Setting lockdown savings free

Is there an opportunity for the charity sector?

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PRO BONO ECONOMICS

Pro Bono Economics uses economics to empower the social sector and to increase wellbeing across the UK. We combine project work for individual charities and social enterprises with policy research that can drive systemic change. Working with 400 volunteer economists, we have supported over 500 charities since our inception in 2009.

Summary

The years ahead are critical for the UK economy and our society. They are the years which will decide whether the country "builds back better", emerging a stronger and fairer place to live – or which will see the country stagnate, settling in for a long period of high unemployment and lower wellbeing.

But it is not simply the choices made by those in high office that will decide which path the UK takes. The charity sector has a critical role to play in the country's recovery. It is a sector capable of reaching those who have been worst affected and helping them to find employment, manage finances, reconnect with communities around them and address the legacy of mental health and wellbeing challenges the crisis has created. However, the charity sector is facing its own crisis. With rising demand but declining funding, without intervention many charities will be left unable to help all those who need it.

These challenges for the charity sector and many of the individuals it serves stand in stark contrast to a significant proportion of households which emerge from the pandemic with heavier wallets. The constraints on spending opportunities over the past year have resulted in an accumulation of around £180billion of excess savings (savings above the usual savings rate) since the start of the pandemic. The Bank of England projects that this figure could shortly reach £250billion.

This offers a potential opportunity to support a stronger, fairer recovery by redressing the imbalance of demand and funding that many charities face. Indeed, evidence around giving behaviour suggests that UK charities might receive an associated funding boost of somewhere between £500million and £1.2billion as a result of the spike in savings. This would undoubtedly be welcome, but it amounts to just 0.2 per cent to 0.5 per cent of the potential pot of excess savings and just 1 per cent to 2 per cent of the annual income of the sector. And it sits against the backdrop of an estimated £10 billion funding gap[1] facing charities over the course of the pandemic.

[1] Pro Bono Economics (2020): *August Covid Charity Tracker Survey*

The challenge then is to consider how more of this apparent savings "windfall" might be channelled towards the charity sector.

There are various financial incentives that the government could consider to aid in unlocking lockdown savings, from Gift Aid rates changes to match funding schemes. To capitalise on the window provided by the pandemic savings windfall, a time limited intervention, such as a Recovery Gift Aid incentive to increase giving from lockdown savings could be considered. For example, a temporary uplift in the match element of Gift Aid from 25p to 30p for every £1 donated could increase income for charities by around an additional £600million per year – potentially doubling the projected flow of lockdown savings to the charity sector through a combination of increased government contributions and additional public giving.

This increase in giving from the public could be further supported by a coordinated campaign led by a coalition of charities, drawing on behavioural insights about what drives giving beyond financial incentives. Messages that highlight the relatively fortunate position of those that have windfall savings, positioned around how others in a similar position are planning to use part of their excess savings to support the charity sector and why this is particularly important during the recovery, could help to encourage even more giving from this group over this critical period.

These are just two possible options that could play a role in unlocking a larger proportion of the £250billion of excess savings built up by some households as a result of the very pandemic. In the context of a charity sector capacity crunch, there is a clear imperative to consider options that could spread fortunes more evenly.

Some households have experienced a savings windfall during the pandemic

Social distancing requirements and lockdowns over the last year have resulted in reduced levels of spending across significant sections of the economy. While this has placed serious strains upon industries such as hospitality and leisure, some households have experienced a silver lining through an improvement in personal finances.

ONS data suggests that the average proportion of household income that is being saved each month reached record levels during the crisis. The average household saved more than a quarter of their income between April and June 2020, and levels remained elevated throughout the year. As a result, compared to long term average savings rates, between March 2020 and March 2021 UK households amassed £180billion of "excess savings"[2] and Bank of England projections suggest these will to rise to £250billion by June 2021.[3]

Figure 1. The overall household saving ratio in the UK has reached record highs over the pandemic
Household saving ratio (per cent)

Source: Office of National Statistics, series DGD8

As lockdown restrictions continue to ease and opportunities to spend proliferate, these higher rates of savings are likely to return to pre-crisis

[2] Calculated based on total (March 2020 to March 2021) above long-term averages of: Monthly changes of monetary financial institutions' sterling M4 liabilities to household sector, Retail Funds and National Savings and Investments. Sources: *Bank of England Database, The Investment Association*
[3] Inman P (2021): *British families ready to spend billions says Bank of England's Haldane*, Guardian 12 Feb 2021

levels. This phenomenon has therefore been described as a temporary – or "windfall" – uplift in savings.

Household savings are not the only financial silver lining some have experienced. While it may not directly translate to cash in the bank, many homeowners, for example, will also be feeling wealthier than they were a year ago due to a 10.2 per cent increase in average house prices in the year to March 2021.[4]

This situation leaves much of the UK economy like a "coiled spring", ready to release pent up financial energy. As the economy reopens, we can expect households to spend at least a portion of this savings windfall – catching up on lost holidays, meals out and shopping. But there is a natural limit to such behaviour, meaning aggregate bank balances are likely to remain bloated for some time to come.

Yet the picture for the average household, both in the value of their homes and the value of their savings, hides a great diversity of experience across the population as a whole. Data from the Bank of England highlights that unemployed and low income households are significantly more likely to have experienced a decline in savings compared to high income households.[5] Indeed, surveys by the Resolution Foundation suggest three-in-ten of all families claiming Universal Credit report being more in debt in February 2021 than before the pandemic began in February 2020[6]. Our own estimates suggests the number of households experiencing problem debt will increase by 370,000 to 480,000 by mid-2021[7].

...at a time when charities urgently need more financial support

Charities are playing a critical role in accelerating our country's recover from the pandemic, and many are particularly active in helping those individuals who have not benefited from this savings windfall. From providing food parcels to tackling loneliness and supporting people back into work, this work is essential to both our economic and societal success – and no more so than at present. 53 per cent of charities reported increased demand in the 12 months to March 2021.[8]

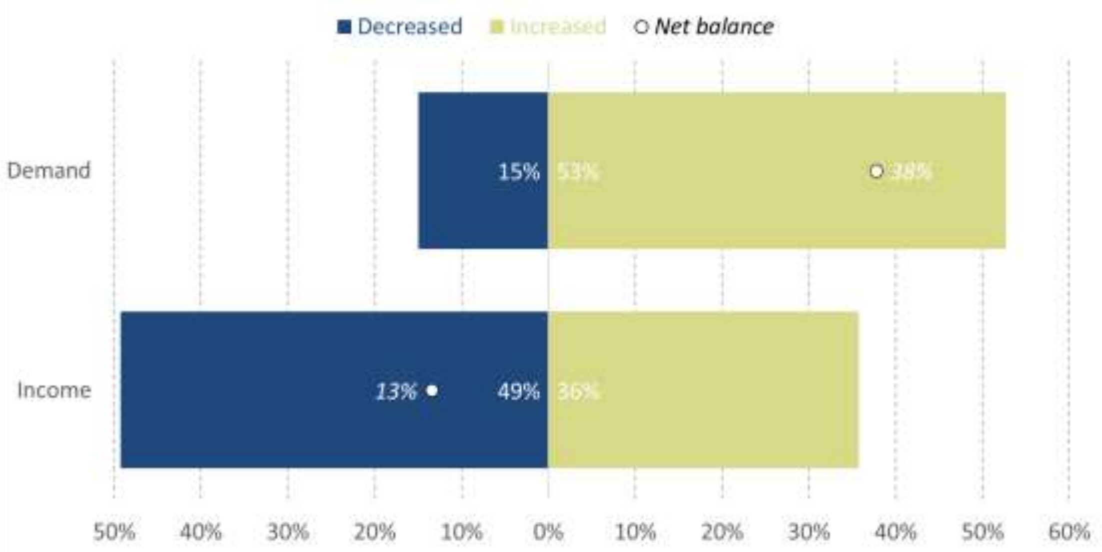
Yet this demand has not been matched by an increase in resources. Half of charities saw their income decline in the 12 months to March 2021[9], with 22

[4] Office for National Statistics (2021): UK House Price Index: March 2021
[5] Bank of England (2020): *How has Covid affected household savings?*
[6] Resolution Foundation (2021): *The debts that divide us*
[7] Pro Bono Economics (2021): *The impact of the Covid-19 pandemic on problem debt in the UK*
[8] Pro Bono Economics (2021): 19 *April - 3 May Charity Tracker Survey*
[9] Pro Bono Economics (2021): 19 *April - 3 May Charity Tracker Survey*

per cent reporting income drops of more than a quarter, as charity shops, fundraising events, in-person fundraising opportunities and earned income such as rental fees for use of community halls were all hit by the pandemic. This has left many charities expecting to be less sustainable in the long-term.[10]

Figure 2. More than half of charities faced increased demand over the past year, while almost half experienced a decrease in income during the same period

How did demand for your services and income change over the past year (March 2020-March 2021) compare to the previous year (March 2019-March 2020)?



Source: PBE Charity Tracker, 19 April-3 May 2021
Notes: n = 260, For 'Demand' residual is: 'About the same' – 21 per cent, 'N/A – we don't work directly with beneficiaries' – 2 per cent, 'N/A – we've been closed due to social distancing requirements' – 8 per cent, 'Don't know' – 2 per cent. For 'Income' residual is: 'No change' – 15 per cent

Looking forward, while much of the economy is set to rebound over 2021 and GDP is predicted to return to pre-Covid levels by the end of the year,[11] most charities hope to resume 'normal service' by the end of the year. Yet many are expecting it to take well into 2022 before income returns to pre-crisis levels[12]. And as much of the financial support government has provided over the course of the pandemic is withdrawn over the course of 2021, recent research[13] indicates that, far from channelling more of their savings towards charities, donations by the public are lower than usual. The proportion of people who made a charitable donation in the past three

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[10] Pro Bono Economics (2021): *11-18 January Covid Charity Tracker Survey*
[11] Bank of England Monetary Policy Report, May 2021
[12] Pro Bono Economics (2020): *15-20 November 2020 Covid Charity Tracker Survey*
[13] nfpSynergy (May 20201), *The Donation Deficit: How the pandemic has shaped charity donations*

months has fallen to a ten year low, from 69 per cent in January 2020 to 55 per cent in March 2021. The same research also reports that 40 per cent of people expect to cut back the amount they give to charity in the coming year.

Financial challenges over the past year have left many charities both poorer and pared down due to necessary cost-saving exercises. At the same time, many are trying to manage the pressures of demand that has grown as a direct result of the pandemic – with depression rates doubling over the past year,[14] calls to domestic abuse helplines up 80 per cent as a result of lockdowns, and young people bearing the brunt of growing long term unemployment rates. [15]

Four in ten charities expect demand for their support to outstrip their ability to deliver over the coming months as the health, employment and other impacts of the pandemic continue to reverberate.[16] This could have significant consequences for some of the people and communities most negatively impacted the pandemic.

Yet households are currently unlikely to use windfall savings to support charities

There is an opportunity to use the lockdown savings windfall to help balance the demands being placed on the charity sector with the funds it so badly needs. Unfortunately, it appears that unless there is further action this opportunity will be missed.

Surveys of household spending intentions suggests that the majority of households that have experienced an increase in savings are planning to hold on to at least some of these savings or use them to reduce debts (78 per cent). Around a quarter of households intend to use the savings to increase their spending, with just 10 per cent of households stating that they have "other" intended uses (which could include charitable donations) or currently "don't know" how they might use the income.[17]

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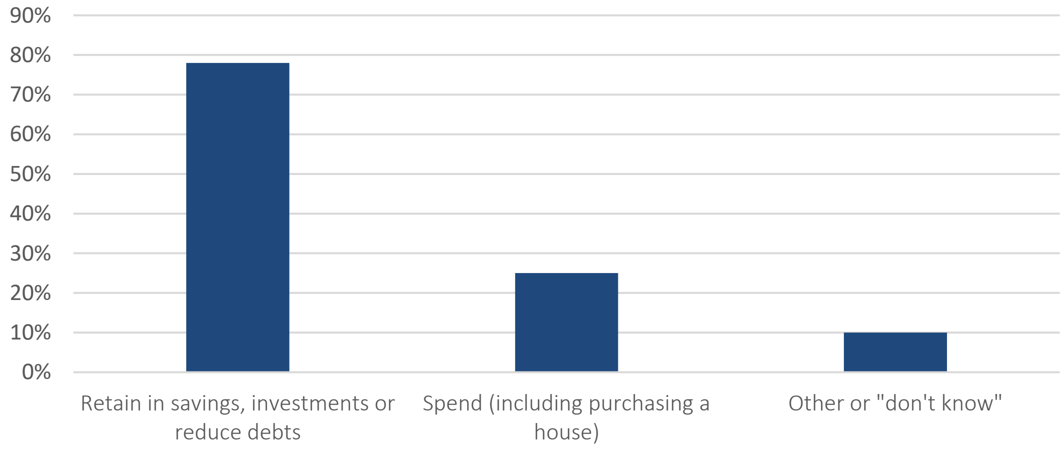
[14] ONS, Coronavirus and depression in adults, Great Britain: January to March 2021, May 2021
[15] ONS Labour Market Statistics, see for example: https://twitter.com/AnoushkaPBE/status/1374305728836567040
[16] Pro Bono Economics (2021): *11-18 January Covid Charity Tracker Survey*
[17] Based on PBE analysis of Bank of England/NMG household survey data for 2020, accessed here: https://www.bankofengland.co.uk/statistics/research-datasets

Figure 3. Most households intend to hold onto their increased savings or use them to reduce debts

Planned use of increase in savings (per cent of households)



Source: Bank of England/NMG household survey data, 2020.
Notes: Responses to question "You said your savings have increased during the pandemic. What do you plan to do with these savings?", totals sum to more than 100per cent as respondents can select multiple options from a list of responses.

This picture is broadly consistent with what we might expect from existing empirical evidence on giving. Although there is very limited research on how savings and wealth typically correspond to charitable giving, we do know that giving tends to be relatively non-responsive to temporary changes in income – which may be considered similar in nature to the unexpected savings windfall we've seen here.[18]

If we treat the windfall in savings as if it were a temporary increase in income we might expect around a £0.5-£1.2billion increase in donations to charities – around one to two per cent of the sector's annual income.

While this additional support will undoubtedly be valuable for charities, it suggests that without further action, just 0.2-0.5 per cent of the total increase in savings that households have experienced will be used to support charities at this critical time. Set against the £10billion funding gap we estimate the sector experienced in 2020 and the creation of so much need of charitable support, there is a strong case to be made for these fortunes to be spread more evenly.

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[18] Bakija J, Heim B (2008): *How does charitable giving respond to incentives and income? Dynamic panel estimates accounting for the predictable changes in taxation,* NBER Working Paper 14237

What could be done to encourage further giving from the savings windfall?

With so many charities facing higher demand for services, often as a direct result of the pandemic, yet so few likely to benefit from the huge pandemic savings windfall that has benefited some, it is worth considering what action could be taken to mobilise a larger proportion of the savings windfall towards charitable donations.

How could households be encouraged to direct more of their unexpected increases in savings to charity, and help the delivery of services that are critical to the recovery of the UK economy and wider society? We explore two main routes which could operate in combination to achieve this: behavioural 'nudges' and direct financial incentives to donate.

Coordinated campaign to encourage donations

People's giving behaviour is affected by different factors, but there is ample evidence that social motivations are some of the most important in driving behaviour.[19] Experimental research in particular illustrates the impact of other people's behaviour on individuals' donation decisions. For example, trials by the Behavioural Insights Team found peer effects, such as receiving e-cards from colleagues talking about why they donate to charity, had significant impacts on the likelihood of people signing up to Payroll Giving. Other trials found that citing 'social norms' (such as noting that "many people" choose to leave money to a charity in their will) significantly influenced the likelihood of individuals choosing to donate.[20]

Similarly, the amount that people choose to donate is influenced by observing others' donations. Research focused on online giving platforms found a £10 increase in the mean of past donations increases new donations £2.50, on average.[21] Meanwhile, among high net worth individuals, 24 per cent of those making proportionately larger donations started to do so when they realised their peers were major donors.[22]

This suggests that one way to encourage more people to give could be a coordinated campaign across the charity sector, using behavioural insights to nudge more people to consider donating. Messages highlighting

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[19] See, for example, Booth C, Leary K, Vallance F (2015): *Qualitative research to understand charitable giving and Gift Aid behaviour amongst better-off individuals,* HM Revenue & Customs Research Report 366 and Wiepking P, Breeze B (2011): *Feeling poor, acting stingy; the effect of money perceptions on charitable giving,* International Journal of Nonprofit and Voluntary Sector Marketing, 10.1002/nvsm.415.
[20] *Applying behavioural insights to charitable giving*, Cabinet Office Behavioural Insights Team and CAF
[21] Smith S et al (2015): *Peer effects in charitable giving: evidence from the (running) field*
[22] Barclays (2019), *Barriers to Giving; Research into the evolving world of philanthropy*

individuals who are planning to use excess lockdown savings support the charity sector and why this is particularly important during the recovery, could help to encourage even more giving over this critical period.

Increasing economic incentives to donate

Another option to support increased giving from lockdown savings would be to use traditional economic incentives in the tax system. In the UK, private charitable giving is incentivised through Gift Aid tax relief, with two main features. The 'match' element allows the charity to claim back the basic rate of income tax paid by any donor. The 'rebate' element allows higher and additional rate taxpayers to claim back tax paid on their donations above the basic rate. Both mechanisms reduce the 'price' of donating a given amount to charity, and evidence indicates that people's giving behaviour responds to changes in Gift Aid.

There are a number of ways the government might consider building on the current Gift Aid scheme to encourage higher levels of giving. One set of options includes directly changing the match or rebate rate levels. Others include simplifying the scheme and reducing the 'transaction' costs of claiming Gift Aid. A more detailed review of the structure and effectiveness of the different elements of Gift Aid might be merited over the longer term. But the window provided by the pandemic points us towards quicker, and time limited, interventions to increase giving from lockdown savings.

One such option is to temporarily increase the rate at which government matches donations to charities for UK taxpayers under the current Gift Aid scheme. By way of illustration, the government might consider increasing the match element of Gift Aid from the current level of 25p for every £1 donated to an enhanced level of 30p for every £1 donated. This could be introduced for a fixed period covering the next two tax years (ending on 5 April 2023), similar to the policy introduced between 1998 and 2000 for charities providing relief in less developed countries, known as Millennium Gift Aid. This would have parallels with the government's temporary 'super deductions' to support business investment, introduced in March's Budget. Just as a temporary uplift to business investment will support the UK's economic recovery from the pandemic, a temporary boost to charitable donations would also be an investment in the UK's social and economic recovery.

We estimate that a measure like this would provide a temporary boost worth around £600million a year to charities' income, increasing the amount of charitable giving from the lockdown savings windfall by 20-50 per cent, and supporting charities through a period when they need this funding the most. Of that £600million, we estimate that £240million would come from increased support from the public. This is based on evidence that donation levels do respond to the level of the Gift Aid match, and we expect this policy would support a 5 per cent increase in individual donations to charities for each year the policy was in place.[23] The remaining £360million would come directly from government through the increased match.

Alternatively, rather than amending Gift Aid itself, the government could consider using a match funding programme to encourage donations. This essentially mirrors the most influential element of Gift Aid, with donations shown to be around four times more sensitive[24] to changes in the 'match' element of Gift Aid than the 'rebate' element. Importantly, take this step would not require the legal changes needed to amend the Gift Aid match rate.

A publicly funded match programme, particularly one coupled with a campaign that leant on behavioural insights about peer effects and social norms could be a particularly effective way to re-direct a proportion of lockdown savings towards charities. Research into the effectiveness of matched donation schemes finds that matched donations are on average 2.5 times higher than unmatched donations.[25] Without specifying the details of any such scheme, it is hard to estimate quite how much it might generate. But a very simple thought experiment suggests it could be sizeable. Taking our earlier estimate of a giving boost of £0.5-£1.2billion associated with today's windfall savings and applying a multiplier of 2.5 (to match the reported average boost flowing from matched schemes) generates a new giving total of £1.2-£3billion. Once the government match is added, the total additional funds flowing to the charity sector could rise to somewhere in the region of £5billion. There is clearly considerable uncertainty around this figure – with the devil inevitably being in the detail – but the potential could be significant.

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[23] Scharf K & Smith S (2009): *Gift Aid donor research: exploring options for reforming higher-rate relief,* HM Revenue and Customs

[24] Scharf K & Smith S (2009): *Gift Aid donor research: exploring options for reforming higher-rate relief,* HM Revenue and Customs

[25] Walker C, The Researchery (2016): *A great match: How match-funding incentivises charitable giving in the UK and unites funders and donors in tackling social issues*

Conclusion

It makes little sense to talk about Covid winners and losers in absolute terms, but nonetheless, many households are emerging from the crisis in a stronger financial position than they started it.

At the same time, many charities have seen the need for their support rapidly expand over the past year. From providing food parcels to tackling the loneliness impacts of the pandemic and supporting people back into work, more than half of charities reported an increase in demand for their services between March 2020 and March 2021.

With so many households financially benefiting from a pandemic that has concurrently created so much need, there is a strong case to be made to spread fortunes more evenly.

There are various options both the government and the sector more generally might consider to support more of the £250billion excess lockdown savings to flow towards charities – from changes in Gift Aid or donation match schemes, to public campaigns using behavioural nudge techniques.

Whichever approach is adopted, as a society we have a limited window of opportunity to act. We can choose whether to leave the charity sector struggling to cope with the enormous demands being placed on it or we can choose to unleash the enormous potential of the charity sector to help recover the damage caused by the pandemic.

Annex

Summary of approach to estimating the proportion of lockdown savings that will be donated to charity

To estimate the proportion of the lockdown savings windfall that could be donated to charity we treat the excess savings as if they were a temporary increase in income. The analysis is as follows:

- We take the Bank of England's estimate of £250bn of excess savings by the summer of 2021 and express this as a proportion of Household Disposable Income for the year 2020. ONS data suggests that households earned £1,500bn in 2020[26], giving us an effective temporary increase in income of 17 per cent.
- We assume that for every 1per cent increase in temporary income, individuals will increase giving by between 0.35 per cent and 0.80 per cent, giving us between a 6 per cent and 13 per cent increase in charitable giving.[27]
- We then apply these per centage increases in giving to the baseline level of giving in the UK estimated at £8.8bn[28] to give an estimated increase in giving of between £0.5bn and £1.2bn.
- This is equivalent of between 0.2 per cent and 0.5 per cent of the original £250bn of excess savings.

This analysis is intended to provide an indicative estimate of the potential scale of giving that might be expected from an increase in saving similar to that seen in the UK during the pandemic. There is significant uncertainty around this estimate due to a number of key assumptions:

- We are not aware of any evidence on how giving responds to savings or wealth in the UK. As such we have assumed that behavioural responses will be similar to a temporary increase in income.
- We are unable to estimate how individuals' behaviour may have been affected by the particular pressures of the pandemic. For example, it may be that giving will increase by more than normal due to the increased focus on social sector causes, or it may be possible that the additional uncertainty created by the economic environment will reduce incentives to give.

[26] ONS (2021): *HH & NPISH (S.14 + S.15): Disposable income, gross (B.6g): Uses/Resources: Current price: £m: NSA*.
[27] These elasticities are based on taking a range of elasticities with respect of permanent income in the UK of 0.7 – 1.6 from Almunia et al (2020): *More giving of more givers? The effects of tax incentives on charitable donations in the UK*, Journal of Public Economics, vol 183, and adjusting it downwards to reflect the per cent differences between permanent and temporary income effects seen in evidence from the USA published in Hughes P, Lukesitich W (2007): *Income volatility and wealth; the effect on charitable giving*, Nonprofit and voluntary sector quarterly.
[28] Based on "Donated Income" series from the NCVO (2020): *UK Civil Society Almanac 2020.*

Summary of approach to estimating the impacts of changes in Gift Aid

We model the potential impact of a temporary uplift in the match element of Gift Aid from 25 pence for every £1 donated to 30 pence for every £1 donated. We do this in two steps:

- We estimate a static (non-behavioural) estimate of the cost of increasing the match rate based on assuming that all those donations that are currently made through Gift Aid now receive a 20 per cent increase in the amount matched by the government (an increase of 5p per £1 donated from 25p to 30p).[29]
- We estimate the behavioural response expected as a result of this change by assuming an elasticity of giving with respect to the price of giving of -1.16[30]. This is the equivalent of a 4 per cent increase in giving.

The results of this analysis are summarised in table below.

Baseline	
Gross giving through Gift Aid - personal gift + government match (2019/20)	£7,000 m
...of which government contribution from Gift Aid match (2019/20)	£1,400 m
Static cost estimate	
Increase in government donation from increasing Gift Aid match to 30p for every £1 donated	£280 m
Behavioural cost estimate	
Change in gross giving	£312m
...of which change in personal giving	£240m
...of which impact of behavioural response on government match	£72m
Impact of behavioural response on Gift Aid rebate for High Rate taxpayers[31]	£24m
Total cost to government	£376m
Total increase in income for charity	£592m

[29] Data on current government donations was taken from HM Revenue & Customs (2021): *UK Charity tax relief statistics*, Table 3.
[30] We draw on the approach of Scharf K (2009): *Gift Aid donor research; exploring options for reforming higher-rate relief,* HMRC and HMT. The price of giving is defined as (1-R/1+M), where R is the rebate to high rate taxpayers and M is the match provided by government. Scharf estimates the elasticity for the match rate based responses of a sample of 9,630 individuals to a set of hypothetical giving scenarios.
[31] Estimate base on a 4 per cent increase in the total cost of the high rate rebate.

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