

Hysteresis in the making?

Pandemic scars and the charity sector

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 PRO BONO ECONOMICS





Summary

The Law Family Commission on Civil Society is focused on unleashing the potential of the UK's charities over the course of the 2020s. Much of the Commission's work centres therefore on exploring structural shifts within and outside the sector that can be developed and implemented over the next five to ten years in order to create lasting change. Nevertheless, the more immediate issues that have arisen in relation to Covid-19 also warrant the Commission's attention; especially where there is the potential for near-term circumstances to transform the nature of the sector's medium-term outlook.

In part, this means recognising those elements of the experience of the past 20 months which should be celebrated and built on. Charities have once again proved their worth to the country, adapting at pace to the rapidly changing backdrop in order to provide vital support for people across the country. [Past work](#) for the Commission has shown that 82% of adults in Great Britain think that charities and community groups have played an important role in supporting society during the pandemic. And many of the adaptations that charities have made out of necessity point to the possibility of more effective performance in the post-pandemic world. For example, responses to PBE's [Charity Tracker survey](#) back in April showcased a range of innovations in response to the pandemic, with 76% of charities adopting new delivery models, 59% increasing digital skills within their workforce, 42% collaborating more with other charities, 23% working more with local government and 21% collaborating more with businesses.

Yet it is true also that the pressure exerted on many in the sector continues to build with each passing month. 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 longer-term. In economic terms, the threat facing the sector is one of [hysteresis](#).

New polling from YouGov, carried out in October on behalf of the Law Family Commission on Civil Society, suggests that this threat is a real one. It shows, for example, that the resilience of the charity sector has come at the cost of workforce and volunteer wellbeing. Three-in-four charity leaders working in organisations with managers and paid staff are worried about burnout within their team. Almost half are similarly concerned about their volunteers.

Against this backdrop, one-in-four charity leaders say they are more pessimistic today about the operating environment of their organisation than they were three months ago. Respondents expect demand for their help – already at elevated levels – to rise still further over the course of the coming months, prompted among other things by cost-of-living increases, the stock of unmet need associated with public services backlogs and the removal of the Universal Credit uplift.

Health charities and social services charities appear especially concerned, with more than half expecting a deterioration in their ability to manage demand for their services over the next three months.



And, as PBE's recent [Budget analysis](#) showed, the latest projections for the economy provide only modest comfort for charities. While the economy is forecast to continue its recovery over the coming months, it is set to do so alongside a rise in unemployment, a spike in inflation, and a drop in average incomes. If public giving moves in line with household consumption – as seems reasonable to assume – then charities can expect some recovery in their donations over the next few years, but little or no reversal of the estimated £6.6 billion pandemic funding hit suffered to date.

Preventing today's near-term challenges acting as a drag on the charity sector's future potential rests in part on directing more resource towards it. That's something which forthcoming Commission publications will explore, focusing in particular on potential developments around philanthropic and foundation giving. But our new research highlights the need for a broader shift in approaches towards, and within, the sector too.

Charity leaders point to a need not just for more funding, but better funding. More than half cite an emphasis on covering core costs as one of the top three means (outside of simply having more money) by which they might deliver more impact, for example. Similarly, half cite investment over longer timeframes. Building on the positive experience of the pandemic, roughly one-in-five say they would prioritise more collaboration with other charities, with government or with business. And a similar proportion put skills development in their top three: with appetite for increasing knowledge in everything from fundraising to leadership to data.

The near-term challenge facing the UK's charities is large. To date, the sector has proved itself – as so often before – to be adept at coping with everything that gets thrown at it. But the burden of this effort falls, inevitably, on the shoulders of those working and volunteering within the sector – and it is beginning to take its toll. It's vital therefore that we take steps sooner rather than later to support those who have done so much to support the country over the past 20 months. It matters in the very near term, but also over a much longer horizon.

Charities have shown great resilience in the face of pandemic pressure, but there are signs that the burden of effort is becoming too great

In his recent speech to the NPC Ignites conference, the new Minister for Civil Society, Nigel Huddleston, acknowledged that rising demand and increased financial hardship had placed "[great strains](#)" on charities during the pandemic. The combination has served to generate a perfect storm that has uniquely affected the charity sector.

So, while large swathes of the economy were effectively closed down for much of the pandemic, many parts of the charity sector went into overdrive as demand for services began to skyrocket. The Trussell Trust reported a [33% increase in emergency food parcel deliveries](#), the NSPCC experienced a [49% increase in contacts from people concerned about children living in homes with domestic abuse](#) and the Samaritans [answered 23% more emails from people seeking support](#) than in the previous year.



But for many organisations this surge in demand came alongside financial constraint, with the enforced closure of charity shops and cancellation of many thousands of fundraising events. The financial necessity of furlough cut staff capacity at a critical time, and formal volunteering rates dropped to an [all-time low](#).

Little wonder then that respondents to PBE's May 2020 Charity Tracker survey reported high levels of pessimism for the future. [More than 10% of respondents](#) said it was likely that their organisations would be inoperative within six months' time. Similarly, 14% of respondents to the November 2020 [Covid-19 Voluntary Sector Impact Barometer survey](#) thought it was likely that they would not be operating in 12 months' time.

In practice, however, charities have found a way to rise to the significant challenge posed by the pandemic. [Charity closure rates](#) have reportedly remained similar to pre-pandemic levels for example, and just 97 charities filed for insolvency last year.

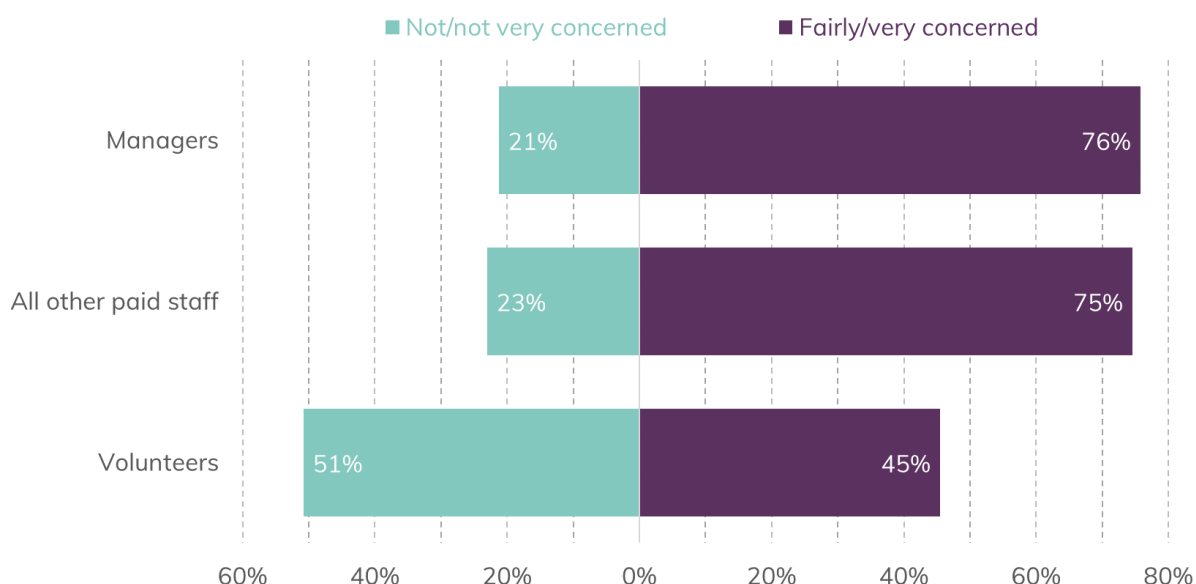
This resolve has been helped in part by the provision of significant emergency financial support from various sources, with the government and many foundations recognising the need to invest in the sector as a means of supporting the wider effort to contain the Covid crisis. It has also been built on typical displays of nimbleness and opportunism among many charities, with organisations quickly adapting to deal with each new challenge they have faced.

In practice, this remarkable effort has of course been driven not by institutions but by the people who comprise the sector: nine-in-ten charity workers report taking on [extra hours or more work](#) as a result of the pandemic. There is evidence now that the cumulative burden is pushing many to breaking point. For example, nearly half of charity CEOs polled at the start of 2021 reported that they had [considered quitting](#) since the start of the crisis as a result of the increased pressures placed on them.

YouGov polling of senior charity managers, commissioned by PBE on behalf of the Law Family Commission on Civil Society and conducted in October, found that the vast majority are concerned about stress and burnout among their organisation's workforce. As Figure 1 shows, three-in-four (76%) said they were either fairly or very concerned about managers within their organisation. Broadly the same proportion (75%) said the same about other paid staff. In total, only 7% said that they had no concerns at all about stress and burnout among their paid workforce.

Figure 1: Three-in-four senior managers of charities are concerned about wellbeing, stress, and burnout among their paid workforce

To what extent, if at all, are you concerned about wellbeing, stress, and burnout among people in the organisation you work for?



Notes: N=349 senior managers or above working for a registered charity or voluntary group. Respective proportions are calculated from the responses of: the 334 who worked in an organisation with a manager/s; the 326 who worked in an organisation with other paid staff; and the 264 who worked in an organisation benefiting from the work of volunteers. Residual proportions (not shown) are 'Don't know'.

Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

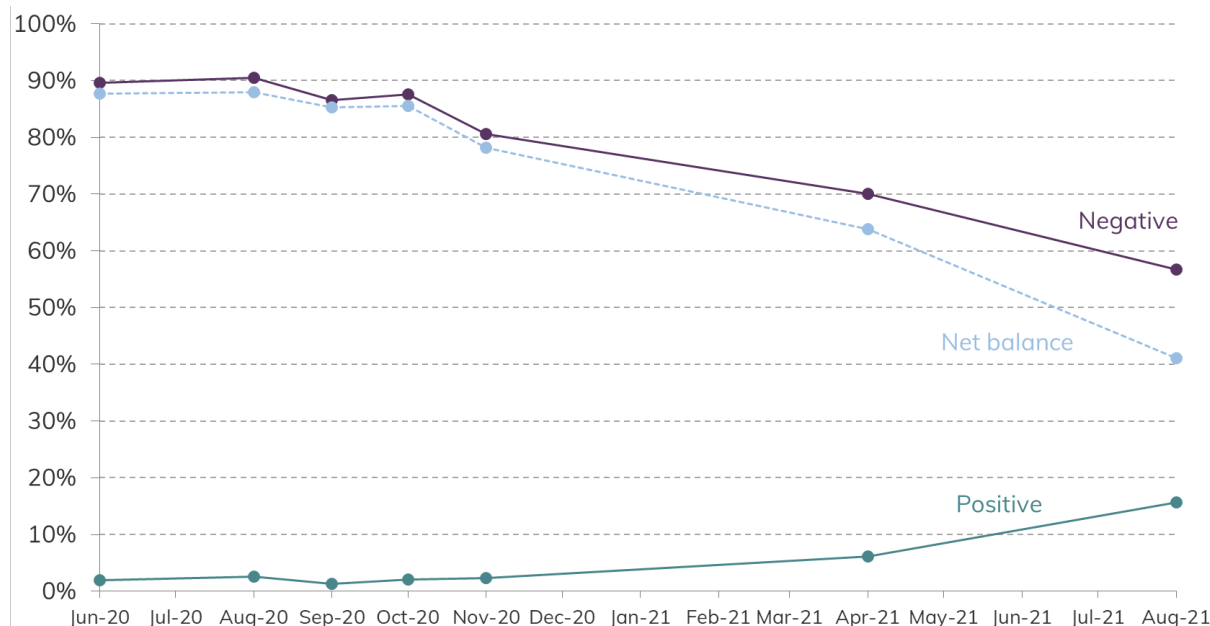
In addition, almost half (45%) of respondents from organisations who benefit from the work of volunteers admitted to worries about wellbeing, stress, and burnout among their unpaid workforce.

Concerns about workforce burnout are reflected in an uptick in sector pessimism about the future

There were tentative signs earlier this year that charity sector pessimism was starting to wane. Figure 2 shows how responses to the PBE [Charity Tracker survey](#) changed from the start of the pandemic through to summer 2021, highlighting a marked fall over the first half of this year in the proportion saying they expected Covid-19 to negatively affect their charity's ability to deliver on its objectives. It remained the case that more than half (57%) of respondents were pessimistic, but this was down from 90% 14 months earlier. The proportion declaring themselves positive about the coming year, while still a clear minority, underwent a corresponding jump (from 3% in August 2020 to 16% in August 2021).

Figure 2: The proportion of charities feeling negative about the coming year dropped over the first half of 2021

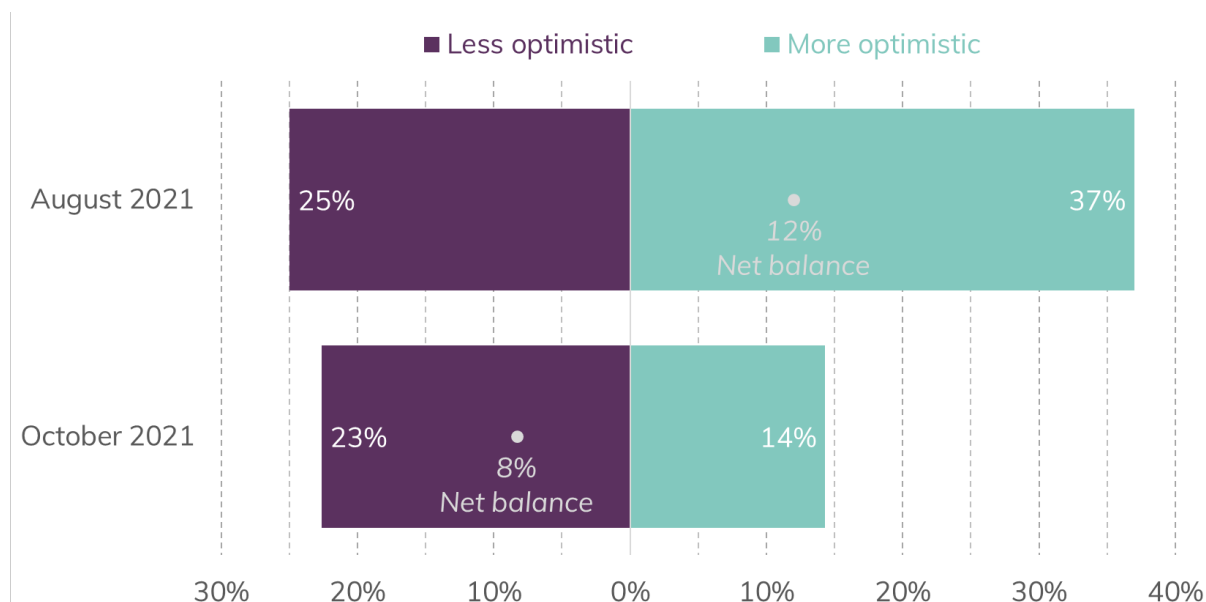
How do you expect Covid-19 to affect your charity's ability to deliver on its objectives in the next 12 months?



Notes: Residual (not shown) is 'No impact'.
Source: PBE Charity Tracker, various

However, the polling undertaken by YouGov last month suggests that this improving trend has gone into reverse. Figure 3 presents the details. Focusing instead on the sense of change in respondents' level of optimism about their operating environment over the previous quarter, it shows that just 14% of charity leaders felt better about things in October 2021 than they did three months previously. In contrast, the proportion reporting feeling more optimistic in the August 2021 PBE [Charity Tracker survey](#) stood at 37%.

Figure 3: Growth in charity optimism slowed dramatically over the autumn
 Are you now more or less optimistic about the operating environment of your organisation than you were three months ago?



Notes: August 2021 n=140, October 2021 n=349. Residuals are 'About the same' and 'Don't know/can't recall'.

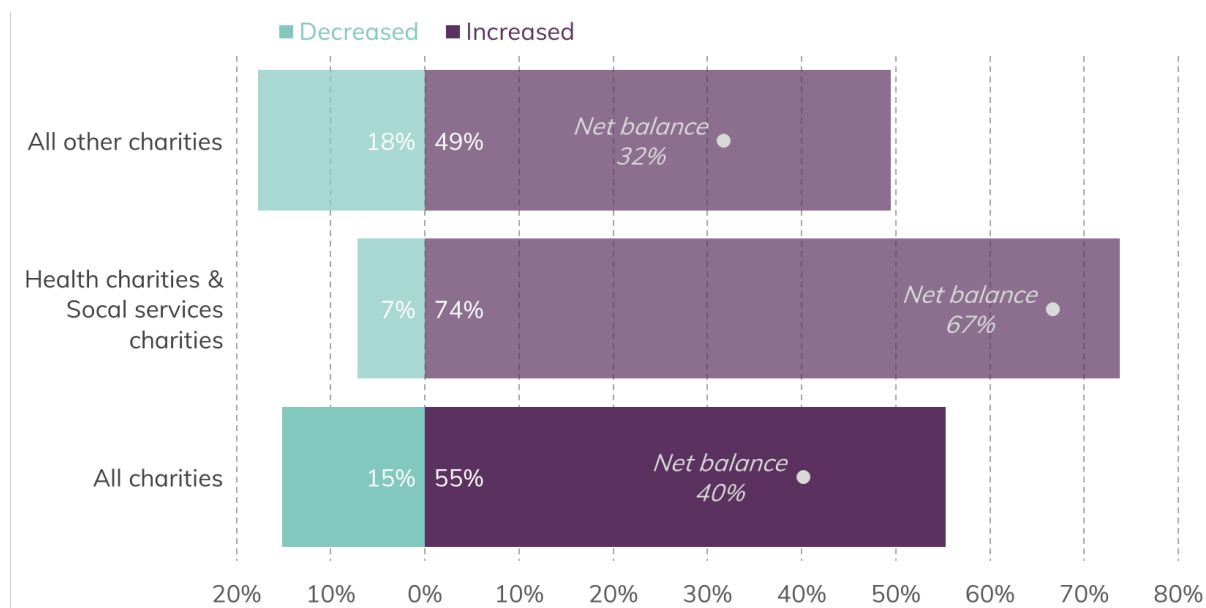
Source: August results from PBE Charity Tracker 26 Jul-15 Aug. October results from online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October

This gloomier outlook is likely driven at least in part by concerns about worker and volunteer burnout. But specific concerns about a changing economic backdrop and rising demand for help are also likely to be an important factor.

Already elevated levels of demand for charity support are projected to rise further still in the coming months

As noted above, elevated demand for charity support has been a consistent feature of the pandemic. The YouGov polling provides further confirmation of this phenomenon. Figure 4 presents the results, showing that more than half (55%) of the responding charity leaders say that the level of demand for their organisation's services has increased since the pandemic started. The scale of many of the reported increases is also significant, with over one-in-four (28%) reporting that they are currently experiencing demand increases of over 25% compared to pre-pandemic levels.

Figure 4: Service demand is elevated for the majority of charities
 Has the current level of demand for the services of your organisation increased or decreased since the pandemic started (March 2020)?



Notes: N=84 for 'Health charities and Social services charities', N=265 for All other charities, N=349 for 'All charities'. Residuals are 'About the same' and 'Don't know/can't recall'.

Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

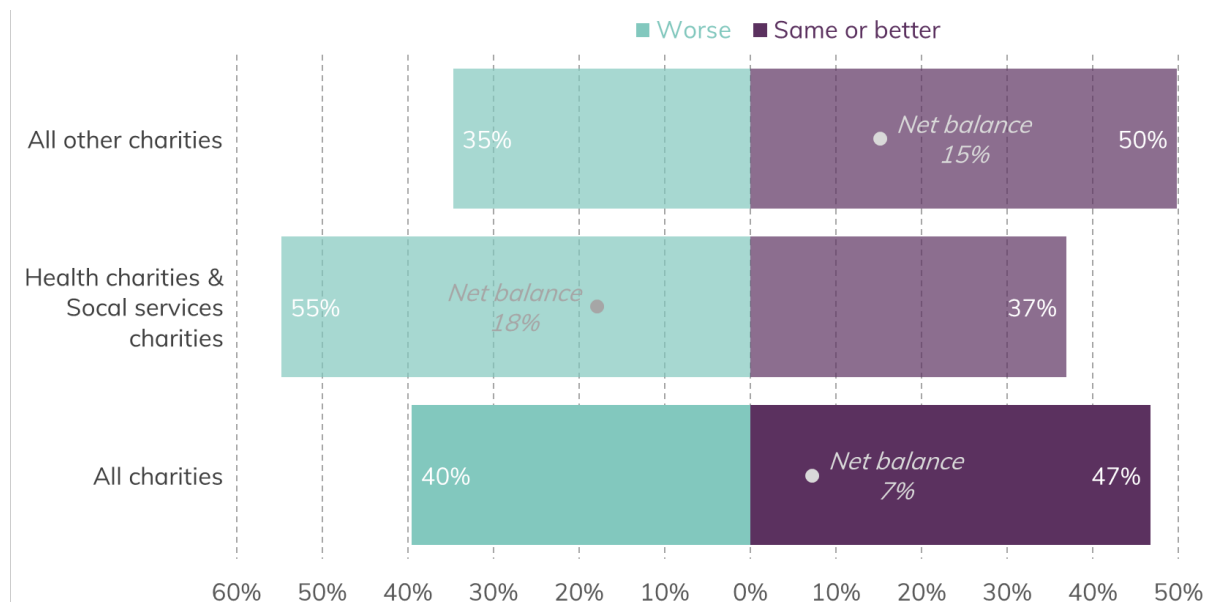
While demand increases have hit the sector as a whole, certain charities and their workforce have been placed under considerably more strain than others. Health charities and social services charities appear to have been the hardest-hit by demand increases. Three-in-four (74%) say that post-pandemic demand is elevated, with only 7% saying it is lower currently than it was before March 2020. As [NCVO data](#) suggests that almost half (46%) of employees in the charity sector work for 'health' and 'social work' charities, the significance of this for the charity sector overall is considerable.

From this already elevated baseline, it is concerning to note that the YouGov polling finds expectations among charity leaders of further increases in demand over the coming three months. Overall, three-in-five (57%) charity leaders expect to see an increase over the rest of the year, with very few (3%) anticipating a fall.

The implications of this increase in demand are also concerning – especially in certain subsectors. Figure 5 shows that health charities and social services charities – having already been hit with above-average increases in demand throughout the pandemic – seem to have little headroom to cope with further rises. Overall, 71% of leaders in these sectors expect demand to grow further over the remainder of 2021, and more than half (55%) don't think they will have capacity to manage it. Only one-in-three (37%) health and social care charities think they will be able to cope with demand in the coming months.

Figure 5: More than half of health charities and social services charities expect a deterioration in their ability to manage demand in the near-term

What do you anticipate will happen to your ability to manage demand for your organisation's services over the next three months?



Notes: N=84 for 'Health charities and Social services charities', N=265 for All other charities, N=349 for 'All charities'. 'Worse' combines total responses of 'Increased demand for services – but we will not have capacity to meet it' and 'No change in demand for services - but our delivery capacity will decline', 'Same or better' combines total responses of 'Increased demand for services – and we will have capacity to meet it', 'Decrease in demand for services' and 'No impact'. Residuals are 'Don't know' and 'Not applicable - we don't work directly with beneficiaries'

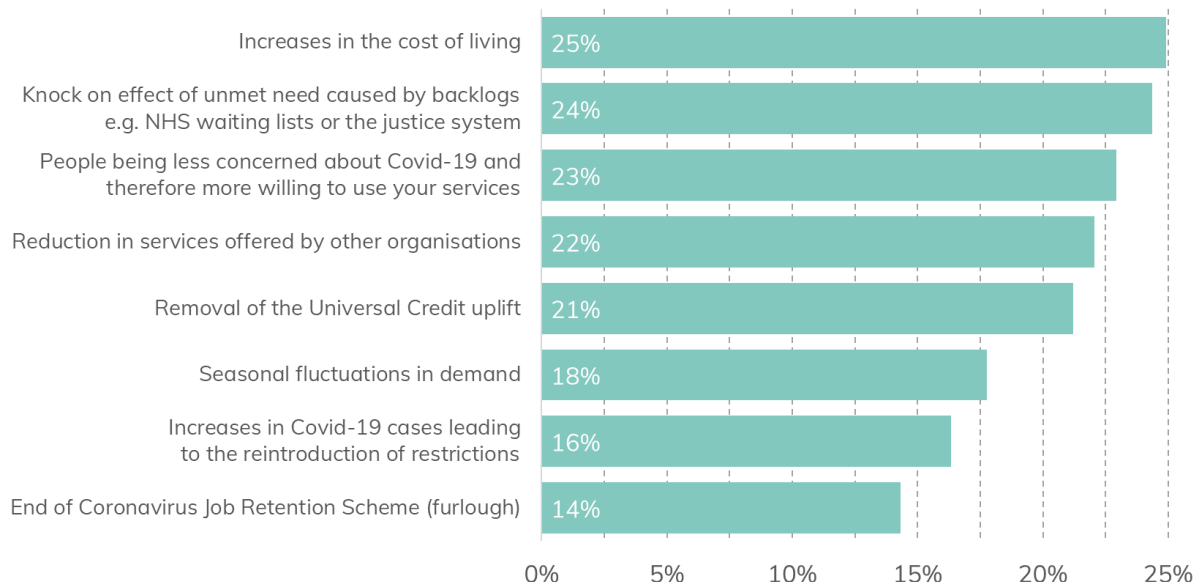
Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

Expectations for rising demand are linked to perceptions of economic troubles and overstretched services

With the [cost of living crisis set to hit the poorest families hardest](#) throughout the winter and beyond, it is unsurprising that one-in-four (25%) charity leaders expect it to be a driver of demand for their services throughout the rest of 2021. As Figure 6 shows, charities are also concerned about unmet need created by public service backlogs, with 24% saying they expect this to push up demand for their help. As [NHS waiting lists hit an all-time high](#) and justice system backlogs look [set to go on for years](#), these challenges look unlikely to abate quickly.

Figure 6: Charities expect cost of living increases to drive rising demand for services over the remainder of the year

Which, if any, of the following do you think would be the main cause/s of increase in the demand for your organisation's services over the next three months?

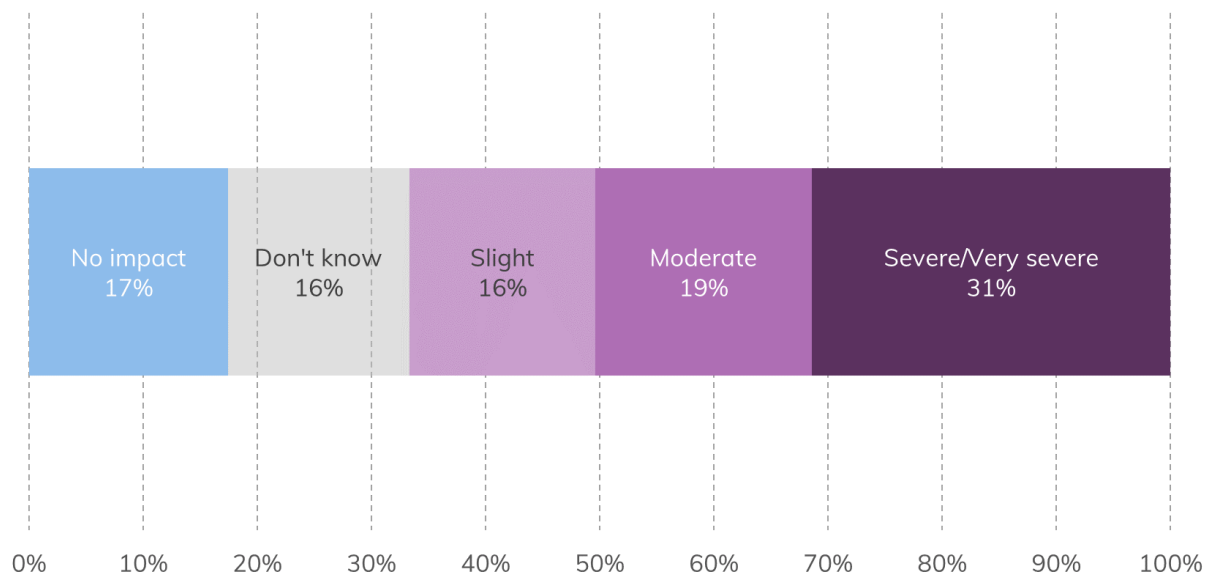


Notes: N=349 senior managers or above working for a registered charity or voluntary group. Respondents could select as many responses as were relevant

Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

One-in-five respondents cited the removal of the £20 a week Universal Credit uplift from the start of October as a potential driver of rising demand over subsequent months. Indeed, as Figure 7 highlights, two-in-three (67%) of those charity leaders who work directly with beneficiaries expected the cut to negatively affect their clients, with one-in-three (31%) describing the likely impact as 'severe' or 'very severe'.

Figure 7: One-in-three charities working directly with beneficiaries say the October 2021 removal of the UC uplift has had a significant impact



Notes: This survey was carried out before the Budget took place. N=258 and only includes those respondents who told us that they work directly with beneficiaries.

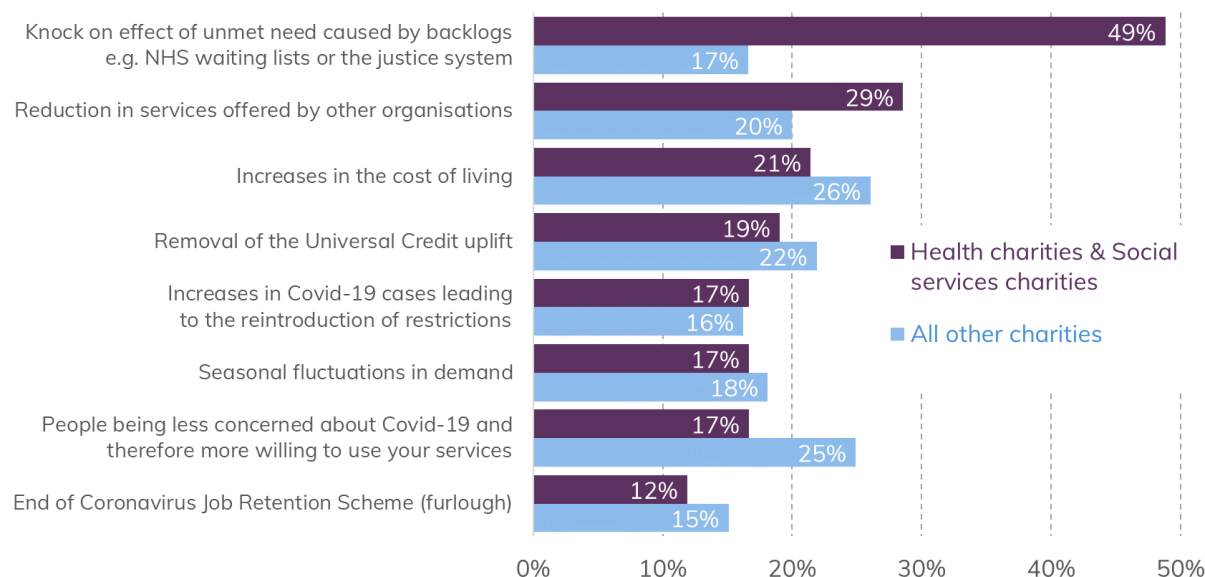
Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

The survey was undertaken just ahead of the Budget however, which saw the Chancellor's decision to cut the UC taper rate and increase work allowances significantly soften the impact of the removal of the uplift. The figures presented in Figure 7 are therefore now likely to overstate the true extent of the impact. But we might expect the difference to be relatively modest. The Budget announcements are estimated to be costing the Exchequer £3 billion a year - only half of the savings estimated to flow from the removal of the uplift. The implication is that many on UC will still be negatively affected. More particularly, lower-earning UC recipients will continue to be worse off under the move (albeit by less than had been anticipated ahead of the Budget), while out-of-work recipients will continue to bear the full cost of the uplift removal.

As Figure 8 shows, expectations about demand drivers vary considerably by charity subsector. In particular, leaders of health charities and social services charities are significantly more likely to point to the demand-driving effects of the unmet need associated with public service backlogs.

Figure 8: Health charities and social services charities are especially concerned about the impact of public service backlogs

Which, if any, of the following do you think would be the main cause/s of increase in the demand for your organisation's services over the next three months?



Notes: N=84 for 'Health charities and Social services charities', N=265 for All other charities. Respondents could select as many responses as were relevant

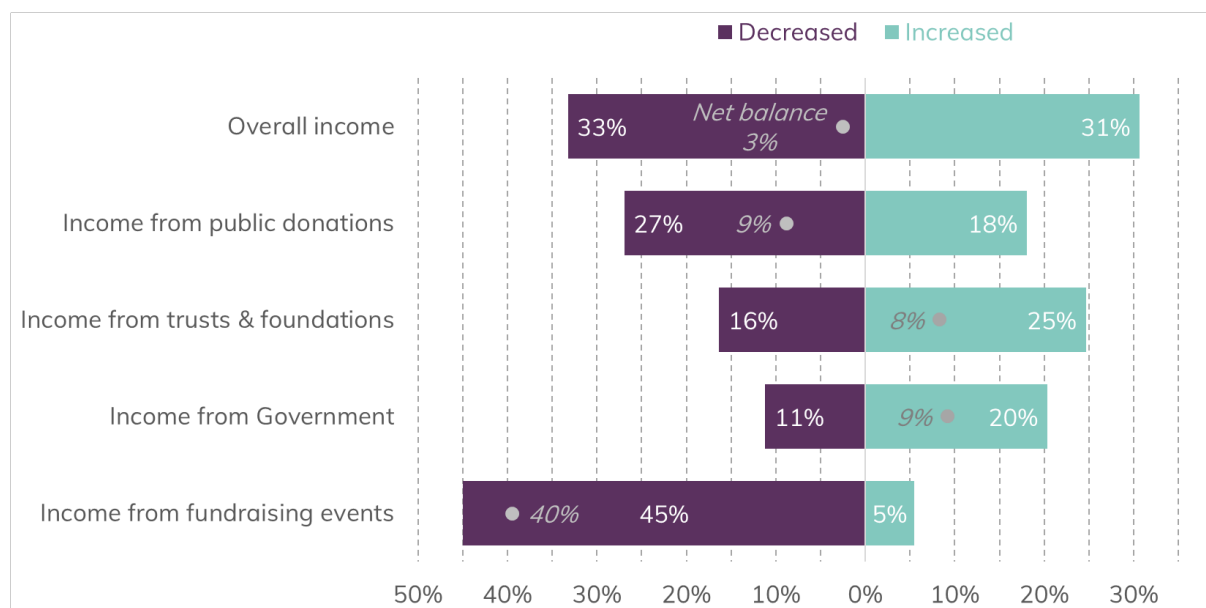
Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

And it is worth noting that there is some good news in this data too. Overall, 23% of charity leaders say they expect demand to rise over the coming months as a result of potential clients no longer being discouraged from leaving their homes due to concerns about Covid-19. Such sentiments were especially pronounced among leaders of culture and recreation organisations.

On the other side of the equation, one-in-three charities are reporting income that is down relative to pre-pandemic levels

Alongside experiencing elevated demand, many charities have reported facing financing difficulties over the course of the pandemic. Yet, as Figure 9 shows, this has been far from a universal picture. Overall, broadly as many charities have reported an increase in income over the course of the crisis (31%) as have reported a decline (33%). Charities are especially likely to have received increased funding from government and from trusts and foundations, with positive net balances being recorded from both these sources.

Figure 9: Pandemic funding experiences have varied from charity to charity
 Has your organisation's current level of income increased or decreased since the pandemic started (now compared to before March 2020)?



Notes: N=349 senior managers or above working for a registered charity or voluntary group.
 Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

This finding will come as cold comfort to the one-in-three that have suffered a drop in income, however. And even more so for the 45% of charities who've faced a drop in income from fundraising events. Financing pressures may not have been endured by all charities, but they will bite hard where they do occur.

There will be concern too that support provided by the government and by trusts and foundations will represent something of a one-off, or a bringing forward of funds from future years - leaving a tighter funding backdrop for 2022 and beyond. With the OBR's latest set of economic projections forecasting a recovery in household spending back to previous norms - alongside very little, if any, overshooting of expenditure to make up for the significant underspend of the last 20 months - there is concern that the loss of income from events and public donations will never be fully recovered. PBE's estimate, based on the OBR's forecasts, is that this will leave the sector facing a [permanent public funding 'scar'](#) of somewhere in the region of £6.6 billion.

Coupled with evidence produced by the [Charity Commission](#) indicating that the number of charities with no reserves has grown significantly during the pandemic, we might therefore expect many organisations to continue to face severe budget constraints for some time to come.

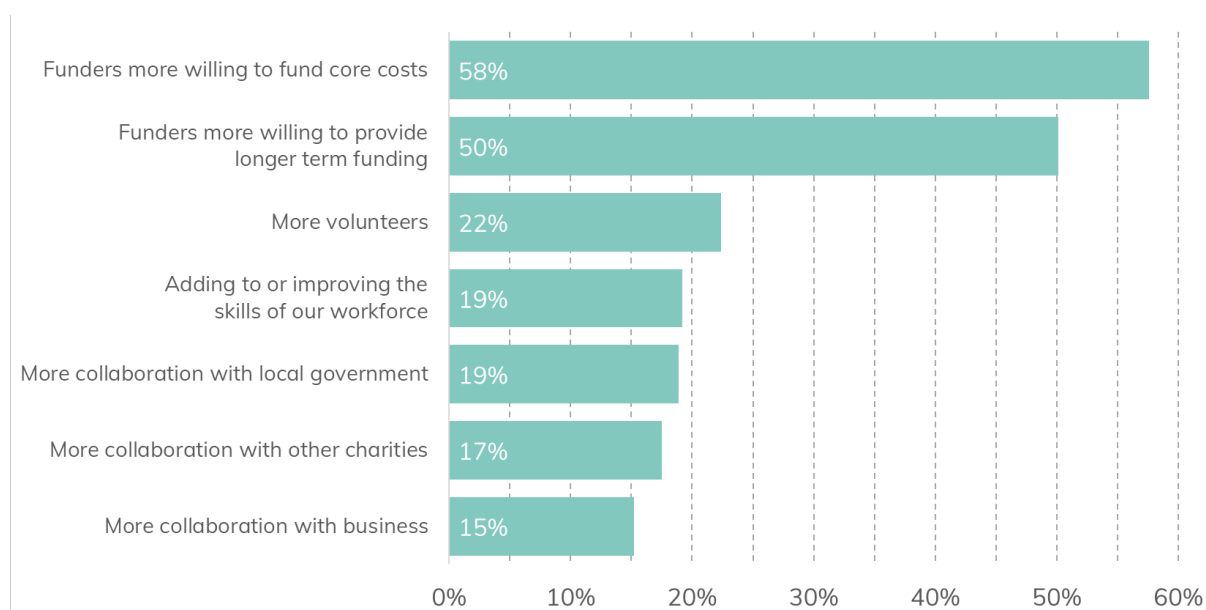
Preventing the near-term perfect storm of elevated demand and tight funding from damaging the long-term health of the sector requires more than money

Faced with these ongoing pandemic pressures, charity leaders would inevitably welcome the directing of more resource into the sector. But what structural shifts would they like to see alongside that, in order to generate improved impact and better support the sector's longer-term health?

Figure 10 shows that respondents to the YouGov survey selected an increased emphasis on core funding as their number one choice, with 58% placing this within their top three options. In a similar vein, the second most-selected approach (cited by 50% of charity leaders) related to a focus on longer-term funding. The Law Family Commission on Civil Society will, in forthcoming work, be exploring precisely how such approaches might work in practice.

Figure 10: Charities want funders to be more flexible with the kind of financing they offer

Other than greater levels of funding, which, if any, of the following factors would make the biggest difference to increasing the impact of your organisation?



Notes: N=349 senior managers or above working for a registered charity or voluntary group. Respondents could select their top three.

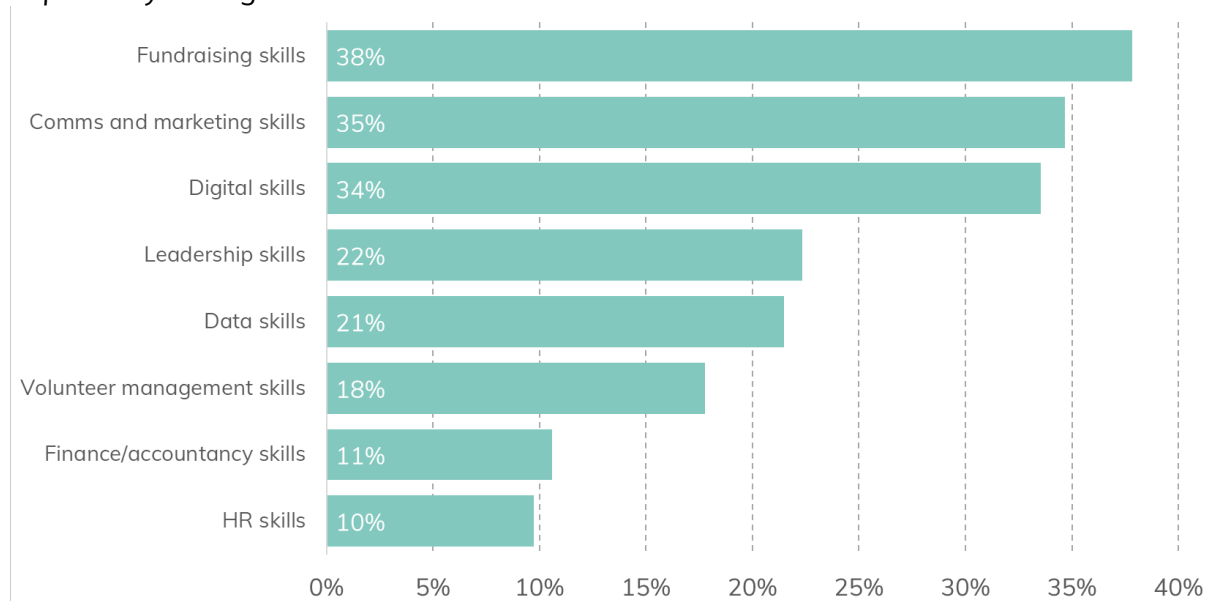
Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

One-in-five (22%) charity leaders included 'more volunteers' in their top three options for increasing the impact of their organisation. A similar proportion cited skills as a priority (19%), with greater collaboration with local government (19%), other charities (17%) and business (15%) also featuring. Again, these are issues the Commission will be turning to in forthcoming publications.

Digging more deeply into the response on skills, Figure 11 details the types of skills charity leaders would most value being developed within their organisations. Skills that might be most closely associated with income generation – such as fundraising (38%) and communications and marketing (35%) – top the ranking, but the bigger takeaway is the breadth of response. One-in-three (34%) cite digital skills in their top three, with a still-sizeable one-in-five opting for leadership skills (22%), data skills (21%) and volunteer management skills (18%).

Figure 1111: Charity leaders would value investment in a broad range of skills within their organisations

Which, if any, of the following skills would make the biggest difference to increasing the impact of your organisation?



Notes: N=349 senior managers or above working for a registered charity or voluntary group. Respondents could select their top three.

Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

Conclusion

The UK's charities have played a vital role in the nation's response to the coronavirus crisis. And they should be at the heart of our plans for recovery and renewal too. Nearly half (47%) of charity leaders who responded to the YouGov survey said they believe they have a role to play in the supporting the government's levelling up agenda.

And there is recognition within the sector of many of the steps that need to be taken in order to fulfil that role – an investment in skills, a focus on collaboration, and a transition to new, more patient financing that could cumulatively help the sector achieve more impact.

Yet the focus of many of the sector's leaders is inevitably more short-term right now, as they grapple with the need to deliver more with less. And while there is little immediate relief in sight – indeed, with the prospect of things perhaps getting worse before they get better – the risk is that near-term pressures overwhelm longer-term ambitions, and that the sector succumbs to its own form of hysteresis.

It is a phenomenon which policy makers have been keen to avoid in relation to employment – learning the lessons of past downturns and investing heavily in helping keep people attached to the jobs market, even through the unprecedented turmoil of the past 20 months. There would be significant benefits for civil society and the country at large, were they to adopt a similar 'whatever-it-takes' attitude towards working with the charity sector.