

Written evidence submitted by New Philanthropy Capital

IMPACT OF COVID-19 ON DCMS SECTORS

This submission to the DCMS Committee inquiry into the 'Impact of Covid-19 on DCMS sectors' covers the impact on civil society, specifically charities and funders.

It comes from charity thinktank NPC (<https://www.thinknpc.org/>) and our responses are informed by our recent research.

Specifically:

<https://www.thinknpc.org/resource-hub/the-750m/>

<https://www.thinknpc.org/resource-hub/stots2020/>

What has been the immediate impact of Covid-19 on the sector?

We sampled 27 large (over £1m income) charities and through interviewing them, and using a financial model we developed, project a total financial shortfall of over £500m in financial year 20/21.

We found the shortfalls varied hugely—from £0 for some charities, because they have reserves to cover them, through to over £100m. The shortfalls of individual organisations vary significantly depending on how they fundraise. Those engaged in contract provision with local and national government generally face a more positive picture on income as many of these contracts have so far remained constant, although costs may have gone up. However, those who rely on public fundraising and charity shop trading are facing much more significant losses.

Although, fundraising charities and trading charities are more likely to have built up some reserves, so those ones are able to use some of their own funding in this crisis.

Note: the source for this research is not yet published but can be provided on request.

How effectively has the support provided by DCMS, other Government departments and arms-length bodies addressed the sector's needs?

Existing government emergency support schemes have provided some stability to charities in our sample—including Refuge, Law Centres Network—which is too recent to have been factored into our analysis. However, many organisations are not covered by this support: they cannot furlough frontline staff serving beneficiaries in need, they are too large to qualify for national lottery support, and have been unavailable to secure support from local authorities.

We have done an analysis of the £750m in funding the government initially offered to the charitable sector and want to highlight three points to the committee.

- Unclear objectives
- Appropriate allocating organisations

- Speed

Unclear objectives

The government's COVID-19 funding for charities is divided into a large number of different pots and different causes. Some of it is organised by the cause a charity serves (e.g. £30m for domestic abuse survivors), some by the size of charity (e.g. £200m for small and medium charities in England) and some is directed to specific charities (e.g. £15m for the Citizens Advice Bureau).

Of course all these different types of funding are welcome, but with the funding being broken into so many pots (we think there are around 17 main pots, ranging from £6m-£200m, often with many sub pots) it is hard to reverse engineer an understanding of what the government hopes to do for the sector.

One possible interpretation is that the government is not especially interested in supporting the sector as a whole, but is interested in helping it fight COVID-19 (and related social issues). Evidence for this view comes from the allocation of £200m to hospices, and the targeting of much of the departmental allocation. The question this raises is how were these sectors causes selected and was the funding designed in such a way as to tackle them, or support the organisations tackling them?

In some areas, such as £14m from DEFRA for zoos and aquariums it is hard to see the link to supporting charities tackle the virus. In others, such as £22m allocated by departments to 'health' charities the connection is clearer. But we note that this is significantly less than what was allocated to other causes such as domestic abuse, but more than was allocated to homelessness. There is nothing inherently wrong with this, but it is hard for the sector to understand the thinking behind it without any explanation.

Appropriate allocating organisations

While the government has obvious reasons for wanting to be seen to be giving funding to charities, a more accurate description of the £750m is that the government gave money to other organisations, to give to charities. Often these were charities themselves, and broadly this is a good thing.

Charities in specialist areas, such as Homeless Link, have been used to distribute funds to other charities working on that cause. TNLCF has been used to distribute the largest single pot of funding and will not doubt use its experience as a major funder to its advantage. Using these specialist and experienced organisations will likely improve the impact of the funding on the sector and so we welcome it.

That said, there are two areas where further information is needed to understand the impact of this support.

We need clarity on how the organisations were selected and why it was decided some departments could/should run funds themselves rather than seek a partner.

We also need details of the accountability mechanisms government has put in place to ensure the funds set up by partners have the desired impact. For example, it is important to understand what requirements were placed on partners to allocate funding to the areas of highest need, how distribution was balanced between regions, and any attempts to ensure the funding reached specific communities such as the elderly or BAME people.

Speed

The message from many in the sector has been that they need urgent support to keep delivering services while their incomes have dried up. The £750m package was announced by Rishi Sunak only 17 days after lockdown itself was announced, on the 8th of April.

But it then took some time for many of the funds to actually open, and we do not yet have a clear picture of how much money has actually reached front-line charities. For example, the main fund for small and medium

charities, administered by the TNLCF did not open until the 22nd of May, 43 days later. We also do not know how much of the £200m allocated for hospices has reached them, or who is allocating it.

This delay may have had a negative effect on the impact of the support for the sector, as organisations folded before they could access it.

Note: We have not done a detailed analysis of the £150m in dormant assets funding the government has recently 'unlocked' for charities and social investment but there may be similar issues.

What will the likely long-term impacts of Covid-19 be on the sector, and what support is needed to deal with those?

Covid-19 is likely to exacerbate issues already present in the charity sector. Our State of the Sector research conducted just before the crisis highlighted some of these issues.

Overstretched charities fail

We found that charities reported doing more of every activity we asked about, than they were in 2017. And they expected to be doing even more of every activity in the next three years.

This came despite overall funding for the sector remaining relatively static, which suggests that charities were already stretching their resources before the crisis.

It is reasonable to assume that a long-term impact of Covid-19 will be an increase in demand for charity services and a reduction in fundraised income. Charities who were overstretched pre-crisis may not be able to survive.

Support DCMS could offer

Encourage the Charity Commission to review its regulations to ensure they promote the survival, in some form, of effective charities. In particular - CC34, which sets out the regulations around merger and collaboration in the sector, should be looked at to ensure charities can come together in the face of adversity to continue offering important services.

Issues with commissioned services increase

More than half of the charities we spoke to held a public sector contract. 57% of these are subsidising their public sector contract(s) with income from other areas such as public fundraising. Covid-19, and the decline in fundraised income it has caused, may mean this cross subsidy is no longer viable for some charities.

What is particularly worrying is we found a big increase (on 2017) in small and medium sized charities saying that they hold a public sector contract. These charities are the least likely to be able to weather the crisis and therefore fail to deliver their contract. It was not covered by our research, but we have also been made aware that some charities are struggling to deliver their payment by results contracts as a result of the restrictions imposed during the crisis.

Support DCMS could offer

A review of the cross subsidy of government contracts is urgently needed, across national and local government, to understand why this practice occurs and what services may be under threat if it can no longer happen. DCMS could begin by reviewing any commissioning it has done with charities to understand if those charities are getting full cost recovery and if not, why not.

What lessons can be learnt from how DCMS, arms-length bodies and the sector have dealt with Covid-19?

Responsibility for charities should be returned to the cabinet office

The £750m in funding the government initially allocated to charities included allocation routed via (at least – the department responsible for hospice funding is not clear) eight departments. This illustrates that when government wants to address the charity sector as a whole, it has to recognise that it sits across a huge number of issues, from the environment, to social justice, to art, to healthcare.

Charities have very little in common with media and digital and only some overlap with culture and sport. They do not sit naturally in DCMS. Until 2016, the Office for Civil Society sat in the Cabinet Office, where the role of charities in supporting the nation could be seen across a range of policy areas. The response to the crisis shows that it should return there.

How might the sector evolve after Covid-19, and how can DCMS support such innovation to deal with future challenges?

Digital adoption

Before the crisis our research showed that, compared to 2017, charities' confidence in making the best use of digital technology has declined by 11 percentage points, to 59% from 70%.

We know from our conversations with many charities that they have moved their services either partially or fully online. The sector had been lagging on the use of digital technology over many years and many within it have expressed their surprise at the rate of digital adoption during the crisis.

For some charities, shifting services online has been more straightforward than others. For example, NCT's antenatal groups are now run as online classes and many galleries and collections are reaching new audiences. Charities such as the Scouts, whose entire raison d'être is the outdoors, has cleverly created #TheGreatIndoors, gathering more than 100 free activities to help families have fun and learn together, with online demonstrations by Scout leaders being conducted through Facebook live.

We suspect that as the immediate crisis ends and lockdown is lifted, the rate of digital adoption will slow, and we may see falling confidence again. If responsibility for charities remains with DCMS, the department should consider how it can leverage its connections into the digital world and its digital policy experts to support charities, especially smaller charities to take advantage of digital technology in service delivery.