Undervalued and overlooked? The need for better understanding civil society's contribution to the UK economy

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Faced with the unprecedented scale of the health, social and economic challenge posed by Covid-19, the government has hit back with an unprecedentedly large response. On the economic front, the Chancellor has repeatedly stated that he stands ready to deliver "whatever it takes", and has so far announced support amounting to an estimated £400 billion. That's equivalent to around 20 per cent of GDP – a level of intervention that would have been unthinkable just a few weeks ago.

That total includes £750 million earmarked specifically for charities. That's also a very big number – certainly way larger than anyone in the sector might have expected the government to ever deliver in the pre-crisis world. It's also set to grow a little larger given the government's pledge to match the public donations made as part of the *Big Night In* telethon on the BBC. And it comes on top of the support some charities can access through the government's various business support schemes – such as the Job Retention Scheme, tax and business rate deferrals and the Business Interruption Loan Scheme (though there is evidence to suggest that charities are finding it hard to access the latter option). Large though the overall package is however, it's also not enough.

Many charities are under huge pressure right now. The weekly survey we've been running through April has found that nine-in-ten organisations are expecting Covid-19 to have a negative effect on their ability to meet their charitable objectives over the coming six months, and nearly six-in-ten say they've reduced their activity in a significant way. The bitter irony is that demand for many of the services and support provided by charities is rising – for instance, there has been a reported quadrupling of demand for foodbanks, and a 700 per cent increase in demand for the domestic abuse hotline run by Refuge – at the very same time as the resources available to them are being constrained.

The NCVO's estimate is that charities are facing a funding shortfall of £4.3 billion just over the next three months – reflecting reduced revenues from charity shops and public events, constraints on foundation income, lower investment returns and other forms of reduced demand associated with a weakened economy and continuing lockdown. The government's package is substantial, but it falls well short of this estimate. And that means that organisations are likely to be cutting back on their activity just when they're more needed than ever. Some may even cease operating altogether: a survey at the start of April found that more than 50 per cent of charities feared they could go out of business within six months without additional financial support – rising to 70 per cent by the end of the year.

Clearly that's a bad outcome. But perhaps it's unreasonable to expect the government to do very much more. After all, many private sector enterprises will be facing similar pressures in the coming weeks. The government's response to the crisis has been massive, but it can't be bottomless. Given competing claims on its finite resources, perhaps it's right that the government distributes its support across the economy in a way that is proportional to each sector's relative contribution to overall output.

We know that there are around 168,000 registered charities in the UK, employing roughly 870,000 people (or just under 3 per cent of the UK workforce) and bringing in a combined gross annual income of around £77 billion. The closest proxy for the contribution of the sector to the economy – the 'gross value added' figure – amounts to an estimated £17 billion, or just under 1 per cent of GDP.

On this basis, the share of the total package of government support for business finding its way to charities may not be too far wide of the mark.

The problem is, that figure of £17 billion understates the true value of the sector. The scale of the undervaluation is uncertain, but we can be confident that it is very significant. Four key oversights stand out.

First, it takes no account of the value generated by the UK's unpaid volunteers. Ahead of the crisis, the ONS estimated that around 11.9 million of us volunteered in a formal capacity (for an organisation or group) on a regular basis, generating around £24 billion a year of additional value. With many more people signing up to volunteer in recent weeks – for the NHS and in their local communities – that figure has likely been inflated still further. But even if we stick with the pre-crisis estimate, the implication is that the value added by the charity and voluntary sector might stand not at £17 billion, but instead at more than £40 billion.

Second, no consideration is given to the value of *informal* volunteering. Such activity – covering unpaid support provided for someone who isn't a relative – isn't picked up in any regular way by the ONS. But it is estimated to fall not far short of the formal volunteering figure. On that basis, we might raise our £40 billion estimate to more like £60 billion.

Third, the official data fails to account for the spillover fiscal benefits associated with charitable and voluntary activity. Consider for example that each time a charity supports a homeless person into stable accommodation and employment, they can help to reduce crime, raise tax revenues, and lower expenditure on public services in areas like health. Estimates drawn from our work with different charities suggest each success creates somewhere between £6,000 and £22,000 of economic savings for the government. That means that each £1 spent by charities on such activity is likely to be generating more than £2 of spillover fiscal benefits. And it's a similar story in relation to children's mental health charities. Primary school counselling services can reduce future rates of truancy, exclusion, smoking, depression and crime, while at the same time boosting future employment and wage levels. Again there is a fiscal boost for government, with our work once more putting the ratio at £2 saved for every £1 spent.

It is, of course, hard to be definitive. And the ratio of public money saved for charity money spent will vary from intervention to intervention. But time and again, impact evaluations highlight the wider fiscal gains associated with undertaking such activity. For the sake of argument, let's assume that the fiscal spillover ratio of 2:1 set out in the examples above is typical (and PBE's back catalogue suggests that's not an unreasonable assumption). In that case, the £60 billion of value added by the charity and voluntary sector quickly jumps to somewhere in the region of £120 billion – or around 6 per cent of UK GDP.

The fourth omission relates to the wider economic spillover benefits generated by the sector's activity. Consider again the example of primary school counselling: the gains associated with improved child outcomes produce economic benefits not just for the public purse but also for the individual in the form of a healthier life and higher lifetime earnings. Such impacts are especially difficult to pin down, and will again vary from case to case – but our estimate of the private economic gain enjoyed by those children taking part in Place2Be's counselling programme stood at an estimated £4 for every £1 spent.

Even with a conservative estimate of how this additional spillover might play out across all other civil society activity, the value added figure quickly rises much higher. The Bank of England's chief economist (and PBE co-founder) Andy Haldane has suggested the figure could amount to as much as

£200 billion – a full 10 per cent of the country's economic output, and twelve times the official £17 billion figure.

This is, of course, no more than a thought experiment. We simply don't have good enough data to put a precise figure on the value of the sector. But therein lies the problem: too much of the benefit civil society brings to the country goes unmeasured and therefore overlooked, leaving the sector vulnerable to policy neglect.

Before those of us who work in the sector rush to criticise government for failing to recognise the true value of civil society's contribution to the economy however, we need to acknowledge our own shortcomings. To paraphrase the old cliche, what matters is what gets measured – and we haven't done a good enough job as a sector of capturing and then communicating our own value. That's understandable given the limited resources available to charities and the prioritisation of fighting fires at the frontline. But it's nevertheless something we have to get better at: systematically and consistently surveying our clients, staff and volunteers to understand and monitor the impact of our activities.

Government can undoubtedly help in this regard though, both by ensuring we have good quality survey data and by opening up access to administrative data sources. The former could provide us with richer and more regular information on volunteering and social capital, while the latter could help us better monitor the lifetime outcomes of those supported by charitable activities. Both could support the establishment of appropriate control groups and baselines.

There is scope too for a more fundamental review of the way in which the macro value of the sector is captured by the ONS, moving us away from a narrow focus on charity cost or income to something which accounts for the economic and social value associated with wider civil society activity. That means incorporating wellbeing data. It also means understanding that civil society is about more than just delivering services to citizens. As the NCVO – building on work by Lester Salamon – has argued, the sector additionally supports our economy by serving as an important source of innovation, a voice for those furthest from power, a forum for expression, and a means of building community.

As mooted previously by Andy Haldane, it may be that civil society needs something on the scale of the 2005 Atkinson Review of public sector data – a deep dive that can bring government statisticians and civil society organisations together in order to build a measurement framework that can generate smarter policy outcomes.

That review is for tomorrow maybe. But recognising that the sector adds significantly more value than is supposed is something that can't wait. Many thousands of charities and civil sector organisations are under incredible strain, and are not getting the level of crisis assistance that their importance to the country might warrant: when asked to rate the sufficiency of the government's financial support for the sector, 43 per cent of the charities responding to our weekly survey scored it 3/10 or lower. As the sector's activity and presence is scaled back over the coming weeks and months, the social and economic hit to the UK is likely to be much greater than the government currently realises. If the early surveys are borne out, and somewhere in the region of half of the UK's charity and civil society organisations fold as a result of Covid-19, then the loss of activity we might be looking at could equate to as much as 5 per cent of GDP.

The support being provided by government is massive, and it is welcome. But it is based on an under-appreciation of the true value of the sector, and is therefore insufficient. Civil society does more, and civil society deserves more.