AFTER THE STORM

A consolidation of data, insights, and predictions for the post-pandemic charity sector.

July 2022

By the Waves Charity Consulting

Leesa Harwood

Peer reviewed by

Karl Wilding and Tim Willett

As the charity sector emerges from the Covid-19 pandemic, sector leaders are trying to understand its impact on the not-for-profit sector. What are the key trends? What lessons did charities learn during the pandemic? What has changed? What stays the same?

It will be critical for sector leaders to access data, trends, insight, and forecasts to inform their thinking. But with hundreds of reports already available and more published every day, synthesising and summarising such vast quantities of information and opinion can be time consuming.

Whilst there is nothing new in this report, it aims to consolidate and compare findings from over 80 data sources about the current state of the charity sector, and future trends affecting its sustainability and viability. I've done the legwork so that you don't have to. By pulling together some of the most credible, insightful publications and projections I hope to make it easier for you to identify areas of consensus and emerging trends. I'll also highlight any notable outlier opinions or forecasts because it's always a good idea to keep an eye on the maverick perspectives too.

The purpose of this report is not to provide all the answers. But I hope that it will stimulate discussion and help charity leaders to ask the right questions. Then, at least we will be starting off on the right track to surviving and thriving in a post-pandemic world.

Finally, thank you to Karl Wilding and Tim Willett who have peer reviewed this document to check sources and assumptions, as well as making valuable suggestions and challenging my thinking.

I hope you find this document helpful. If you would like to discuss this report, its source data, or my conclusions in more detail, do not hesitate to get in touch.

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Executive Summary

An uncomfortable headline of this report is that it is needed at all. In consolidating over 80 data sources, it is clear that securing, validating, and then consolidating data about the UK charity sector is a big task. Distinguishing between click-bait headlines and valid, insight can also be challenging. It is widely acknowledged that the lack of a sector-wide depository of consistent, empirical data to underpin strategic thinking, and risk mitigation means that sector leaders are constantly faced with an overwhelming amount of (often conflicting) data.[1] So, the announcement from Nottingham Trent University that a new, national observatory will be established to plug the voluntary sector data gap is exciting and welcome.[2]

Notwithstanding the data gap, the next five years will be difficult for the charity sector. But there are opportunities too, because challenges inevitably create the impetus necessary to change and improve. The pandemic will cast a long shadow and we do not yet understand all the socio-economic implications. So far though, the following themes have emerged from my consolidation and comparison of available data:

Financial uncertainty

Financially, charities are not out of the woods yet. The threat of rising inflation rates, rising costs and persistent risks to income could result in a sector income shortfall of up to £5 billion. A typical charity with an expenditure of £1m would need to factor in an increase of £75,000 in staffing costs by 2024 to ensure that staff are not worse off. A charity donation of £20 in 2021 will be worth £17.60 in 2024[3]. Many charity contracts and grants are fixed, multi-year, whilst 36% of donations are fixed direct debits.

Erosion of donor numbers

The original upward giving trajectory at the beginning of the pandemic was not sustainable. September 2020 to April 2021 saw the lowest levels of monthly giving since CAF polls began in 2016.[4] Despite an initial increase in the total amount donated to charity by individuals there remains a small but persistent decline in the number of people donating (from 69% in 2016 to 62% in 2021) and an ongoing erosion of the mass market income that is the mainstay of many charities.

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[1] Bigger Data Better Impact. A review of Social Sector Data. Anoushka Kenley & Karl Wilding. Pro Bono Economics. October 2021

[2] https://www.ntu.ac.uk/about-us/news/news-articles/2022/05/new-national-observatory-to-plug-voluntary-sector-data-gap-so-organisations-can-better-serve-communities

[3] Second Wave. How will charities fare after the spring statement. March 2022. Pro Bono Economics

[4] Charities Aid Foundation UK Giving Report 2021

Difficult decisions ahead

Increasing demand for services and diminishing income means that there will not be enough money to do everything charities want to do. Simply increasing fundraising income targets to offset the gap won't be the answer. In most cases a programme of allocative choices will be the only short-term option. That will feel uncomfortable because it will require not only the prioritisation of critical activities, but the de-prioritisation or cessation of others.

Technology gap

Instead of reactively using technology to enable existing activities, charities will need to leave their comfort zones behind to embrace and understand the technological ecosystem. There is an urgent need to inject tech competencies into the charity sector to prevent the gap between technological development inside and outside the charity sector from widening. This will not only help charities to better optimise technology across all areas of their organisation, but better influence global technological advances and to fundamentally influence the global evolution of technology so that it works *for* societal improvement, not *against* it.

Cultural transformation

No matter how difficult charity finances get, cultural improvement cannot be relegated to the back burner. In the UK, the not-for-profit sector has the highest voluntary staff turnover rate of all sectors surveyed. A post pandemic wave of re-evaluation means that employers will need to work harder to hang on to talented employees who will be critical to their charity's future mission delivery. Groupthink will compromise the viability of the sector. The need for new perspectives, new competencies and new approaches has become more and more apparent. Attracting a diverse range of people, lived experiences and skills can no longer only be a policy issue, it is a core dependency for the sustainable delivery of impactful change.

Risk mitigation

The pandemic taught us that mitigating risk is not about predicting what can go wrong or monitoring and maintaining an average risk score on a grid. It is about having a strong, competent collaborative team, with clear lines of risk accountability and robust, dynamic contingency planning processes. It will be particularly important to improve external orientation, constantly scanning data and trends to identify external threats before they play out. Reactive monitoring and managing of internally contextualized risks will not be enough.

This report could be viewed as a list of problems and threats, or an insight into trends and trajectories that will act as catalysts for brave, transformational conversations by charity leaders.

Leesa Harwood
July 2022

An Overview – The Pandemic

> **"Don't avoid or delay tough decisions but know how you make them. How you behave and communicate along the way can be as important as what action you choose."**
> Amie McWilliam Reynolds.
> Charity Commission of England and Wales.
> 28th October 2021.

The impact of the Covid-19 pandemic on the charity sector was significant. By October 2021 it was apparent that whilst different organisations would be affected in different ways, few would navigate the next two years without consequence. Alongside the pandemic, Brexit was unfolding with its own, specific implications. A storm was brewing, and the Charity Commission had sobering words of advice for charity leaders. Their message quickly evolved from whether difficult decisions would need to be made, to how and when to make them.

The Charity Commission would go on to report that 91% of charities had experienced some negative impact, of those 45% took mitigating action and adapted services and 40% were forced to dip into their reserves. 60% saw a loss of income because of the pandemic whilst 1 in 4 charities with annual income below £10,000 paused all activities completely during the first lockdown in March 2020.[5]

Looking at the impact of the pandemic from inside the third sector is important. But charities do not operate in a vacuum. They are affected by broader socio, economic and environmental changes too. So, it is essential to assess the impact of the pandemic, Brexit and other factors on society as a whole, then follow the implications downstream to the charity sector.

Increases in living costs, inflation, unemployment, and global conflict all play a part and will, at some point affect the ability of charities to deliver their mission in a sustainable, viable way. Some reports predict that donations will be worth less and costs will rise. For example, a £20 donation in 2021 will be worth £17.60 in 2024 and a 2021 grant of £100,000 will be worth £88,100 by 2024. A typical charity with an expenditure of £1m would need to factor in an increase of £75,000 in staffing costs by 2024 to ensure that staff are not worse off. These factors are highly likely to impact year-on-year charity cash reserves.

> **"Charities will be expected to do more with less, even if this is not sustainable either financially or in terms of the wellbeing of their staff."**
> Richard Sagar, Head of Policy,
> Charity Finance Group.
> 9th April 2022.

[5] Covid-19 Survey 2021. Charity Commission of England and Wales. October 2021

There were areas where charities performed well during the pandemic, particularly in terms of demonstrating agility and adaptability. By April 2021 76% of charities reported that they had adopted different operating models to ensure the delivery of their mission and impact. 42% had collaborated with other charities, 23% collaborated with local government and 21% worked much more closely with the business sector.[6] Adaptability, and a willingness to collaborate were critical success factors when it came to delivering impact during this period of crisis.

Technology also became more important and tech competency improved as a result. By October 2021, 49% of charities said that staff and volunteers learned to make better use of digital technology.

Some funder markets clearly demonstrated that they could quickly adapt to the needs of charities during the pandemic. The top 300 trusts and foundations gave over £155 million in Covid-19 grants during the first 9 months of the pandemic.[7]

"Not only did foundations show up but in many cases, they led the way, forging a path to get money to the sector quickly, through emergency grant making, swifter processes and unprecedented levels of collaboration."

Catherine Walker and Cathy Pharoah. Association of Charitable Foundations.
Foundation Giving Trends 2021.

Then, towards the end of 2021 as charity leaders surveyed the post-pandemic landscape, they began to identify collateral damage and lingering risk. One of the most widely reported was burnout and damage to staff and volunteer wellbeing. By November 2021, 76% of senior charity managers were concerned about stress and burnout amongst managers within their organisation and almost half of charity CEOs polled at the start of 2021 had considered quitting because of the pressures placed upon them[8].

[6] Hysteresis in the making. Pandemic scars and the charity sector. Jack Larkham. Pro Bono Economics. November 2021.
[7] Foundation Giving Trends 2021. Association of Charitable Foundations. Catherine Walker and Cathy Pharoah.
[8] Hysteresis in the making. Pandemic scars and the charity sector. Jack Larkham. Pro Bono Economics. November 2021

Financial Sustainability

Economic Impact of the Pandemic

As income dropped, many charities found it difficult to maintain a viable cashflow during the pandemic. The median drop in income was 13% and one in four charities accounts show a fall of 43%[9]. The furlough scheme provided a financial and resourcing lifeline for many charities, and over half of the largest charities (annual income over £500,000) used it to alleviate financial pressures. However, this did not always provide adequate relief and 1 in 4 charities with income below £10,000 were forced to pause activities completely during the first lockdown (March 2020).[10]

> **"The reserves of energy and resilience that charities have drawn deeply on over the course of the crisis are not limitless. The danger now is that the scars of the pandemic affect not just the sector's ability to play a full role in supporting the nation's recovery but also the limits of its own potential over the long term."**
>
> Jack Larkham, Pro Bono Economics.

Pressure on reserves increased during the pandemic too. The number of registered charities with an annual income over £500,000 that had no, or negative free reserves increased from 9% in April 2020 to 28% in July 2021,[11] whilst 40% of charities dipped into their reserves during the pandemic.[12] Moving forward, organisations with diminishing reserves will be more exposed to financial risk and more susceptible to economic volatility, and they will need to pay close attention to cashflow during the next year.

General Economic Forecast

The post-pandemic economic climate will be problematic. Current estimates suggest that inflation will land at a 40-year high of 11% by the end of 2022[13]. Energy price caps rose by 54% in April 2022 and are expected to rise by another 40% in October 2022[14]. In addition, living standards are set to fall by 2.2%

[9] Financial vulnerability in UK Charities Under Covid-19. An Overview. John Mohan et al. NCVO.
[10] Covid-19 Survey 2021. Charity Commission of England and Wales. October 2021
[11] Charity Commission written submission to the Special Public Bill Committee: Charities Bill [House of Lords, Session 2021-22]
[12] Covid-19 Survey 2021. Charity Commission of England and Wales. October 2021
[13] Andrew Bailey, Bank of England. We could raise rates faster, says Bank of England governor Andrew Bailey | Business | The Times
[14] Economic and Fiscal Outlook, March 2022. Office for Budget Responsibility.

in 2022/23, and real disposable income in the UK could drop by an average of £488 per person in 2022. There is no doubt that difficult economic times are on the horizon in the short to medium term. It will be important to understand the impact on the charity sector.

Economic Impact on the Charity Sector

Endogenous vs Exogenous

From the start of the pandemic The World Economic Forum has recommended that in terms of financial impact we do not compare the current economic crisis to the trends during and after the financial crash of 2008 because the two are fundamentally different.[15] The financial crash was an endogenous crisis (a global systemic crisis coming from weaknesses within the financial sector itself), whilst the pandemic has been exogenous (coming from outside the financial sector like a meteorite hitting the earth, unpredicted, causing enormous shock and damage). Consequently, financial policy solutions alone will not address today's financial problems as they did in 2008, because the financial fallout is largely symptomatic of a bigger root cause.

So, it might be helpful to reach further back to a crisis that more resembled the exogenous threat we now face. Hard, empirical data is difficult to find (particularly in contrast to other sectors), and different charities will be affected in different ways, so we should be wary of generalisations. But a study of voluntary (pre-NHS) hospitals in the 1920s and 1930s is worth exploring.

Learning from history

In a study of 72 voluntary hospitals in London (during the inter-war years when the economy grappled with the effects of the First World War and the flu pandemic) 55% reported financial deficits in 1921, this percentage then dropped but rose again to 50% by 1930. Fewer than 30% recorded deficits in 1933, but the number significantly worsened again towards the end of the 1930s.

This period, almost exactly 100 years ago, has surprising similarities to the situation today, where increased demand was accompanied by loss of voluntary income (although endowment income was relatively stable by comparison) causing prolonged cyclical deficits. During the same period, outside London charitable income for 63 larger provincial hospitals income fluctuated throughout the 1920s, and then showed 8 years of steady growth from 1929. This data suggests that recessions can have an impact on donations, the trajectory is not consistent, but there is an eventual period of recovery.[16]

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15 We shouldn't be comparing the coronavirus crisis to 2008. This is why. Jon Danielsson et al. April 2020

16 Economic Downturns and the Voluntary Sector. What can we learn from historical evidence? Karl Wilding, John Mohan. April 2009

Aftershock trends

Notwithstanding the World Health Organisation's advice, there might be elements of the 2008 financial crash that are relevant in relation to propensity to donate. Immediately after the 2008 financial crisis and subsequent recession, optimistic statistics were compiled by the Charities Aid Foundation. A small decline (11%) in giving was reported in 2009 due to fewer people giving and smaller average donations. Legacy donations decreased, but there was an increase in legacy bequests. The report also found that motivations for donating went far beyond personal finances, and that charities should continue to engage with donors and ask for support – guarding against making assumptions about their donors' propensity to give and financial circumstances.

In terms of diminishing donations, a report by Pro Bono Economics suggests that a squeeze on household finances is likely to prompt a drop in charity income of 3% (approx. £2 billion) between 2021 and 2022[17]. We can already see a disproportionately steep decline in the percentage of people giving in the 12 months between 2020 and 2021 (5% drop) when compared with the drop over the previous 5 year period (7%), financial impact of the pandemic might continue to exacerbate this trend beyond 2022.

In the midst of aftershocks like 2008 and 2020, it is important to know where to focus resources for the best return. A recent report[18] suggests that commitment, satisfaction and trust are key drivers of donor loyalty, so charities that focus here might not only retain more support, but grow donations too, up to £1 million additional income over three years for a charity with a donor base of 70,000 givers.

Critically though, in financial terms, a drop in donations during and in the wake of the pandemic might not be the biggest shock to the sector's financial equilibrium. The indirect, broader economic volatility that follows could create bigger problems. The risk of high inflation, increased operating costs, and a drop in the relative value of financial assets could present an even greater risk than diminishing income, potentially even affecting average estate and legacy values.

> **"We expect a double wave of pandemic and cost-of-living crisis to cause a near £5 billion shortfall in charity income compared to what might have been expected back in 2019."**
> Second Wave. How will charities fare after Spring Statement 2022.
> Pro Bono Economics.

[17] Second Wave. How will charities fare after the spring statement. March 2022. Pro Bono Economics

[18] Analysis of donations made to 12 major charities by 49,000 donors since 2019. Published June 2022 by Roger Lawson, About Loyalty.

Even *if* donation levels remain stable, increased interest rates, higher delivery costs and an escalation of salary costs will effectively reduce the real value of donations, grants and reserves. Multi-year funding (already committed and based on lower inflation and lower costs) will be particularly problematic. The average charity with income between £500,000 and £1 million has 5.3 months of reserves in cash. If charity expenditure rises in line with inflation these reserves will be worth 3.8 months by 2024. A charity with an annual income of £1 million would need to increase their reserves by £70,000 by 2024 to ensure that their reserves do not fall in real terms.[19]

Inflationary impact

The Charities Aid Foundation estimates that 36% of donations are fixed direct debits. A charity donation of £20 in 2021 will be worth £17.60 in 2024[20]. Many charity contracts and grants are fixed, multi-year. Unprecedented rises in inflation will lead to increased delivery costs, underwritten by fixed funding levels. Charities facing this risk would do well to renegotiate funding arrangements or costs as soon as possible.

At the current rate of inflation, for charities to ensure wages don't fall in real terms, the sector as an employer will need to spend an additional £2 billion in 2024. The significant increases in inflation expectations could bring this figure closer to £3.3 billion.

There is no absolute certainty that inflation will continue to rise. Despite Bank of England warnings, some US sources are predicting disinflation (prices still rise, but less than anticipated).[21] Whichever way the global and UK economic trajectories bend, charities will need to pay attention and factor implications (most likely price increases) into their financial planning.

97 charities declared themselves insolvent during 2020, just over 30% more than the previous year. It is tempting to conclude that the charity sector is free and clear of the worst financial implications of the pandemic and assume that any charity still standing by March 2022 can return to business as usual. When charities were asked in October 2021 whether they anticipated some threat to their financial viability as a direct result of the pandemic, only 1% saw a threat on the horizon that was critical to their survival[22], suggesting that not all charity leaders have all the post-pandemic risks on their radar.

[19] Second Wave. How will charities fare after the spring statement. March 2022. Pro Bono Economics
[20] Second Wave. How will charities fare after the spring statement. March 2022. Pro Bono Economics
[21] https://noahpinion.substack.com/p/disinflation-begins
[22] Covid-19 Survey 2021. Charity Commission of England and Wales. October 2021

Resourcing

Demand for Services

It is impossible to generalize in terms of demand across the whole sector. Many arts organisations saw demand drop off completely, whilst other charities saw steep increases. As the pandemic subsides, demand for some charity services continues to increase. In October 2021 55% of charities reported a rise in demand for their services, with 25% estimating an increase of 25% or more. Some cited unmet need associated with public service backlogs (the NHS backlog rose from 4.24 million in March 2020 to 6.1 million in January 2022)[23] and the removal of the universal credit uplift as contributory factors[24].

> **"During the first six months of the pandemic, food banks in our network provided more than 1.2 million emergency parcels to people unable to afford the basics, a 47% increase compared to the same period in 2019."."**
>
> The Trussell Trust, April 2021

The NSPCC saw a 49% increase in contacts from people concerned about children living in homes at risk of domestic abuse (March – October 2020), and during the first year of the pandemic the Samaritans answered 23% more e-mails from people seeking support[25]. Health and Social Service charities were particularly in demand during lockdown (representing as many as 46% of employees working in the charity sector).[26]

Challenges like cost-of-living increases also place unprecedented pressure on charity service provision. In January 2022 Citizens Advice Bureau reported that demand for advice was higher than at any point during the pandemic. Between April 2021 and February 2022 there was a 55% increase in the number of people seeking advice about fuel debts than during the preceding 12 months. Moving forward, 67% of leaders of charities that work directly with individuals who need support expect the removal of the Universal Credit uplift to affect their clients. 31% expect the impact to be severe or very severe.[27]

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[23] British Medical Association back log data. January 2022 https://www.bma.org.uk/advice-and-support/nhs-delivery-and-workforce/pressures/nhs-backlog-data-analysis

[24] Hysteresis in the Making. Pandemic Scars and the Charity Sector. The Law Family Commission on Civil Society. November 2021

[25] Samaritans 'One Year On: Data on Covid-19'

[26] NCVO Civil Society Almanac 2021

[27] Hysteresis in the Making. Pandemic Scars and the Charity Sector. The Law Family Commission on Civil Society. November 2021

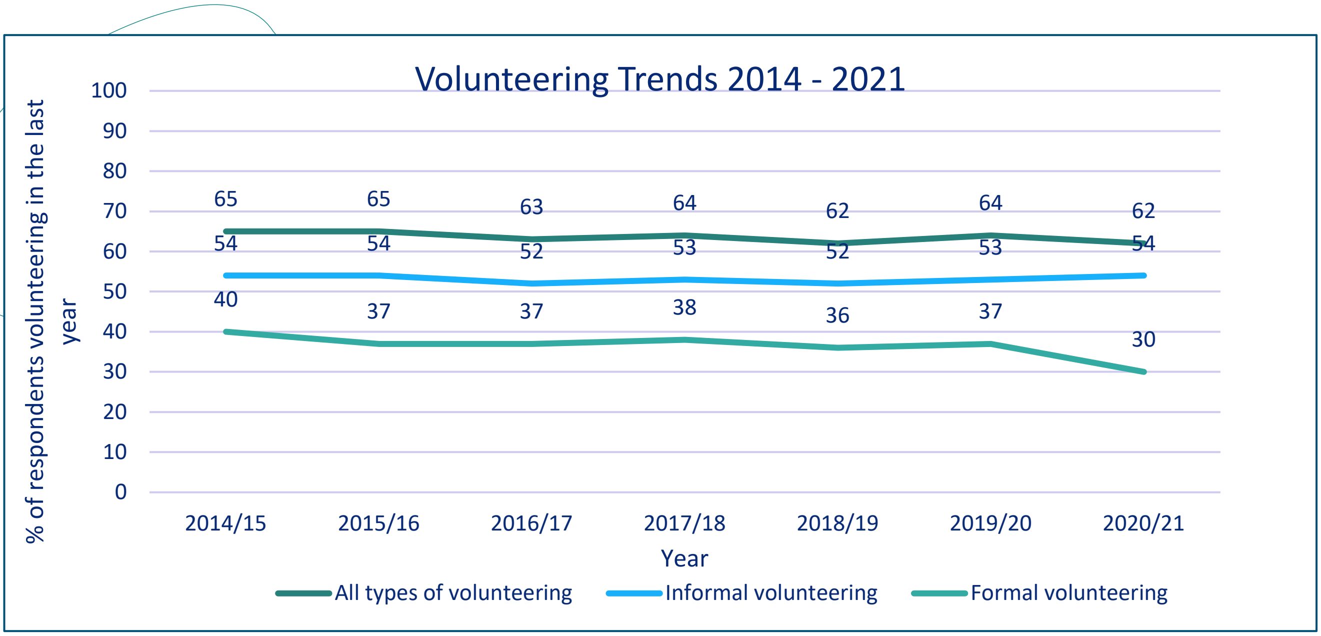
It is likely that the direct and indirect impact of the pandemic will continue to have a lingering influence on society. The implication for charities as they support the most vulnerable and fill the gaps of over-subscribed public service providers is that demand in some areas of the sector will remain unusually high. Whilst not all charities have seen an increase in demand, for those that do, difficult decisions around prioritisation and allocative choices will need to be made in a sector that historically struggles to say no.

"It is wrong to assume that as we emerge from the pandemic, we also leave behind its impact on the charity sector and the people it serves and supports. The pandemic will cast a long shadow, and charities will need to be resourced and ready to respond".

Leesa Harwood, June 2022

Volunteering Trends

As many as 91% of charities rely on solely volunteers to deliver their mission[28]. Many rely on volunteers to fulfil critical functions (e.g. fundraising and service delivery). Before the pandemic, levels of volunteering had plateaued, with between 62% and 64% of people reporting that they had volunteered for a charity in the last year in since 2016/17.[29] (See the graph below)



During the pandemic, restrictions on contact, travel and socializing led to a sudden drop in the number of people formally volunteering to the lowest level since 2015, with only 17% of respondents in England

[28] Facts and Figures about the Charity Sector. NCVO https://www.ncvo.org.uk/about-us/media-centre/briefings/1721-fast-facts-about-the-charity-sector

[29] Volunteering and Charitable Giving Community Life Survey 2021 – The Department for Digital, Culture, Media and Sport. July 2021

engaging in formal volunteering at least once per month, and only 30% engaging in formal volunteering once during the year (both record lows). 27% of people asked said that covid restrictions stopped them from volunteering.[30]

Meanwhile informal volunteering hit an all-time high. During 2020/21, 33% of respondents (the highest on record) claimed to have engaged in informal volunteering at least once per month, and 54% claimed to have informally volunteered during the past year. Drivers of this increase are likely have been pandemic related volunteer tasks (e.g. 'keeping in touch with somebody who has difficulty getting out and about' rose from 43% in 2019 to 58% in 2020, 'doing shopping, collecting medicines or pension, paying bills or dog walking rose from 23% during 2019 to 49% in 2020)[31].

According to the Charities Aid Foundation 6% of people surveyed claimed to have volunteered in July 2020 compared with 10% in July 2019.[32] 32% of charities reported a shortage of volunteers as a direct result of the pandemic.[33] By April 2022, the number of people claiming to have volunteered that month remained below pre-pandemic levels at 7%.[34]

"24% of organisations reported an increase in volunteers since March 2020 – through a mixture of new volunteers wanting to help during a period of crisis and having more time to volunteer, whilst 36% reported a decline – through social distancing and lockdowns reducing the opportunities for people to come together."

Respond recover reset: The voluntary sector and Covid-19

Not all charities were affected in the same way, and it is important to recognise that broader data can mask trends amongst specific groups of charities. Different data sources reported different volunteering numbers. Broadly speaking though, whilst volunteering continued through the pandemic and beyond, we saw clear decline in formal volunteering and an increase in informal volunteer activity (i.e. short tasks with no long-term commitment). For charities still offering longer term, ongoing, formal volunteering roles with some commitment, the impact of this trend could be significant.

[30] Volunteering and Charitable Giving Community Life Survey 2021 – The Department for Digital, Culture, Media and Sport. July 2021

[31] UK Civil Society Almanac 2021 - NCVO

[32] Charities Aid Foundation UK Giving Reports 2021.

[33] Covid-19 Survey 2021. Charity Commission of England and Wales. October 2021

[34] Charities Aid Foundation UK Giving Report 2022.

Employee Trends

By May 2021 the impact of the pandemic on charity sector staff started to become apparent. One survey reported that 44% of charity leaders had considered leaving the sector, 2 out of every 5 charity leaders polled said that they had seen an increase in mental health concerns amongst staff between January and May 2021. 71% of respondents reported cases of anxiety, 70% reported feeling stressed, 66% reported feeling depressed and a quarter said they had seen an increase in both self-harm and suicidal feelings.[35]

Burnout & stress

A Third Sector survey of 350 people working in or for charities found that 90% of respondent reported feelings of stress, overwhelm or burnout as a result of their work in 2020. 91% said that their commitment to their charity's mission led them to work longer hours or take on more than they could cope with. A YouGov poll reported that resilience of the charity sector during the pandemic had come at a cost, and that 3 in 4 charity leaders working in organisations with managers paid staff were worried about burnout (50% were worried about volunteers).

> **"As well as wanting to go the extra mile when needed, the charity sector has always had issues around leanness, lack of resource and tackling important issues – so there is a challenge that everything could fit within your mission, and a feeling of 'If not us, then who?' which can create heavy workloads for staff."**
> Emma Mamo, Head of Wellbeing and Engagement, Mind
> Speaking to Stephen Delahunty at Third Sector

Some of these trends aligned with other sectors and global data during that time. In March 2021, Microsoft research involving 30,000 people across 31 countries found that 41% of the global workforce considered leaving their employer within the next year. For Generation Z employees the number was 54%. The same survey found that one in five respondents said that their employer did not care about their work/life balance, 54% felt overworked and 39% felt exhausted.[36]

> **"The data is clear: our people are struggling. And we need to find new ways to help them".**
> Jared Spataro, CVP, Microsoft 365

[35] Ecclesiastical Charity Sector Survey. May 2021
[36] 2021 Work Trend Index. The Next Great Disruption is Hybrid Work. Are We Ready? Microsoft. March 2021

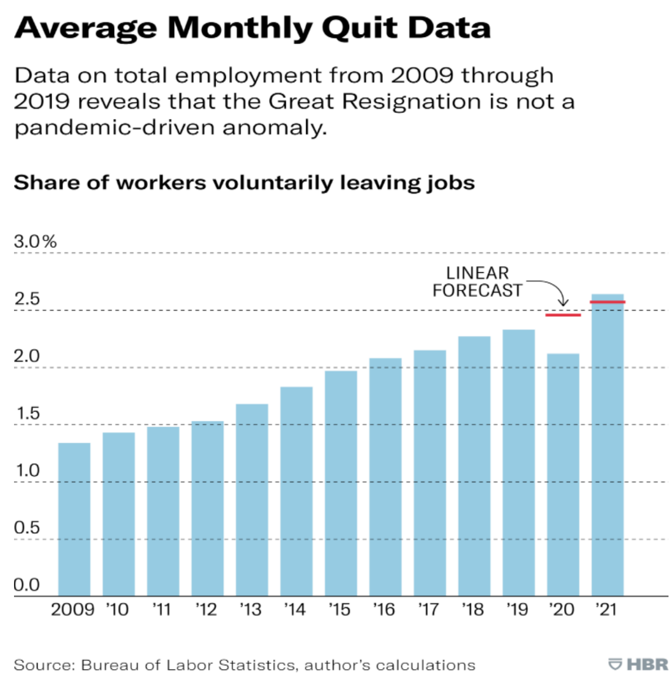
The Great Resignation

Feelings of exhaustion and stress are compounded by The Great Resignation, a much-discussed hypothesis whereby:
"The pandemic has induced workers to re-evaluate what they want from work with a suggestion that people will no longer put up with bad work. Some are quitting their jobs, while others are quitting work entirely."
(CIPD Voice, Issue 33)

However, according to CIPD analysis[37], across all UK sectors, there is no evidence to suggest an exodus of staff and higher voluntary turnover rates. The CIPD concludes that relatively speaking, an increase in turnover in 2021 is more indicative of a reluctance to move jobs during unpredictable times and unusually low voluntary turnover rates during the 2020 pandemic (mirroring trends during the 2008 financial crisis).

An analysis of turnover by Cendex[38] between January 2021 and January 2022 found that the charity sector has experienced highr than average voluntary turnover rates when compared to other sectors. Voluntary turnover (excluding redundancies and dismissals) in the UK not-for-profit sector was 12.5%, the highest of all sectors surveyed (8.7% in the private sector and 8.8% in the public sector).

Sources outside the UK suggest that The Great Resignation has nothing to do with the pandemic but is a long-term trend. In the US, the average, monthly voluntary resignation rate (or 'quit rate') has increased by 0.10 percentage points per year, only slowing in 2020 as people held on to their jobs during a period of uncertainty (see graph left)[39].



But in 2021 the US trend continued and is now back on track. The pandemic may have accelerated some of the existing *'Retirement, Relocation, Reconsideration and Reshuffling'* trends already taking place, and employers would do well to understand which of these four factors is affecting their workforce and how to adapt accordingly.

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[37] The Great Resignation, Fact or Fiction? Jon Boys. CIPD Voice, Issue 33. February 2022.
[38] Cendex Turnover Benchmark Report January 2021-January 2022.
[39] The Great Resignation Didn't start with the pandemic. Joseph Fuller and William Kerr. Harvard Business Review. March 2022.

An untapped or unsupported workforce that feels unable to reach potential or fulfilment may see the The Great Resignation as a great opportunity. In his article, The Great Flourishing[40] Andy Spence (The Workforce Futurist) argues that there has never been a better time for unhappy or unfulfilled employees to jump ship.

> **"An untapped workforce will utilize digital infrastructure to achieve its economic potential outside of traditional employment, changing the nature of work, the firm, careers, education and welfare."**
> The Workforce Futurist. *The Great Flourishing. Why People are Quitting their Jobs.*

Spence gives examples of key examples, enablers and catalysts for The Great Flourishing (or The Great Resignation if you are an employer) including:

- Chefs, teachers, pet caretakers, gamers, all using passion economy platforms to monetize their passions[41]
- Communities that support flourishing like *The Mom Project*[42], connecting mothers returning to the workforce
- Decentralised Autonomous Organisations that build and invest in communities (e.g. Seed Club/Club Mirror)[43]
- Solopreneurs (via Etsy and Shopify)
- Creators selling NFT artwork

Whether or not The Great Resignation is affecting the charity sector today, there is plenty of evidence to suggest that sector leaders and their staff are concerned about wellbeing, burnout and overwhelm. This will have implications for the sector and its 950,000[44] employees and affect retention, productivity, and impact, as well as the health and safety of their people. Attention to and investment in wellbeing and support will be critical as charities move beyond the pandemic. The question is, how many charities will prioritise investment in these areas with budgets getting tighter and escalating financial uncertainty. Overlay the battle to retain and attract talent will be fought on many fronts, casting doubt on how well the sector is able to adequately prepare and compete for talent as many charities continue to focus on short-term survival and an shoring up an increasingly obsolete employment model.

[40] The Great Flourishing. Why People are Quitting the Jobs. Andy Spence. July 2021
[41] The Rise of the Passion Economy and why you should care. Forbes. July 2020. https://www.forbes.com/sites/benjaminvaughan/2020/07/17/the-rise-of-the-passion-economyand-why-you-should-care/?sh=1d063e1217b9
[42] https://themomproject.com/
[43] https://club.mirror.xyz/a5PQAwU0CuHJ90lEOmzq545nlC4qqNoTVTeHEGRrqow
[44] NCVO Almanac 2021

Equity, Diversity, and Inclusion

There is a school of thought that the covid crisis has presented an opportunity to improve workplace diversity because the past two years have demonstrated that cognitive diversity is critical when faced with unprecedented problems that require innovative solutions. Innovative thinking, a variety of perspectives and an ability to deviate from established practices and challenge prevalent assumptions is essential if individuals and institutions are to successfully adapt and evolve.

> **"Some may argue that a global pandemic is not the place to discuss workplace diversity and inclusion as an imperative for organizations; that there are more pressing issues facing our world. But I contend that this moment is precisely the right time to recognise the importance of diversity".**
>
> Laura Liswood. Secretary General, Council of Women World Leaders.
> May 2020

In fact, a lack of diversity and inclusion could be a dangerous risk in the post-pandemic world. Different ways of thinking and a variety of different perspectives will be required to help businesses and charities navigate through this unprecedented period. New technology-assisted workplaces will expose unconscious bias more than ever before, and the impetus behind rethinking work practices provides us with a great opportunity to stop excluding people for whom traditional practices did not work. Ramping up equity, diversity and inclusion is not only the right thing to do, but also the best thing we can do to survive and thrive in a post-pandemic world. In fact, this was a lesson learned from the 2008 financial crisis, and acknowledged again in 2011 by the IMF.

> **"In the run up to the 2008 financial crises the International Monetary Fund's (IMF) ability to correctly identify the mounting risks was hindered by a high degree of groupthink".**
> Washington Post 'Groupthink blocked IMF's foresight of crisis', February 2011.

Despite the IMF warning, before the pandemic the UK charity sector was clearly failing to diversify. For example, in 2018 only 9% of charity sector employees were from Black, Asian and minority ethnic groups, lower than both the public and private sector (11%) and the UK as a whole (14%). Only 5.3% of people in senior leadership roles were from minority ethnic backgrounds. Only 3% of charity CEOs were from a Black or minority ethnic background. 92% of all charity trustees were white.[45]

Pre-pandemic failings

[45] Racial Diversity in the Charity Sector. ACEVO. 2018

As the pandemic took hold in June 2020, there was more evidence of racism, exclusion, and inequality. A Voice4Change survey[46] found that:

- 68% of respondents surveyed had experienced, witnessed or heard about incidents of racism in the charity sector.
- 147 of 489 people said that they had been treated as intellectually inferior.
- 222 people had been subjected to ignorant or insensitive questioning about their culture or religion.
- 50% of respondents had been told to 'tone down' their behaviour or 'be on their best behaviour' to fit in with the charity sector.

Gender pay gap

The gender pay gap is another area for scrutiny across charity sector employers. The last set of data before the pandemic in 2018/19, showed that charities with 250 or more employees had a lower, mean gender pay gap compared to other sectors (on average women working in charities earn 8% less than men compared to 15% in the private sector and 12% in the public sector). Two thirds of organisations paid men more in the charity sector (compared with 78% in the private sector and 84% in public sector organisations).[47]

By April 2021 Civil Society reported that the mean pay gap was 10.1%, meaning that women earn 80p for every £1 that men earn. One fifth of the Civil Society cohort had an average pay gap above the national average (14%). There is a risk though, that the pandemic artificially skewed the figures submitted for the April 2021 deadline. For example, Barnardo's pay gap increased from between 11% and 14% since 2017/18 to 18%. This was largely due to the exclusion of (predominantly female) furloughed staff data from its retail arm that skewed figures away from what might otherwise have been in line with previous years.

Funders too are recognising exclusion in funding practices. The Association of Charitable Foundations reported disparities in funding towards Black, Asian and minority ethnic led organisations. Equity, diversity, and inclusion was one of the lowest scoring areas across those surveyed with an average score of 2.2 out of 5 and is now one of the key pillars of its Stronger Foundations self-assessment tool[48], to bring transparency and accountability to the charitable foundation funding arena.

[46] Home Truths. Undoing racism and delivering real diversity in the charity sector. June 2020. Dr Sanjiv Lingayah, Kristiana Wrixon and Maisie Hulbert
[47] Gender Pay Gap in Large Charities 2018/19. NCVO. July 2019
[48] Becoming Stronger Foundations. Association of Charitable Foundations.

Socio economic inclusion in the charity sector is harder to measure. An EY Foundation report using data from young people from low-income backgrounds suggested that the charity sector needs to work harder at reaching out to historically excluded communities. Reasons for not considering a career in the charity sector included:

Talent pipeline

- Don't know where to search for opportunities and apply for roles (25%)
- Poor opportunities to develop a career (24%)
- Poor variety of different job roles (23%)
- Charities do not pay staff fairly or offer good benefits and flexibility (20%)

There is some room for optimism though. Whilst only 7% of the 1,000 young people surveyed currently work in the sector, 40% said they would consider working for a charity.

There is a long, steep mountain to climb for a sector still lagging behind in real terms and in terms of expectation and aspiration. A lack of current data makes it difficult to see whether the situation has improved during the pandemic.

The worst-case scenario is that the covid-19 crisis has led to charities putting equity, diversity and inclusion on a back-burner at the very moment when it needs more diverse lived experience and perspectives, and less groupthink and established wisdom.

The best case scenario is that the disruption caused by the pandemic and recent sector scandals have forced a cultural and operational resent amongst charities. Time will tell whether charities recognise that diversity is inextricably linked to their post-pandemic recovery and survival.

Income Generation

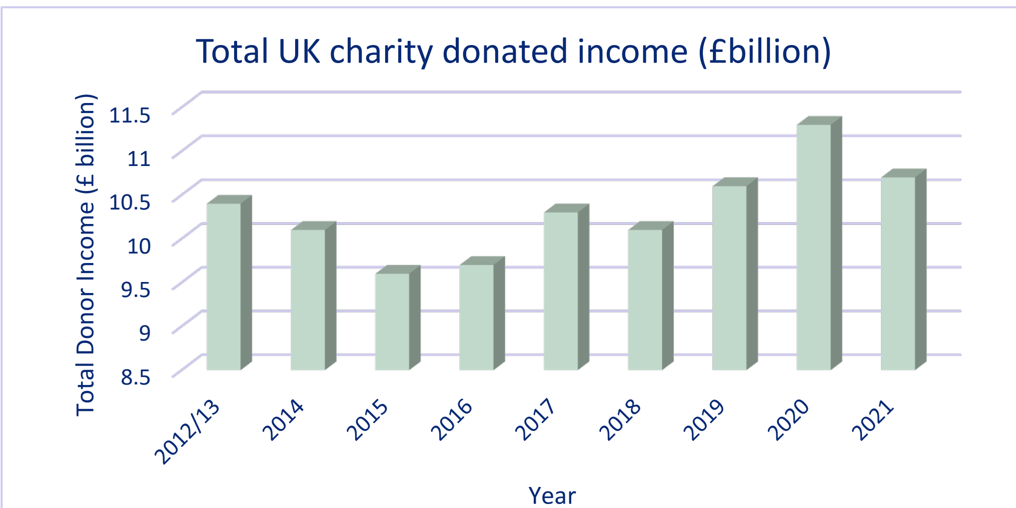
Overview

By the end of 2019, doubts about the sustainability of the traditional fundraising model gained traction and support across the sector. As early as January 2019, sector media published opinion pieces reflecting a need for transformation.

"We need major changes to the fundraising model"
Joe Jenkins, Director of Supporter Impact and Income.
The Children's' Society

"Innovate Your Fundraising Model or Die"
Brian Carlin, CEO, Aspire

Overall, according to the Charities Aid Foundation UK Giving Trends reports (2021 and 2022) the total amount given to charities has increased in 2019 and 2020 to £10.6 and £11.3 billion respectively before falling back in 2021 to pre-pandemic levels. Against a backdrop of high inflation this represents a drop in real terms.



Within this overall trajectory there are worrying underlying trends. The percentage of people giving has fallen from 69% in 2016 to 62% in 2020 and down to 57% in 2021. Overall, fewer donors are giving more, in a sector where many major charities are reliant on a model that requires sustained mass-giving.

While we rightly celebrate the total amount given to charity over the course of 2020 to £11.3 billion – up from 10.6 billion in 2019 – the worrying trend we first identified in 2016 tells us that the number of people donating continues to decline. While those who give are giving more, the sustainability of charities relies on mass giving."".
Neil Hislop. Charities Aid Foundation.

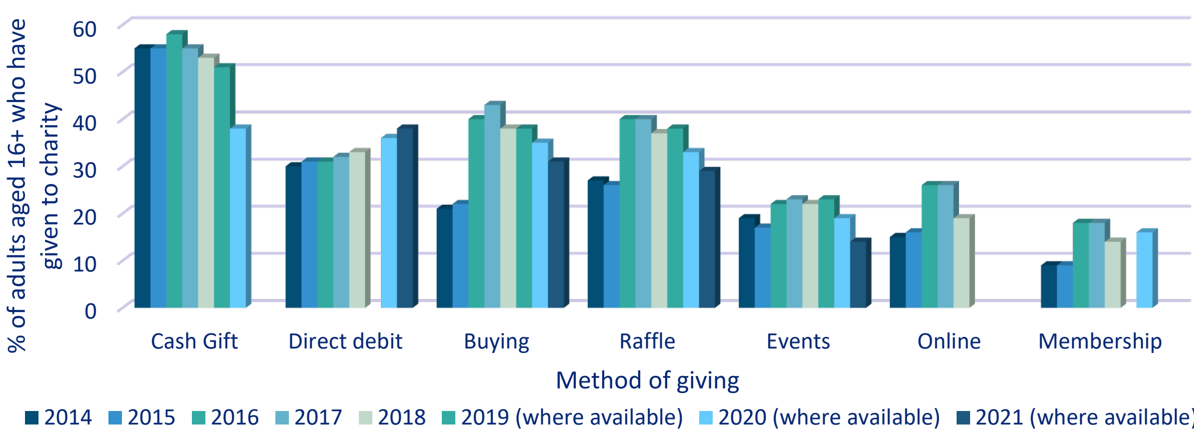
It was a mixed bag in terms of the pre-Covid-19 stream-by-stream analysis. Some traditional models and income streams were experiencing a prolonged period of stagnation, decline or loss of momentum. Other traditional areas like Trusts, Foundations and Legacies offset losses elsewhere. Charities had broadly been slow to get to grips with technology and fully optimise technological advances across their fundraising portfolios, seeing tech as just a channel, rather than a new fundraising environment or ecosystem requiring a completely new approach.

The Covid-19 pandemic created unprecedented financial challenges for charities exacerbating existing weaknesses in key income streams and expediting innovation in others. The reported extent of the funding gap varies depending on the source. Data collected from published accounts suggests that the median drop in income was 13% and one in four charities reported a fall of 43%[49]. Other surveys found that 31% of respondents reported an increase in income and 33% experienced a decline.[50]

Fundraising leaders had been talking for some time about balancing risk with innovation. Whilst the pandemic exposed weaknesses in the fundraising environment, it also highlighted areas of opportunity, and clearly showed which organisations would be prepared to use the crisis as a testbed for new thinking and experimentation to mitigate longstanding risk in the traditional fundraising model.

Individual Engagement and Giving

Prior to 2021, most traditional individual income streams struggled to deliver sustained growth in terms of the percentage of people giving. Cash giving had declined for at least four successive years whilst direct debits grew slowly but steadily. Buying goods from charities, raffles/lotteries and events have significantly dropped experiencing a downward trajectory in 2020 and 2021 (see table below)[51]



[49] Financial vulnerability in UK Charities Under Covid-19. An Overview. John Mohan et al. NCVO.
[50] YouGov plc on behalf of the Law Family Commission on Civil Society. October 2021
[51] Charities Aid Foundation UK Giving Reports 2014 to 2022).

2020 highs

2020 began with an encouraging response to appeals from Captain Tom Moore, the 2.6 Challenge and The Big Night In. The overall average mean, monthly donation rose from £49 in March 2020 (compared with £48 in March 2019) to £60 in April and May 2020 (compared to £37/£44 in April/May 2019). Increases were largely driven by people aged 55 and above. [52]

2021 lows

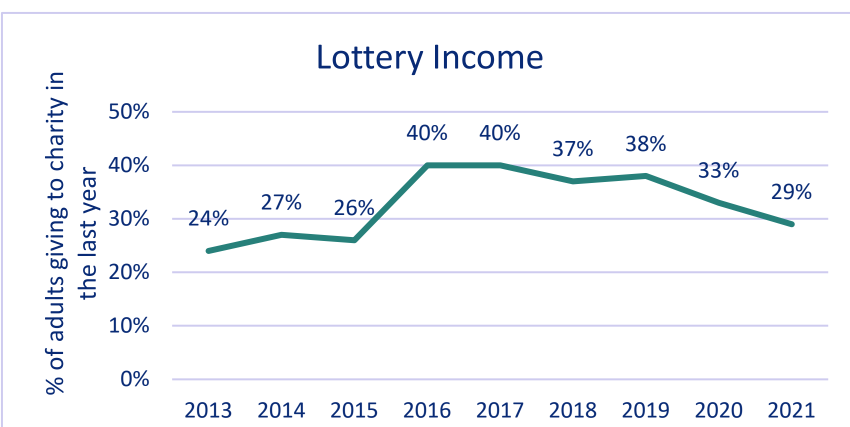
However, this upward trajectory was not sustainable and September 2020 to April 2021 saw the lowest levels of monthly giving since CAF polls began in 2016.[53] The early peak of initial giving in 2020 underpinned the increase in the total amount donated to charity by individuals, but it masked a small and persistent decline in the number of people donating (from 69% in 2016 to 62% in 2020), and an ongoing erosion of the mass market income as this dropped to 57% in 2021[54] . Moreover, at the traditional peak giving season (Christmas), fewer people gave, *and* they gave less with average donations in December 2020 falling to £58 compared with £67 in December 2018 and £61 in December 2019. The mean amount given in 2021 dropped to £52 from £54 in 2020.

Sponsorship decline

Pre-pandemic declining individual sponsorship trends also continued beyond 2020. By the autumn of 2021 average sponsorship levels remained below average (5.6% throughout 2021 compared to 8.1% through 2019), continuing the downward trajectory that started in 2017.

Lotteries

Lotteries have seen a declining trajectory since 2017 from 40% in 2017 to 29% in 2021. This is a consistent decline and looks unlikely to recover. Lotteries tend to be most popular amongst people over 45, and 45% of all lottery giving is done by people aged over 65[55].



It's also worth noting that crowdfunding sites now accommodate lottery activities, providing another digital platform for this income stream.

[52] Charities Aid Foundation UK Giving Report 2022
[53] Charities Aid Foundation UK Giving Report 2022
[54] Charities Aid Foundation UK Giving Report 2022
[55] Charities Aid Foundation UK Giving Reports 2018 to 2022

Some unexpected, new trends emerged during 2020. For the first time, people over the age of 65 were more likely to give to overseas aid than younger donors (20% of 65+ against 15% 65 or younger). Whilst younger donors were more likely to support mental health causes (20% of 16-24 years older, against 8% of 65+). In line with pre-pandemic trends, animal welfare continued to be the most popular cause followed by young people and medical research (in 2021). Medical research continues to fall in terms of the proportion who gave (from 26% in 2019 to 21% in 2021).[56]

According to the Charities Aid Foundation, the percentage of people donating during the past year and applying Gift Aid (to at least one of their donations) increased during the pandemic. Gift aid increased from 51% of donors in 2018 to 53% in 2019, 55% in 2020 and then stayed at 55% during 2021. The percentage of people applying gift aid on their sponsorship forms also increased from 62% in 2020 to 65% in 2021[57]. However, HMRC records report that the amount paid out to charities peaked in 2019/20 (to £1.4 billion) but then dropped in 2020/21 by £20 million[58].

Gift Aid

No real growth between 2008 and 2018

Despite the fluctuations across various income streams, researchers agree that individual giving as a share of national income had plateaued before the pandemic, and in real terms, when adjusted for inflation it has remained static, showing no real growth between 2008 and 2018.[59] With inflationary rises and cost-of-living increases on the horizon it is unlikely that this will change dramatically over the next 2 years.

As we emerge from the pandemic, 58% of charity leaders are concerned about income generation and its effect on the financial sustainability of their charity. 48% believe that the pandemic has changed fundraising forever[60]. A recent survey suggests that cost of living increases are likely to have an impact on 2022 UK giving trends. 13% of those surveyed by the Charities Aid Foundation in early 2022 said that they would cut back on donations to charity. The same survey found that the number of people claiming to have donated to charity in the previous four weeks had fallen from 29% to 25%, representing a drop of 2 million donors.[61] Compound the risk of diminishing levels of giving with a drop in the relative value of donations due to inflationary factors and we start to see a challenging financial year ahead for individual giving.

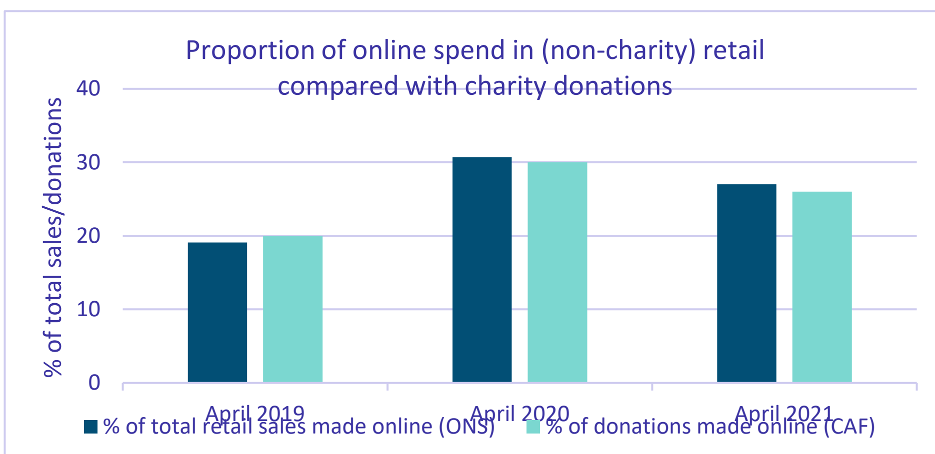
[56] Charities Aid Foundation UK Giving Report 2021
[57] Charities Aid Foundation UK Giving Report 2022
[58] HMRC Data https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1030178/Table_3_-_Gift_Aid.pdf
[59] Mind the Giving Gap - Unleashing the Potential of UK Philanthropy. Pro Bono Economics - Anouska Kenley, Jamie O'Halloran, Karl Wilding. December 2021.
[60] Charity Landscape. Compiled March – May 2021. Charities Aid Foundation and ACEVO.
[61] Survey by YouGov for Charities Aid Foundation. Between 21st and 25th February 2022.

Technology and Income Generation

Before 2020, giving via online platforms had already become popular, with 58% of those using web or app platforms electing to give via a third-party facility (e.g. Just Giving or Facebook 'donate'), compared with 46% giving directly through a charity's own website. Despite the growth in digital engagement, as the Covid-19 pandemic hit (and at the very point that digital capability would prove critical to income generation), confidence amongst charities that they were making best use of digital had declined from 70% in 2017 to 59% in 2020.[62]

Online donations

During the pandemic digital engagement became a priority for most fundraisers. In 2019 only 24% of people had been asked to give online. By 2020 that number had increased to 30%. However, this trend seems to reflect the temporary nature of the pandemic restrictions and in 2021 26% of people reported that they were asked to donate online. This has affected the number of donations made online. In April 2019 only 20% of donations were made by app or online, rising to 30% in April 2020, falling to 26% by April 2022.[63] By comparison these charity statistics are tracking (non-charity) retail sector trends almost exactly; in April 2019, 19.1% of retail sales were conducted online, rising to 30.7% in April 2020, arriving at 27% in April 2022[64].



The proportion of people giving through third-party platforms throughout the pandemic was slightly higher than before the pandemic, with the largest proportion (61% giving through a third-party platform, 49% via a charity website and 17% using social media).

[62] The State of the Sector 2020. NPC. https://www.thinknpc.org/resource-hub/stots2020/
[63] Charities Aid Foundation UK Giving Reports 2021 and 2022
[64] ONS Retail Sales Statistics, April 2020 and April 2022.

Technology underpins much of today's high growth in innovative and engagement today. However, a lack of technical competency and tech innovation in charities will become more problematic over the coming years.

During the first year of the pandemic, 80% of leaders of charities with an annual income of £5 million or more said that they had invested in technology. And yet it is difficult to see any sustainable impact across fundraising as a result of this investment. Data suggests that most increases in digital giving were temporary, and the sector has not sustained an upward trajectory in this area, although there is evidence that online giving might sustain an increase on pre-pandemic levels, albeit a drop from trends during the pandemic.

Meanwhile, outside the charity sector, the tech revolution marches on and, arguably the gap between tech development inside the charity sector and outside it widens. Statistics show that opportunities exist in the world of technology if charities choose to explore them.

Crowdfunding experienced significant financial growth prior to the Covid-19 pandemic. In 4 years, donations to 'good causes' through UK crowdfunding rose from £800,000 in 2013 to £41 million in 2017[65]. In 2015/16 crowdfunding grew by 6.8%, by 2016/17 growth had increased to 27.7%, and by 2017/18 the growth rate was 48.3%[66]. Despite this, traditional charities made up only a small proportion as businesses, social enterprises, and individuals took the lion's share. According to Nesta, by 2016 only 0.5% of charitable giving came from crowdfunding in the UK[67].

Crowdfunding

Beyond the pandemic, crowdfunding has a projected 15% compound annual growth rate between 2021 and 2025.[68] The UK is the 3rd largest crowdfunding market (behind China and the USA) in the world. Crowdfunder UK, the UK's largest crowdfunding platform, has raised £228 million of funds, attracts over 50,000 potential funders to its platform every day and reaches over 1 million supporters[69]. During March 2020, Just Giving reported a 157% increase in the number of crowdfunding appeals[70].

[65] www.statista.com Donation Based Crowdfunding in the UK - March 2019
[66] Cambridge Centre for Alternative Finance Crowdfunding Global Benchmark Report. 2020
[67] Crowdfunding and Good Causes. Nesta. Peter Baeck and Jonathan Bone. June 2016
[68] Technavio report. March 2021
[69] Crowdfunder UK data
[70] Just Giving's own data

Despite this significant growth, charities are still failing to rebalance their share of the global crowdfunding market, now worth $304.5 billion, but with only 0.7%[71] of this classified as donation income globally.

Disintermediation

Whilst there is no empirical evidence to suggest a link between online giving of this type and the trend of philanthropic disintermediation, it is worth exploring a possible connection between the two. For example, after the Grenfell Tower fire, over 700 individuals appeared on websites like GoFundMe raising money for those affected directly and indirectly by the tragedy, raising over £4 million[72].

> **"Charities no longer have a monopoly on philanthropy. Donating to charity is no longer the only way to be altruistic. The rise in social media makes connecting with individuals much easier and is an environment ripe for micro-fundraising. It is much easier to create a lucrative fundraiser for a neighbour than ever before".**
>
> Bijal Rama
>
> 'How people are sidestepping charities, especially in high profile disasters.' (blog)
>
> June 2018.

The risk here isn't just that charities will miss a fundraising opportunity by failing to optimise crowdfunding platforms. The bigger issue is that people who would traditionally go to charities for help and support are also bypassing the sector as they raise their own funds to resolve their own problems, bypassing the charity sector as a means of support. So, charities are facing significant risk at both ends of their operating model as they lose potential funders and service users too.

The charity sector isn't the only one exposed to this effect. A Financial Time analysis of GoFundMe shows that the number of people launching campaigns every week to fund private medical costs in the UK has increased 20-fold over the past 5 years, as a percentage of GDP Britons now pay almost as much as Americans on out-of-pocket private healthcare spending.[73] Patients are also bypassing public services using crowdfunding to finance alternative solutions in private healthcare.

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[71] Cambridge Centre for Alternative Finance Crowdfunding Global Benchmark Report. 2020

[72] 'How people are sidestepping charities, especially in high profile disasters'. Bijal Rama. nfpSynergy. June 2018.

[73] 'UK Healthcare is already being privatized but not in the way you think.' John Burn-Murdoch, Financial Times. April 2022.

Cryptocurrency

Cryptocurrency is another area of significant growth. There are over 7,000 crypto currencies around the world, and by 2021, 106 million users globally held at least one form of crypto currency. This is doubling every year and could hit 200 million users by the end of 2022[74]. Yet charities have not optimised this market. Perhaps put off by volatility and risk of fraud charities have been slow to proactively develop their alternative currency income portfolios.

Meanwhile donors are increasingly searching for opportunities to donate from their cryptocurrency wallets, and the statistics are compelling. In 2017 anonymous post on Reddit read, *"I'm donating the majority of my Bitcoins to charitable causes,"* followed by a donation of 5,104 Bitcoins worth $55 million to 60 charities.

By 2021 the value of annual, global crypto donations exceeded over $300 million and continues to rise.[75] New donors who quickly amassed wealth in the crypto markets are busting onto the donor scene using donor advised funds. For example, Fidelity Charitable (US) reports that cryptocurrency contributions to its donor advised funds grew from $13 million in 2019 to $28 million in 2020. Amongst high-net-worth philanthropists we have seen some particularly significant donations. Ethereum's co-founder, Vitalik Buterun made a $1 billion crypto donation to the India Covid Fund during the pandemic[76]. Cryptocurrency is also supporting the rise of a new demographic of donors, young male Gen Z and Millennial investors are more likely to own cryptocurrency. Many are just starting to get involved in philanthropy for the first time. Early studies suggest that people who invested in cryptocurrencies in 2020 were more likely to make a donation of at least $1,000 than investors in traditional currencies[77].

And cryptocurrencies are not just being taken as donations, they are finding their way, through the end-to-end financial flow. In 2021 17% of Give Directly's operating budget came from the crypto community, and it is starting to distribute in crypto to some to field partners too.[78] UNICEF is one of the few charities that receives, holds and distributes cryptocurrency as part of a broader venture fund that provides seed money to companies developing technologies to benefit children in emerging and developing markets in countries where the agency operates. Startup companies have expressed a high level of interest in receiving funding in cryptocurrencies, according to Sunita Grote, venture's lead at

[74] Cambridge Centre for Alternative Finance Crowdfunding Global Benchmark Report. 2020
[75] The Giving Block, Not-for-Profit Guide to accepting cryptocurrency donations. December 2021
[76] 11 Trends in Philanthropy for 2022/ Bambysheva, 2021, Dorothy A Johnson Center for Philanthropy.
[77] Survey for the Fidelity Charitable Trust/Theis. 2021 (USA)
[78] What is Good Crypto Panel Discussion. https://www.youtube.com/watch?v=vce9REXRR_k

the agency's innovation office. When UNICEF launched a call for proposals in early 2021, about 75% of startups indicated interest in receiving cryptocurrency.[79]

Love it or hate it, there is no doubt that cryptocurrency is a growing market that charities have been slow to embrace. Valid concerns about reputational damage resulting from receiving proceeds from tainted, unethical, and money-laundered assets prevail, and there are growing concerns about environmental impact. At the same time, in the International Development sector, in countries where there is no liquidity, or crumbling financial infrastructures, cryptocurrencies are the preferred way for recipients to receive support. Whilst it is unlikely that there will be a huge surge in crypto donations or not-for-profit engagement in 2022, over time the scale of opportunity will probably outweigh the risk, the question for charities is not if, but when and how they engage with crypto currencies.

By the end of the pandemic some charity leaders had recognised the importance of technology in terms of income generation. But still only 39% believed that charities were using new technology to increase giving, and 41% were adopting online giving. Perhaps one of the factors preventing fundraising technology from breaking through the 50% barrier in both these areas amongst charity leaders is that only 24% believed they had the knowledge to make digital/technology-based fundraising effective (compared to 15% in 2019).[80] There is a danger then that technology continues to be viewed as an incremental build on traditional fundraising activities, or a tactical 'Plan B' by charities to mitigate the failure of more traditional fundraising channels. This perspective fundamentally boxes technology into a legacy paradigm.

Mind the tech gap

In fact, whilst this report includes technology as a subset of income generation, it is much more fundamental than that. Technology will define the world and how charities operate within it – not the other way around. It is not a subset of anything that the charity sector will or could create. It is an environment in its own right that charities will have to enter, and then design their organisational strategies and operating systems around.

"Our whole organisation is built around technology, around a platform, and everything runs back through that."

Richard Packman, MD GoodPAYE, Good Lab (Good Innovation) Payroll Giving start up.

[79] Will 2022 be a boom year for cryptocurrency philanthropy? Stephanie Beasley. Devex. January 2022.
[80] Charity Landscape. Compiled March – May 2021. Charities Aid Foundation and ACEVO.

Trusts and Foundations

Prior to the pandemic, trusts and foundations had performed well. Whilst 2017/18 saw a levelling off from the all-time high of £3.2 billion of grant making by the top 300 trusts and foundations in 2016/17, this still represented a healthy, real annual growth of 9.9% (when the disproportionately large Wellcome Foundation grants were removed.) Family and personal foundation income also grew by 4%.[81] By 2019/2020 the market saw 7.8% growth in grant giving (excluding the Wellcome Trust) culminating in £2.8 billion of grants.[82]

During the pandemic, trusts and foundations provided a financial lifeline for many charities, particularly in the early days of 2020. Building on its trademark pre-pandemic stability, this market not only held steady but provided specific Covid-19 grants. Over £155 million was distributed in Covid-19 grants by Trusts and Foundations in the first 9 months of the pandemic against a total of £4.9 billion distributed in 2019/20.

> **"Our reflex as a funder was to respond flexibly and with thoughtfulness to the challenges that many of the organisations and people we fund faced … We also knew we had to act decisively and at pace to deploy our resources to best effect".**
> Paul Hamlyn Foundation.

The Esmée Fairbairn Foundation alone increased its grant giving from £35.8 million in 2018/19 to £53.5 million in 2019/20, representing an additional £16.1 million to recognise the crisis caused by the global pandemic.

Pandemic lifeline

Many grant providers (e.g. The Lloyds Bank Foundation) switched their criteria from restricted grants to provide unrestricted or core funding to help mitigate cashflow risks (particularly amongst small charities). Some even launched specific Covid-19 grant programmes (e.g. Arts Council England). Some philanthropists made additional donations to their foundations to enable emergency grants (e.g. Indigo Trust)[83] The value of the Trust and Foundation donor market and its contribution to the survival of charities across the sector has been significant throughout and beyond the pandemic.

[81] Foundation Giving Trends 2019. Association of Charitable Foundations
[82] Foundation Giving Trends 2021. Association of Charitable Foundations
[83] Foundation Giving Trends 2021. Association of Charitable Foundations

Asset values

To understand the future of giving the Trust and Foundation market it is important not only to look at grant giving trends, but to assess the impact of the last few years on the growth of aggregate assets and income into trusts and foundations. Years of increased giving amongst the top 100 family foundations (representing 59% of the total top 300 charitable spending), consistently outpacing economic growth over the last 15 years not only demonstrates the importance of foundations, it also exposes a risk to the sustainability of this upward giving trend. 2019/20 saw a 2.1% fall in the value of total net assets (excluding the Wellcome Trust), another year of negative growth, inevitably leading to implications for returns, cashflow and availability of liquid funds for many grant-givers. That said, the steep decline in equity markets, followed by a fast recovery makes these statistics difficult to interpret.

Investment income

Trust and foundation investment income, whilst less volatile than voluntary income fell by 6.5% for the third successive year in 2019/20 (including the Wellcome Trust) but showed a small increase (0.3%) when the Wellcome Trust is excluded. Overall, fewer than half of the top 300 foundations saw real term growth in their total income during 2019/20. The value of net assets also fell by 4.8% (excluding the Wellcome Trust) and 2.2% (including the Wellcome Trust). It is important to recognise that half the overall fall in net assets is due to the Garfield Weston Foundation.

Power imbalance

More and more grant funders are examining their 'corporate' values too, asking whether their grant giving practices and criteria align with their ethical policies. Privilege and power imbalances, under-representation in their grant portfolios and environmental implications of traditional grant making will be increasingly important issues. This, in turn will probably lead to the re-calibration of many funder portfolios that will inevitably impact the charities receiving funding from trusts and foundations.

The effect of the pandemic on giving and asset values makes it difficult to assess the sustainability of recent levels of grant-giving in the short and medium term. Further drops in asset values in 2020/21, reduced voluntary income and a drop in investment income for trusts and foundations would create a perfect storm in one of the most reliable funding markets before and during the pandemic. This has led to speculation that whilst trust and government funding 'propped up' charity balance sheets in 2020/21, this meant foundations brought forward funds (rather than finding additional money), leaving a tighter financial backdrop for 2022 and beyond[84]. But this scenario is far from certain. The pandemic, Brexit and a volatile economy have created uncertainty, requiring caution from foundations and ongoing monitoring as part of a financial risk management strategy for the organisations they fund.

[84] Hysteresis in the Making. Pandemic scars and the charity sector. Pro Bono Economics. Jack Larkham. November 2021.

Social Investment

Social investment is a quietly expanding source of finance. It falls off the radar of many charities because instead of traditional donations, it involves repayable investment to support the delivery of charitable aims. Social investors often offset high financial returns with social impact and accept longer, more flexible repayment terms. Social investment can include:

- Loans or repayable investment
- Social bonds
- Revenue participation
- Underwriting
- Grants
- A blend of any of the above

It is important for any charity seeking social investment to consult the Charities Act 2016 and comply with revised SORP requirements on how to account for social investment income.

The social investment market consists mainly of experienced and highly credible institutional investors and foundations (e.g. Esmée Fairbairn Foundation, Big Issue Invest, CAF Venturesome, Charity Bank, Triodos Bank, Social Tech Trust), as well as individuals (e.g. Clearly Social Angels) willing to invest in charities and social businesses/enterprises to seed fund, pilot or scale activities that will deliver social change. More and more traditional grant funders are ringfencing budgets specifically for social investment (e.g. Joseph Rowntree Foundation and Barrow Cadbury Trust). Often discounted by charities because of reservations around repayment, it is nevertheless sustaining year-on-year growth, becoming a viable but often undersubscribed income stream.

The value of the combined social investment portfolio of the top 300 foundations was £164.4 million in 2019/20 compared with £131.6 million in 2018/19, representing a real 23% growth. Whilst charities struggle to gain traction in other, crowded, and oversubscribed funding markets it is perhaps surprising to find that the social investment market had an estimated £8 - £10 million of funding available but not drawn down by 2019/20.[85]

Some foundations are actively investigating how to expand the role of social investment in the way they deliver their mission. It is difficult to find data to demonstrate whether this is the case with charities seeking to diversify their income streams. As the amount of social investment income available shows no sign of slowing down, it remains an area worthy of exploration for charities, Community Interest Companies and social enterprises to generate working capital or revenue finance.

[85] Foundation Giving Trends 2021. Association of Charitable Foundations

High Net Worth Philanthropy

High Net Worth philanthropy trends are difficult to assess because the definition of this audience varies significantly from charity to charity and report to report. If we take the broader definition of all high earners (i.e. high-net-worth donors and potential donors) rather than restrict our definition to high-net-worth individuals who already give, the donation value has dropped.

Diminishing typical donation values

The typical, annual income of someone in the top 1% of earners (roughly 344,000 people in the UK) grew by 10% in real terms between 2011 and 2018 from £247,000 to £271,000. But over the same period the typical donation made to charity by this 1% fell by over 20% and now sits at £48 per month.[86]

Record giving total

Amongst those who already give, the picture is more optimistic. For the first time in the 20-year history of the Sunday Times Giving List, UK charitable donations from the top 200 super-rich philanthropists topped £4 billion in 2021. However, £520 million was Covid-19 related so it will be important to check whether this level of giving prevails without an additional Covid-19 component.

More potential

Data suggests that donations from the UK's top 1% of earners represents 6% of overall individual giving (public donations and fundraised income), £950 million per year[87]. Moving beyond the pandemic, there is evidence to suggest that a significant gap exists in terms of what the top 1% of earners could give and what they actually give. This top 1% receive 14% of all UK pre-tax income, rising to almost 17% when capital gains are included. If donations had kept pace with income in this cohort since 2011, the top 1% would have donated close to £300 million more in 2018/19. If everyone in this group donated at least 1% of their income (instead of the current typical 0.2%) and enabled a Gift Aid match, UK charities would receive up to £1.4 billion additional revenue each year.[88]

[86] Mind the Giving Gap - Unleashing the Potential of UK Philanthropy. Pro Bono Economics - Anouska Kenley, Jamie O'Halloran, Karl Wilding. December 2021.
[87] Mind the Giving Gap - Unleashing the Potential of UK Philanthropy. Pro Bono Economics - Anouska Kenley, Jamie O'Halloran, Karl Wilding. December 2021.
[88] Mind the Giving Gap - Unleashing the Potential of UK Philanthropy. Pro Bono Economics - Anouska Kenley, Jamie O'Halloran, Karl Wilding. December 2021.

Post-pandemic recovery

Between June 2020 and December 2021, The Beacon Collaborative quarterly survey results[89] suggest a more encouraging trend, with 12% compound quarterly growth of the median amount given to charity from £200 to £400. This reflects an increase during the peak of the pandemic in 2020, a steep reduction thereafter and then a gradual return to higher 2020 levels. The report suggests that between June 2020 and December 2021 more wealthy individuals have been giving, and they have been giving more. Notably though amongst high level earners, giving dynamics are more positive with asset rich individuals. Unsurprisingly, those who are cash rich but asset poor (i.e. spend at a similar level as their high earnings with little security set aside as assets) give less.

USA Megagifts

In the USA research suggests that despite an 'explosive year of giving' in 2021 the influence of 'average American donors' is shrinking (representing 83% of total donations in the 1980s, but just two thirds of total giving in 2021) as the high-net-worth market becomes more dominant. There are similarities with UK trends as significantly large gifts from America's billionaires are growing; in 2021 'megagifts' (single gifts of $450 million or more) made up 5% of total donations from individuals compared with 3% in 2020, that's $15 billion overall, reflecting the country's increasing concentration of wealth.[90] The report comes with a sting in the tail. Despite the two-year surge in giving, donors did not actually dig any deeper than usual as the giving rate remains the same as pre-pandemic levels (at 2.1% of GDP), overall giving has dropped for 3 of the past 5 years and only grown by 8% since 2016, and charities are now facing spiraling operating costs. In other words, the growth in high-net-worth giving will need to sustain in order to fill what could be a giving gap from rank-and-file American donors in 2022 and beyond.

Young disrupter philanthropist s

Finally, one emerging trend that high-net-worth philanthropy experts are starting to see, is that the old, traditional behaviours of giving money away, that has prevailed amongst this group is changing. Younger philanthropists are using different approaches and behaving in very different ways, they are using philanthropy as only one component of a blended way of life, aligning their lifestyle with their social conscience and values. This means that charities must better understand the entire purpose-driven lifestyles of their donors and become more sophisticated about how the charity offer can align with it. Asking

[89] The Beacon Collaborative Sept – Dec 2021 quarterly pulse survey of approx. 514 high net worth individuals about their giving trends

[90] '2021's surprisingly strong giving. And the dark clouds over 2022'. The Chronicle of Philanthropy. Emily Haynes and Drew Lindsay. June 2022

for money as a stand-alone, philanthropic act will become less and less effective. Philanthropy is changing.

> **"Next generation givers are vocal about wanting to act with a social conscience and are more likely to disrupt traditional philanthropy by integrating social purpose across broad areas of their life."**
> **"…entrepreneurs-turned-philanthropists who want to do more than give money, but also deploy their skills, time and connections to make a difference sooner rather than later."**
>
> Juliet Agnew, Head of Philanthropy, Barclays Bank. December 2021.

Corporate Giving

Data gap

Since changes to the Companies Act in 2006, businesses no longer need to report their charity donaitons, so empirical data is difficult to secure. Most companies that do report, use broader CSR metrics instead – including in-kind, cash and other triple-bottom-line impact data, which masks direct cash contributions to charitable or good causes.

The Guide to UK Company Giving[91] reports that a small number of large corporates dominate the giving environment (the top 10 corporates gave 61.2% of the £483 million contributed). Data is only available for 235 of the 401 companies involved in corporate giving (cash and in-kind). 169 (42%) of these 401 UK companies provided Covid related support worth £281 million between March and November 2020 (102 companies provided cash, 96 provided in-kind support). This is a proportion of an overall giving total of £483 million from this cohort.[92]

In 2018 a summary of Corporate Giving by the FTSE 100[93] data suggested that the overall combined percentage of pre-tax profit donated had increased to 2.4% (in 2016), but total donations had dropped to £1.9 billion. Pharmaceutical companies dominated the corporate giving table, accounting for 55% of donations in 2016. Total corporate donations had continued to fall, year-on-year by 11% (£235 million) since 2014 and by 26% (£655 million) since 2013. The decrease had been seen in 6 of the 10 industries in the FTSE 100, and the number of companies donating at least 1% of pre-tax profits had dropped to 25.

91 UK Company Giving, 13th edition. Ian Pembridge
92 UK Company Giving, 13th edition. Ian Pembridge
93 Data drawn from member companies of FTSE 100 as of 12 September 2017

Businesses are not only donors in their own right. They can be a channel for employees giving initiatives. For example, launched in 1987, pre-tax payroll giving is particularly cost-effective for donors. A £10 donation to a charity through payroll giving will only cost £8 for basic rate taxpayers, £6.00 for a higher rate taxpayer and £5.50 for additional rate taxpayers in England. Over the past 10 years payroll giving has remained broadly static with around 1 million people giving around £130 million per year. During the pandemic in 2020 payroll giving, saw significant increases. Between April and June 2020, payroll giving increased by 9.8% or £2.9 million compared to the same quarter 2019. The Association of Payroll Giving reported that employers also increased the amount they matched by 14.9%.

Payroll Giving

"In these catastrophic times, companies and their employees see payroll giving as a means of getting donations in a quick, tax effective manner to the charity sector desperate for additional funds and also to those fighting Covid19 on the front line. The reliable regularity of monthly payroll giving funds contributes to mitigating the loss in other fundraising streams, which have had to pause during the crisis ."

Panikos Efthimiou, Chair, Association of Payroll Giving Organisations
September 2020.

This upward trend has endured. During Payroll Giving Week in February 2022 payroll giving sign ups increased by 87% on the same week in 2021, giving a total of £23,741,994 in March and April 2022 through the three largest payroll giving agencies in the UK (CAF, Charities Trust, Charitable Giving).[94] It is difficult to explain this increase in its entirety, although Payroll Giving Week 2022 was the second, annual, national week (February 2021 was the first) and this concerted campaign by a coalition of charities promoting might go some way to explaining this extraordinary uplift.

At the same time as the 2020 and 2021 payroll giving income spiked, it also became the focus of a new, innovative endeavor by five large charities. In 2021, Barnardo's, Water Aid, Crisis, The Royal British Legion and RNIB launched their own collaboration as a result of a Good Innovation/Good Lab enterprise designed to "Put payroll giving back on the map,"[95] and generate an additional £150 million for charities by 2030. With only 20% of employers currently providing payroll giving for their employees there is space in the market for growth. With collaborations like GoodPAYE[96] developing plans to optimise

[94] UK Fundraising May 2022
[95] Richard Packman, Managing Director, WeAreGoodGiving Ltd. 2021
[96] Good Giving – Good Giving is an 100% charity-owned and technology-led business on a mission to revolutionise the way Payroll Giving is delivered. (goodpaye.com)

technology to make payroll giving easier, quicker and much more scalable for charities this market looks set to deliver growth over the next five years.

Broadly speaking, most elements of direct corporate charitable giving are hard to track and even harder to forecast because of a lack of consistent data. But there is no evidence that companies have significantly increased their direct charitable giving in a sustainable way over recent years. That said, as well as the more traditional giving activities (corporate sponsorship, COTY etc.) there are many examples of partnerships between charities and businesses that transcend pure fundraising parameters and allow those involved to engage at various operational and strategic points (procurement, brand affiliation, reputational repair, environmental sustainability etc.). Taking each opportunity on a case-by-case basis, conducting due diligence and a risk/opportunity analysis with clear terms of engagement and ethical parameters will help charities build their own data set, benefits analysis and strategy to optimise cross sector dynamics.

Legacies

Steady growth since 1990

Over the last two decades legacy income has provided a strong and reliable income stream for charities. Since 1990 total UK legacy income has doubled in real terms from £800 million in 1990 to £3 billion in 2020, an annual growth rate of 4.5% per year. Over the same period the total number of legacy bequests almost doubled to 112,000. After considering inflation, income is up by 2.7 per cent a year, which means that the real value of gifts in wills to UK charities has doubled over 30 years.

Over recent years this trend has prevailed. Legacy Monitor Consortium notifications in the three months to March 2021 were the highest Legacy Foresight has seen in the 14-year history of its monitor, up 18 per cent on the same time in 2020.

Looking ahead, data suggests that, for charities investing in legacy fundraising, income will continue to mitigate gaps that might appear in other income streams. Forecasts from Legacy Foresight suggest that charities will receive £5 billion in legacy income by 2030, from 146,000 bequests. Because of the size, wealth and lifestyles of the Baby Boomer generation, legacy incomes are expected to double again in real terms by 2050. Legacy notifications are expected to reach record numbers in 2022.

Set to reach £5 billion by 2030

Consortium data suggests that 40 per cent of all UK deaths result in a will at probate and 16 per cent of those wills at probate are now charitable. Over the past 10 years, the fastest-growing charity sub-sectors in receipt of gifts have been air ambulances (14 per cent a year) and wildlife trusts, followed by arts and education charities, NHS hospitals and mental health charities.

Despite the projected growth, delays in processing wills and in probate can (and in recent years have) create delays in the receipt of income. It's safe to say though that legacy income is looking strong and investment in engaging with legacy pledgers and cultivating good relationships with potential pledgers will continue to be important for all charities in receipt of legacy income. It will be one of the most reliable and robust sources of income, effectively offsetting risk elsewhere in income portfolios.

However, there is a word of caution here too. Whilst legacies successfully plug gaps in other income streams, they are arguably one of the most concentrated form of income in the sector - relatively few organisations benefit from a disproportionate share of the total. There is likely to be more competition for this pool, (from inside and outside the charity sector). With the introduction of more sophisticated financial products (e.g. equity release, 50 year mortgages etc.), relying on legacy income to mitigate risk might not always be a sustainable solution.

> **'At a time when many donors also see shrinking disposable incomes, charitable donations are taking a toll. The results show how legacy income has come to the rescue for many in 2018/19, but although this is very much welcomed, the findings should also sound a warning bell. Legacies are principally the expression of past goodwill and wealth. Relying on legacies may not be a sustainable strategy in a period of faltering global growth, with the effects of the COVID-19 crisis difficult to predict. Income growth is likely to prove an elusive target for some time".**
>
> The Top 100 Fundraisers Spotlight, Charity Financials. April 2020

Community and Events

Slow recovery

Community and events-based fundraising were both hit hard during the pandemic. In a recent survey by the Chartered Institute of Fundraising[97], the majority of respondents reported that 2021 events income had dropped by over 20%. Half of respondents said that community income had been significantly affected compared with 70% of charities reporting a significant impact on events income during 2021. In Scotland half of respondents reported a significant impact on community income and 90% felt that events income had been significantly affected.

The survey concluded that third party events have been the quickest to recover. As supporters become more comfortable resuming their involvement in social and in-person activities, charities are starting to plan more events as attendance and sign-ups are also increasing. Over 80% of charities are planning to

[97] Chartered Institute of Fundraising Member Survey. Published November 2021. Charlotte Sherman, Policy and Information Officer.

resume an events and community fundraising programme in 2022, although charities are still reluctant to invest in special events with only 45% planning to re-start their activities in this area.

Over 60% of respondents said that they will continue to rely on digital technology in the area of community and events fundraising, mainly because they want to maintain the improved inclusivity and reach digital engagement delivered during the pandemic. However, in Scotland only 50% of respondents expected to use digital technology across their community fundraising activities, concerned that it will compromise the sense of community spirit that supporters get from in-person engagement.

Hybrid options

"The effect of the pandemic on events is going to be long lasting with many of the adaptations that were so necessary being an acceleration of some of the trends we saw before Covid-19. For many, understanding what hybrid looks like, the place of virtual events and how journeys can become more digital are going to be big questions that will be a big focus over the next 12 months and beyond ."

Jenny Flack, Chair and Priyanka Kotecha, Vice Chair CIoF Events Fundraising Group. November 2021.

In January 2022, Eventgroove[98] conducted a larger survey that reflected the Chartered Institute of Fundraising results. Out of 200 event and fundraiser organisations and found that 79.6% planned to move forward with events in 2022 (compared with 66.7% in 2021), and almost 65% reported that the pandemic has completely or somewhat affected their ability to host an event in 2022.

Community and Events fundraising activities were one of the most disrupted by the effects of the pandemic. So, it is not surprising that the disruption continues, and that these audiences and activities evolve and reinvent themselves as we move beyond the most severe of the Covid-19 restrictions. In this area the pandemic will cast a long shadow and it is unlikely that community fundraising and events will look exactly the same in a post-pandemic world. Lessons have been learned, activities and habits have changed, bringing risks and also opportunities to re-imagine a more fit-for-purpose, future facing blueprint to replace the longstanding, pre-pandemic model.

A new blueprint

[98] The Outlook for Fundraisers and Events in 2022. Eventgroove. January 2022

Governance and Risk Management

Governance

Board effectiveness and diversity

The Covid-19 pandemic tested the relationship between charity trustees and employees. Leadership, effective scrutiny and risk management were all important as boards battled unprecedented challenges. At a time when improved communication between board members has been necessary to enable effective collaboration and swift decision making, it is disappointing that only 18% of charities reported that communications improved between Trustees, and that the number of disputes in charities increased, often arising from governance failures.[99]

According to a Charity Commission survey in October 2021, almost half of all charities surveyed (48%) reported that trustees found it difficult to meet and discuss issues during the pandemic, rendering boards sub-optimal at a critical and challenging time for their charities.

Equity, inclusion, and diversity has been covered earlier in this report as a key factor in attracting and retaining talent and innovative thinking in charities. But it is also important from a governance perspective because without embedding inclusion and diverse experiences into the culture of an organisation, any attempt to apply these principles operationally could simply result in a box-ticking exercise. This, in turn would leave catastrophic gaps in competency, post-pandemic recovery, transparency and accountability. The Charity Governance Code clearly sets out its expectations for charity trustees.

> **"The Board has a clear, agreed, and effective approach to supporting equality, diversity and inclusion throughout the organisation and in its own practice. This approach supports good governance and the delivery of the organisation's charitable purposes."**
> Charity Commission of England and Wales.

Moving forward, diversifying boards will be critical. Most charity boards still have significant room for improvement before they reflect their key stakeholder groups. The voice of the communities they serve is in danger of being as marginalised in the charity as it is in society.

[99] Covid-19 Survey. The Charity Commission of England and Wales. October 2021.

More broadly, only 8% of UK trustees are from Black or Asian backgrounds and under 3% of trustees are women of colour (that's fewer than 20,000 out of 700,000 trustees.[100] Less than 3% of charity trustees are under 30.[101]

This year has also seen new charity legislation and changes to the Charities Act. On 24th February 2022, The Charities Act 2022 received Royal Assent. The Act implements the most recommendations made by the Law Commission in its 2017 report 'Technical issues in charity law' and aims to reduce the administrative burden on charities, saving both time and money. The implementation plan has yet to be produced, but it will include revisions to guidance arising from The Charities Act 2011. Areas affected by the new Act include:[102]

The Charities Act 2022

- Changes to charitable purposes and amending governing documents
- Cy-près schemes and proceeds of fundraising appeals
- Permanent endowments
- Ex-gratia payments
- Acquisition and disposal of charity land
- Charity names
- Charity trustees (ratification and remuneration)
- The charity tribunal and the courts

Reporting changes

Whilst the Charities Act 2022 is providing charities with more freedom and is broadly welcomed by the sector, it is important for charity trustees to familiarise themselves with and incorporate these changes into their policies.

As one change to legislation removes excessive administration for charities, other changes could increase governance due diligence. A consultation period is currently under way on amendments to the annual return - an online form that all charities with income over £10,000 must return within 10 months of the end of their financial reporting period. The existing form consists of 16 questions, but proposals could raise this number to 31 core questions and as many as 51 questions for some charities. Some of the proposed new questions will focus on risk to charities, so that the Charity Commission can provide more targeted support and guidance. Some additional questions are about how charities work with children or adults at risk, and other questions focus on overseas activity or even where a charity's website is hosted.

[100] Action for Trustee Racial Diversity UK. 2022.
[101] Young Trustees Movement. 2022.
[102] Guidance from Stone King. February 2022

During the pandemic it became clear that there was insufficient scenario planning or awareness of external threats to the charity sector. So, the proposed consultation on reporting will also include questions on potential external threats, as well as how charities are coping with external risks that are already playing out. Consultation closes on 1st September 2022.[103]

Since 2017 charities have been advised to consider their compliance with the Charity Governance Code (the original was further revised for clarity in 2020[104]). Based on the Nolan Principles[105] the code is a set of benchmark guidelines for charity leaders to routinely assess their cultural, ethical and regulatory governance standards. At the beginning of the pandemic, in June 2020 the Charity Commission contacted all large charities (with annual income over £9 million) citing recent governance failures in household name charities. The Charity Commission's aim was 'to ensure you understand and implement adequate and clear lines of accountability in the governance of your charity'.[106] The letter ended with a pledge by the Charity Commission to check back with a sample of charities in receipt of the regulatory alert to assess whether they had taken steps to comply with and constantly monitor alignment with the charity governance code.

Charity Governance Code

This was a statement of intent from the Charity Commission to robustly hold larger charities accountable for their governance standards, and an indication that charity trustees should not find themselves lacking in both their awareness of and compliance with the charity governance code.

Risk

Notwithstanding the financial and talent acquisition/retention risks outlined elsewhere in this report, there are additional, notable risks highlighted by sector analysts over the short and medium term.

Cyber breaches

Cyber risk remains an ongoing threat to charities, particularly charities without the financial means or expertise to adequately protect themselves. A study found that by August 2021 only 5% of charities are using comprehensive cyber security software, 135 relying on simple antivirus software and many others not even

[103] To take part in the consultation process, visit the Charity Commission website https://www.gov.uk/government/consultations/charity-commission-revisions-to-the-annual-return-2023-25

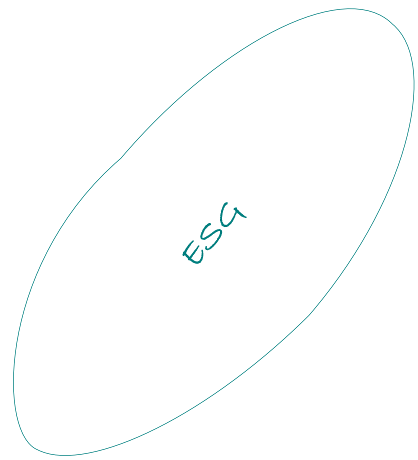
[104] https://www.charitygovernancecode.org/en/about-the-code-1/improving-the-code

[105] https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2

[106] Letter from Helen Stephenson to large charities June 2020.

depending on that. 26% of charities suffered a cyber breach in 2020[107]. The report concludes that whist there is no evidence to suggest that the pandemic is a direct contributory factor of cyber breaches, working from home, charity workers are more likely to be using personal devices on their own networks. Without the on-hand guidance from dedicated IT teams, charities can no longer be as confident that they are not unwittingly opening vulnerabilities that cyber criminals can exploit – and that's if they had that guidance in the first place. Whilst not all charities had adequate mitigations in place, 98% of charities said that cyber security was important or very important to them.[108]

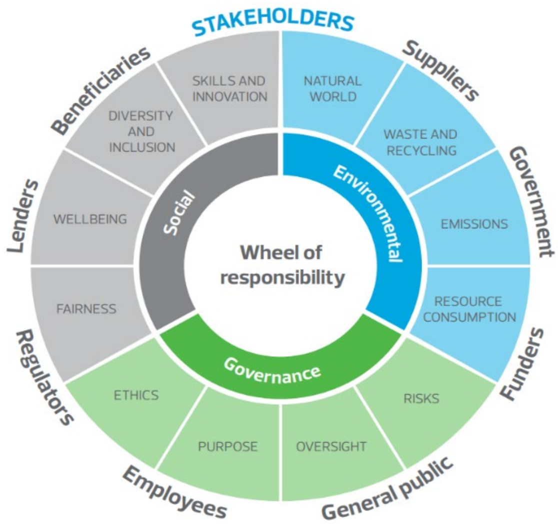
Most risks also present opportunities, depending on how they are perceived and approached by charities. The Environmental, Social and Governance (ESG) agenda is a case in point. For charities with a focus on environmental and social impact, ESG is an opportunity to lead the way, as well as a reputational risk for those that don't regularly make sure that they meet high standards.



Charity investments are the obvious area for discussion when considering ESG implications, and the Charity Commission has specific guidelines on this issue[109], as does the Scottish Charity Regulator[110] . That said, recent feedback from charities following a Charity Commission consultation[111] on responsible investments suggested that 28% of charity respondents and 95% of adviser respondents felt that the term 'responsible investments' was too narrow in its reference to alignment with a charity's own purpose rather than broader ESG criteria.

A study by the finance company RSM[112] found that of the charities they analysed, none included a section specifically labelled ESG in their annual reports or on their website. 23% did include a section referencing activity that could fall under an ESG umbrella, whilst 98% stated that their charity met public benefit requirements, including recognition that 'doing no harm' fits under the public aspect of public benefit and links to ESG principles. 34% referenced the charity governance code.

[107] The state of cyber security in the UK charity sector. Charity Digital and the National Cyber Security Centre. August 2021.
[108] The state of cyber security in the UK charity sector. Charity Digital and the National Cyber Security Centre. August 2021.
[109] Charities and Investment Matters, a guide for trustees (CC14) – Charity Commission of England and Wales
[110] Charity Investments: guidance and good practice - OSCR
[111] Charity Commission Consultation on Responsible Investment. April to May 2021. Published August 2021.
[112] What does ESG mean for the charity sector? RSM. Published June 2022.



Most charities already directly achieve clear ESG outcomes through the delivery of their mission. But when it comes to broader, organisational ESG footprint, one of the challenges for charities in setting, delivering, and reporting impactful ESG metrics is that their fundamentally siloed strategic and operating models fail to facilitate an integrated approach that transcends individual departments and is embedded in every aspect of their operation. The RSM wheel of responsibility (left), illustrates the extent to which charities would need to practice cross-departmental and multi-stakeholder collaboration to effectively plan, deliver and report on ESG.

This is compounded by a short-term, reactive approach to tackling individual components of the ESG portfolio as and when they become problematic or high profile in the sector (e.g. safeguarding, fraud, supply chain).

The RSM report concludes that charities already delivering ESG impact have made a good start but there is more to do if organisations are to better identify and communicate their ESG achievements more successfully.

"Charities now need to define how to define and communicate their impact on their people and the planet more clearly within their annual reports. We have seen positive steps within our research with a significant proportion of our sample explicitly complying with regulatory mechanisms such as SECR and gender pay gap reporting, but there is more to be done."
RSM, 'What does ESG mean for the charity sector?
June 2022

Government relationships and campaigning

The charity sector has a symbiotic relationship with local and central government, with implications for funding, donations, tax, policy, advocacy, compliance and the delivery of charitable aims. There is a delicate balance between building a constructive relationship with the Government as a funder, regulator and delivery partner, whilst maintaining enough independence to campaign for or against Government decisions and policies.

There is a sense that campaigning charities are meeting increasing amounts of resistance from the government. The Sheila McKechnie Foundation[113] reported that 79% of charity activists and campaigners surveyed by SMK felt that the biggest threat to our freedom to organise, speak out or protest came from negative statements from politicians on civil society campaigning.

- 73% believed the biggest threat was The Lobbying Act and further proposals in the Elections Bill.
- 78% believed that there had been an increase in negative attitudes to civil society campaigning amongst politicians (compared with 63% in 2020 and 45% in 2019). For comparison, only 9% of board and senior leaders were perceived to have become more negative towards civil society campaigning (down from 14% in 2020).
- 45% of those surveyed by SMK said that they had found it harder to get their voice heard in a meaningful way in UK Parliamentary debates.

This is compounded by the ongoing involvement of charities by Government in 'culture wars'. The National Trust was one of the most high-profile charities to be summoned by Culture Secretary, Oliver Dowden. It followed a report by the National Trust into 93 of its properties and their relationship with slavery and colonialism, leading to a Westminster Hall debate during which an MP asserted that the role of the National Trust should be '*a clerk of works to a large wedge of our national treasures*'. Following three complaints to the Charity Commission a compliance investigation by the regulator began.

UNICEF has also been accused by Jacob Rees-Mogg of a 'political stunt' after giving £700,000 to 30 UK organisations to provide food for disadvantaged children. Barnardo's were criticised by MPs for producing guidelines for discussing white privilege with children.

Following the meeting with Oliver Dowden, the Museums Association has expressed concerns about a climate of fear amongst organisations that must navigate the UK's heritage with honesty and transparency.

In an article by Stephen Cook[114], he outlines the above examples and ends with a quote from the late charity lawyer Stephen Lloyd that captures the problem:

> *'If politics are not concerned with poverty, injustice, climate change, the distribution of wealth, human rights and education, what are they for? And since these, and many other issues, are the essence of charitable purposes, it is inevitable that charities will engage with contentious political issues. It goes with the patch.'*

[113] Sheila McKechnie Foundation Annual Campaigners Survey 2021. Published January 2022.
[114] Charities in the Culture Wars. Stephen Cook. Transforming Society. April 2021.

Once a culture war begins, the flames can be easily fanned by the media, creating distraction and discord, risking reputational damage, public hostility and loss of support and credibility for the charities involved. Not to mention the reallocation of time, money and talent as the fallout is managed.

The NCVO report 'The Road Ahead 2022' suggests that the general public are more nuanced around the binary woke/non-woke debate and less influenced by the culture wars debates, and recommends that charities continue to speak out, but focus on building solution focused consensus. This is a fine line for charities to walk, especially those with an advocacy and campaigning remit. But with Trust in charities holding steady at 54% (higher than pre-pandemic levels) the risk of losing public faith and support may still be low. That said, the issue of the sector's freedom to speak out (collectively and as individual charities) is an important one, and this issue shows no sign of going away. It remains a potentially significant threat to the post-pandemic sector.

Whilst the relationship between campaigning charities and the government seems to be getting more difficult, 91% of charity leaders believe that they will be asked to plug more gaps in public services but 64% are pessimistic about government support and 21% are worried about losing government funding. [115]

Government contracts – delivering public services

If, as anticipated, charities are subcontracted to deliver public services it will be important not to do so at a loss. Pre-pandemic research shows that most charities subsidized the cost of delivering services from their own charitable funds. In 2019, according to a NPC survey[116], 58% of charities held a public sector contract, 64% cross subsidized government contracts, a level that New Philanthropy Capital described as unsustainable before the pandemic hit. Since then NPC stated 'There are now even more questions to be asked about whether this level of cross-subsidisation can continue'.

[115] Charities Aid Foundation Charity Landscape Report 2022.

[116] The State of the Sector 2020. Where we stood as the crisis hit. New Philanthropy Capital. Published May 2020.

Appendix A – Source Log

Source Report	Published or collated	Organisation/Author	Link
Covid-19 Survey 2021.	Oct-21	Charity Commission of England and Wales	COVID-19 Survey 2021 - GOV.UK (www.gov.uk)
Charity Landscape Report 2022.	May-21	Charities Aid Foundation and ACEVO	Charity Landscape Report 2022 | Charity Sector Research | CAF (cafonline.org)
Foundation Giving Trends 2021	2021	Association of Charitable Foundations	Research (acf.org.uk)
Foundation Giving Trends 2020	2020	Association of Charitable Foundations	Research (acf.org.uk)
Is This Time Different? Charity Funding in Recession and Recovery	Nov-20	Pro Bono Economics - John Franklin, Mark Graham, Matt Whittaker	https://www.probonoeconomics.com/is-this-time-different-charity-funding-in-recession-and-recovery
Financial Times. Letter. Philanthropists, here's how to keep charities serving	Mar-20	Financial Times	https://www.ft.com/content/caaa0a0e-6dd2-11ea-9bca-bf503995cd6f
Hysteresis in the Making - Pandemic Scars and the Charity Sector	Nov-21	Pro Bono Economics - Jack Larkham	https://civilsocietycommission.org/wp-content/uploads/2021/11/Hysteresis-in-the-making.pdf
Mind the Giving Gap - Unleashing the Potential of UK Philanthropy	Dec-21	Pro Bono Economics - Anouska Kenley, Jamie O'Halloran, Karl Wilding	https://philanthropy-impact.org/report/mind-giving-gap-unleashing-potential-uk-philanthropy
Hysteresis Article - Forbes	Jan-21	Forbes	https://www.forbes.com/sites/lbsbusinessstrategyreview/2021/01/15/hysteresis--why-things-dont-go-back-to-normal/?sh=576caee6580e
Second Wave How will charities fare after the spring statement	Mar-22	Pro Bono Economics	https://philanthropy-impact.org/report/mind-giving-gap-unleashing-potential-uk-philanthropy
Volunteering and Charitable Giving - Community Life Survey 2020/21	Jul-21	Dept for Digital, Culture, Media and Sport	https://www.gov.uk/government/statistics/community-life-survey-202021-volunteering-and-charitable-giving
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