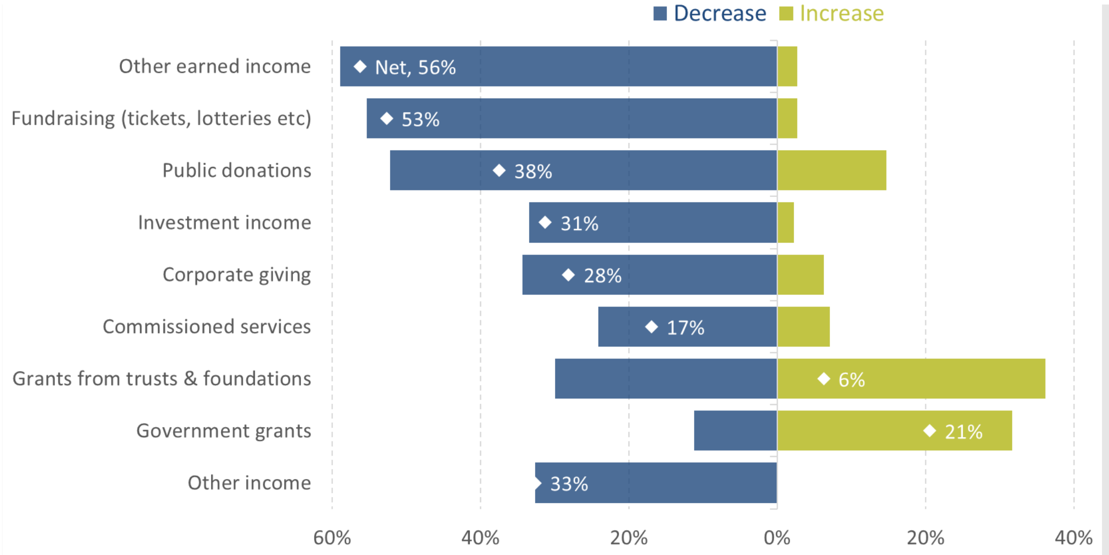
In this submission, we will provide evidence highlighting how:

- The scale of the support government has provided to the charity sector has been generous but insufficient;
- There are distinct disparities in the way public funds have been distributed to the social and private sector;
- As a result of underfunding, the charity sector is currently undergoing a capacity crunch where provision is outweighed by need.

The scale of the support government has provided to the charity sector has been generous but insufficient

Income generation in the charity sector has been significantly affected by Covid. The requirements imposed by social distancing have limited opportunities to generate income from fundraising activities of around 55 percent of charities surveyed by PBE compared to 3 percent that have had an increase. Earned income (such as membership subscriptions and that generated from charity shops), from which the charity sector generated £1 in every £4 prior to the pandemic[1], has declined for approximately 59 percent of charities.

Figure 1. How have each of these sources of income been impacted by Covid?



Source: PBE, Covid Charity Tracker, September 2020

[1] Pro Bono Economics, Is this time different? Charity funding in recession and recovery

Notes: n = 224. Residual not shown covers “no change” and “don't know”.

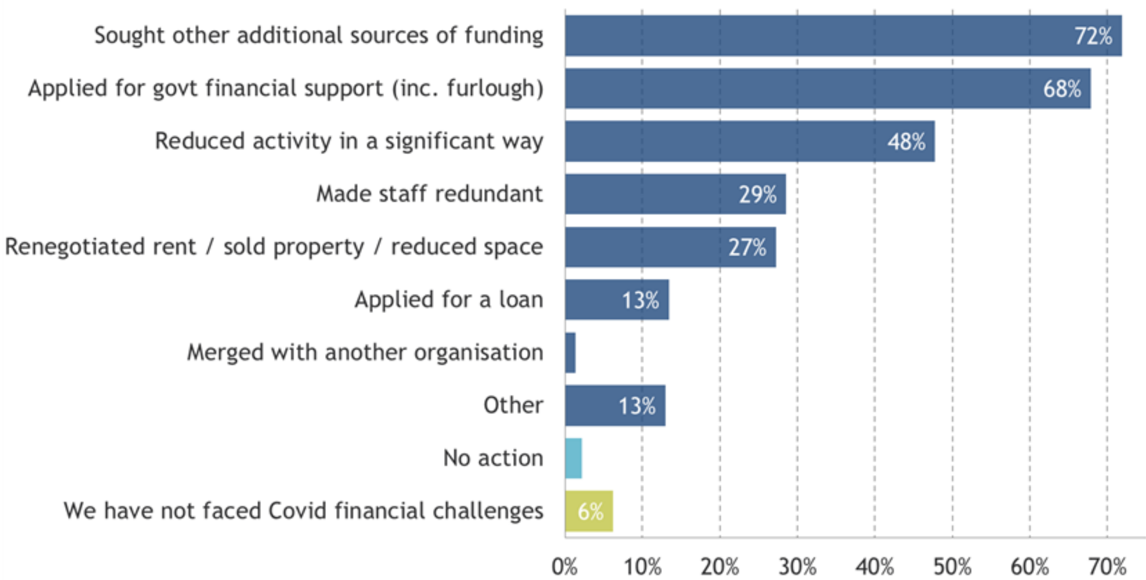
The challenges in the private sector and broader economy have resulted in 33 percent of charities experiencing a decrease in investment income, 34 percent experiencing a decrease in corporate giving despite some high-profile new partnerships, and 24 percent experiencing a decrease in income from commissioned services[2].

It is only through grants - from trusts and foundations and most noticeably from government - where the charity sector has reported an overall increase in income. With limited evidence of significant charity closures to date, this indicates that government funding has been a vital lifeline to a substantial portion of the charity sector during this phase of the Covid crisis.

However, the £750million fund allocation has not been of a scale sufficient to prevent significant impacts upon the charity sector and the services that they provide to people who need them. PBE estimates that the income gap faced by the charity sector is closer to the realm of £10.1billion – comprised of a £6.7billion decrease in income and a £3.4billion increase in demand for services[3].

This dramatic gap has led to almost half (48 percent) of charities reporting that they have reduced their activities in a significant way. In September, over a quarter (27 percent) reported having renegotiated rent, sold property or reduced the space they use.

Figure 2. What actions have you taken in response to any financial challenges presented by Covid?



Source: PBE Covid Charity Tracker survey, September 2020
Notes: 15-20 September, (n=224)

One in charities three (29 percent) report having made staff redundant[4]. PBE estimates that covid-related job losses in the sector are likely to amount to 60,000[5]. This casts doubt on how effectively emergency funds have reached charities most in need: the lifeline provided by government funds may have prevented mass closures, but it has not avoided major negative consequences taking place. Evidence also suggests that the job losses which have taken place have been concentrated in

[2] Pro Bono Economics, September Covid Charity Tracker
[3] Pro Bono Economics, Week 1 June Covid Charity Tracker
[4] Pro Bono Economics, September Covid Charity Tracker
[5] Pro Bono Economics, August Covid Charity Tracker

service delivery and fundraising roles. This reinforces concerns about cuts to charitable services and raises new ones about the sector's prospects of growing back to pre-Covid levels of delivery.

There are distinct disparities in the way public funds have been distributed to the social and private sector

The UK government has taken a mixed approach to distributing funds to the charity sector. It has allocated:

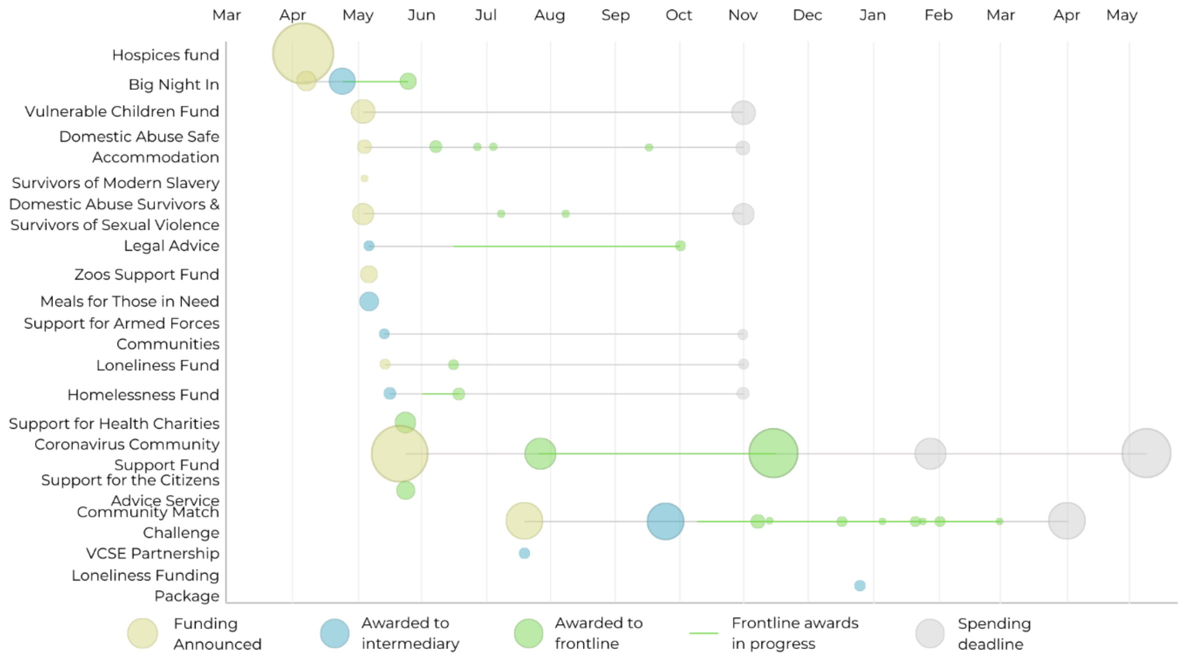
- £362million to charities providing key services, broken down into:
    - £200million directly distributed by government to **hospices**.
    - £162million directly distributed by departments to **12 specific topical funds**, including to health charities, citizens advice services, zoos, vulnerable children charities and homelessness services.
- £200million distributed through **the National Lottery Community Fund.**
- £86million distributed **through 18 grant making trusts and foundations,** some of which provide funding to specialist groups (such as the Stefanou Foundation which focuses on inter-generational domestic abuse) and some of which provide very broad funding (such as the Charities Aid Foundation).
- £60million distributed to **the Devolved Nations**, which have been variously supplemented by each administration.
- At least £35million through **the Big Night In**, distributed by BBC Children in Need and Comic Relief.
- £7.5million through **the Loneliness Funding Package**.

This has created a range of opportunities for charities to access government funding, but has also created inefficiencies in the distribution process. Charities accessing funds have had to make individual applications to a range of different organisations. It also raises questions about how effective this system of fund allocation has been at targeting need, as some charities have applied for and received grants from both directly-administered government funds and funds distributed by grant making organisations: the Women's Aid Federation England, for example, received £192,898 from the Home Office extraordinary fund for domestic abuse services[6], and £800,000 from the Big Night In allocation[7].

DCMS had an objective to distribute the funds in question quickly. In examining whether it achieved this objective, it is important to note that data published to date is incomplete, most notably in terms of the £200million hospices fund and the £34million Vulnerable Children Fund where the destination of these funds have been particularly opaque.

Figure 3. Timeline of distribution of government's financial support for voluntary, community and social enterprise (VCSE) organisations to respond to coronavirus

[6] Home Office, Extraordinary Funding for Domestic Abuse Support Services – Successful Applicants in the Second Bidding Round
[7] BBC Children In Need, One Month on From the Big Night In and over £36million is allocated to work helping vulnerable people affected by Covid 19



Source: PBE analysis of Government statements and grant-holder website statements
Notes: This does not include the £60million allocation to the devolved nations

The Department certainly succeeded in announcing plans for the funds with some speed, with the majority announced by the end of May 2020. However, this speed must be compared to the agility shown when considering other sectors and Departments at the start of the crisis.

The Chancellor first met with the financial services sector to discuss pandemic funding for businesses on 13 March 2020, and announced a £330billion loan scheme on 17 March. The Coronavirus Business Interruption Loan Scheme (CBILS) underwent a number of refinements and revolutions. By mid-April, it was clear CBILS wasn't fit for purpose for many businesses. On 16 April, the Chancellor announced a new lending scheme for large firms, the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and the scheme launched on 20 April. On 27 April, the Treasury announced its plan for the Bounce Back Loan Scheme (BBLS) for small firms and by 4 May this new product had launched. All this took place before the vast majority of grants for the charity sector had even been named. This demonstration of extreme urgency, ability to adapt, and deep partnership between government and the private sector stands in distinct contrast with the speed, flexibility and collaboration shown with the social sector[8].

This contrast cannot be ascribed to a difference in the depth of the crisis between the private and social sector, as many charities were in need of additional funding. By the end of July 2020 – while £49.43billion had been distributed to 1,113,312 organisations through the combined loan schemes[9] - DCMS had announced at least £120million of the £750million fund had been distributed to front-line charities and a further £54million[10] had been distributed to intermediary organisations such as Homeless Link which coordinated the £6million Homelessness Fund and FrontShare and WRAP

[8] Note: A very small proportion of these loans have been accessed by charities. The Pro Bono Economics' Covid Charity Tracker Survey suggests that by October just 7 percent of charities have applied for government loan schemes, and that number falls to 1 percent of small charities.

[9] HM Treasury, coronavirus (COVID-19) business loan scheme statistics

[10] Note: £13million which had been distributed to BBC Children in Need as an intermediary had reached front-line charities, and is not included in this £54million figure but accounted for in the £120million distributed to front-line charities

which distributed the £16million Meals for Those in Need fund. At this point in the crisis, our research suggests that 45 percent of charities had drawn down on financial reserves to remain solvent[11] and one in three charities reported having three months or less held in reserves[12]. It is also at this point that major charities began to announce redundancies: more than 3,800 charity-sector redundancies were announced in July, including 1,200 by the National Trust and over 1,000 by health charities[13].

Given the seriousness of the situation for the charity sector, it is important that questions are asked as to why funds were slow to reach organisations in financial distress. Why the difference in treatment and flexibility between provision for the private and social sector? Was it a matter of lower prioritisation of the sector, understanding of its operation, communication between government and charity partners, existing structures for coordination, sector infrastructure, or – more likely – a combination of all the above?

The question of prioritisation is also worth considering when examining where the £750million fund has been allocated. There are some indications of a paternalistic approach to distribution of funds to the charity sector. This has occurred where government appears to have hand-picked certain kinds of charitable causes to receive ring-fenced funds, as through its 12 topical funds that shared £162million. Similarly, government appears to have hand-picked some grant-making organisations (for example the Access to Justice Foundation and the Law Centres Network to distribute the £5.4million Community Justice Fund), while others have undergone an application process to do the same, such as to distribute the Community Matching Scheme. Selection in this way may have been the most rapid method of distributing funds but the decision-making process is unclear.

There is some preliminary evidence that hand-picking charitable causes to receive urgent funds does not necessarily equate to funds reaching the causes most in need. For example, the government did not ring-fence funding for charities for refugees – yet charities serving this vulnerable group have been a not-insignificant recipient of emergency covid funds distributed by grant-making organisations allocating on the basis of applications demonstrating need. The same is true for charities serving disabled people, which did not receive ring-fenced funding. Similarly, while the Vulnerable Children Fund allocated over £30million to charities serving children and young people, it appears to be a significant under-estimation of the need faced by charities serving this group as Big Night In funds and those allocated through the Community Match Challenge have granted almost this amount of government funds again.

In contrast, the government directly allocated a significant proportion of funds to health charities, including hospices. Yet health charities appear to have received only a very small proportion of funds from grant-making organisations allocating on the basis of applications and need – suggesting government may have either met or over-compensated for need, when accompanied by an outpouring of public financial support for this sub-sector.

These disparities raise questions about the quality of the evidence on which the government bases its decision-making on the charity sector, as well as the potential for political bias to creep in where data is lacking. Available data on the social sector – its size and shape, demography and financial

[11] Pro Bono Economics, Week 3 June Covid Charity Tracker Survey
[12] Pro Bono Economics, August Covid Charity Tracker Survey
[13] Civil Society, Over 5,000 redundancies announced in charity sector since May

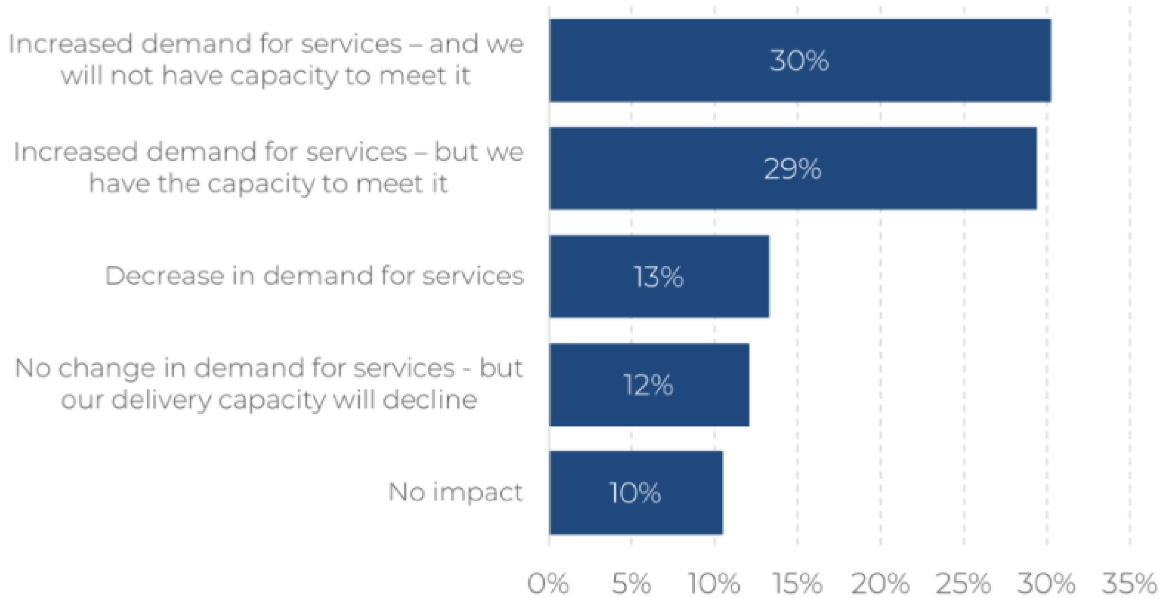
health – is relatively poor (particularly compared to comparable data on the private sector). Official statistics are thin, often treating charities and other non-profit entities as residual categories. Much of what does exist in official statistics is hard to access, particularly in real time.

As a result of underfunding, the charity sector is currently undergoing a capacity crunch where provision is outweighed by need

When the Chancellor first announced the £750million grant funding scheme for charities in April 2020, he stated that "*It's right we do everything we can to help the sector during this difficult time… [the £750million fund] will ensure our key charities can continue to deliver the services that millions of people up and down the country rely on.*[14]" That objective has not been achieved. Charities are struggling to deliver those services and a capacity crunch is underway, where need is outweighed by provision. After almost a year of decreased income, four in ten charities (42 percent) are experiencing difficulties meeting demand for their services in the first quarter of 2021[15].

The speed and prioritisation of government grant funding may have played a role in the capacity crunch currently underway, but the difference between the scale of support and the scale of the financial challenge has been the deciding factor.

Figure 5. What do you expect to happen to demand for your services over the first quarter of 2021, compared to the last quarter of 2020?



Source: PBE Covid Charity Tracker survey, January 2021
Notes: 11-18 January 2021, (n=248)

One of the reasons for that mismatch may have been a misunderstanding of the proportion of the country's charity sector that would be operating at that 'frontline'. When announcing the £750million fund in April, the Chancellor also stated that "*the right answer for many charities will be to furlough their employees*"[16] while implying only a minority of charities were key to the Covid

[14] HM Government, Chancellor sets out extra £750million coronavirus funding for frontline charities
[15] Pro Bono Economics, Covid Charity Tracker January 2021
[16] HM Government, Chancellor's statement on coronavirus (COVID-19): 8 April 2020

response. Yet at the end of 2020, around 7,000 charities[17], while 59 percent of charities were experiencing an increase in demand for their services[18]. Additionally, many charities rely on volunteers to function, meaning furlough was not an applicable method for managing expenditure. The assumption that furlough was the right answer to the sector's difficulties was incorrect, and the government has not adjusted its approach since this became clear.

On numerous occasions throughout the crisis, the government has taken the opportunity to course-correct when new evidence has come to light. When it became clear loan schemes were not fulfilling their objective, new schemes were launched and the original ones adjusted. When it became clear the Job Retention Scheme would help more people and better support the economy if it allowed for part-time working, flexi-furlough was created. When the hospitality industry required more support, Eat Out to Help Out was born. When second and third lockdowns threatened, the JRS and interest-free period for covid loans were extended. It has acted at speed, with adaptability and at scale. The same cannot be said for its approach to supporting the charity sector.

April 2021

[17] https://www.thirdsector.co.uk/number-voluntary-sector-organisations-using-furlough-scheme-revealed/management/article/1706240
[18] Pro Bono Economics, Covid Charity Tracker January 2021