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THE VALUE OF THE CHARITY SECTOR

An overview

Foreword:

A better understanding of the value of charity is needed

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People have a general understanding of the impact of sectors like manufacturing on society: they create jobs, income and goods and services to buy. However, trying to gauge the impact on society, both collectively and individually, of the charitable sector is much more complex. Yet as our politicians strive to define what constitutes a successful country it is essential for them to take a view about the importance of charities, not just in terms of what they deliver but more broadly their impact on social cohesion, individual wellbeing and civic engagement.

The standard economic measures are incomplete as they fail to pick up many of the key impacts of charitable giving and receiving. Andy Haldane, Chief Economist at the Bank of England, provided one of the most thorough analyses of some of the benefits created by charities and the volunteers that do much of their work: the economic, private and social value they create.¹

The purpose of this paper is to explain the steps that are needed to measure the value of the charitable sector. Proper measurement is an important step that would allow the sector to deliver more benefit and to understand its value. Measurement must reflect what charity means in the eyes of the public and serve to maintain the distinctiveness of charities in our society.

This is a particularly timely discussion as policy-makers look for solutions to some deep economic and social divides. This government and all governments over the coming years will need to better understand the value of charity as part of seeking those solutions.

¹ Haldane, "In giving how much do we receive? The social value of volunteering", Lecture to the Society of Business Economists, 2014, <https://www.bankofengland.co.uk/-/media/boe/files/speech/2014/in-giving-how-much-do-we-receive-the-social-value-of-volunteering>

THE VALUE OF THE CHARITY SECTOR

An overview

The charity sector is large and increasingly important

There are some 168,000 charities in England and Wales. The largest sectors of activity are provision of social services, and culture and recreation, which together account for around one-third of charities.

Most charities are small: around 75% have income less than £100,000 per year. But a small number are large organisations: 1% of charities have income over £5m per year.

Most charities depend on volunteers to deliver many of their activities. Almost 1 in 2 adults in England volunteer at least once a month.² According to the Community Life Survey, over 2 billion hours are spent volunteering each year in the UK. This is equivalent to 1.25 million full-time employees, similar to the total employment across the manufacturing, construction and real estate sectors combined.³

The charity sector is seen as an increasingly important part of society⁴ and in the delivery of services which have traditionally been provided by the public sector (e.g. in areas like safeguarding, cancer research, homelessness and loneliness)⁵.

According to NCVO, areas of activity with the greatest involvement of voluntary organisations are social services provision, culture and recreation and religious services.⁶

² House of Commons Library, "Charities and the voluntary sector: statistics" (August 2017)
NCVO, "Civil Society Almanac 2018"

³ Speech by Andrew G Haldane: In giving, how much do we receive? The social value of volunteering, at a Pro Bono Economics lecture to the Society of Business Economists, London, 9 September 2014

⁴ The role of charities in today's society has gained increasing prominence in recent discussions. Matthew Taylor, in his BBC Radio 4 series on 'The Charity Business', has examined the important role the charitable sector plays in UK society, and the public's perception of charities today, devoting special attention to the value delivered by small organisations.

⁵ PwC (2014). Managing the new normal in 2014.

⁶ House of Commons Library, "Charities and the voluntary sector: statistics" (August 2017)

MEASURING ECONOMIC OUTPUT

One simplistic way to measure the impact of the charity sector across the UK is by focusing on the **economic output** created by charities. Typically, this uses metrics such as levels of employment and contribution to GDP. In this way the sector can be considered and measured alongside the private and public sectors.

NCVO's Civil Society Almanac 2018 suggests that the sector accounts for almost 900,000 jobs and over £15bn in GDP.⁷

But a more rounded assessment of the impact of the charity sector needs to consider the **social value** created. This includes the value placed on charity by its direct recipients, but also the (indirect) value to others in the community, donors and the benefits to the millions of volunteers who deliver charity services. As Andy Haldane points out in the same speech quoted above, *"this means that very little of the value created by the volunteer sector is easily visible to statisticians, to policymakers, to politicians, to companies, indeed to the volunteers themselves."*

Charities are particularly well placed to respond to social challenges facing the UK, such as increasing social and income inequality.⁸ Charities have the potential to build bridges and unite people through their work if people can recognise and respect charitable endeavour regardless of where and to whom its purposes are directed. We must not lose sight of that fundamental point when we ask the charity sector to do more, and to realise its potential.⁹

As the Charity Commission's own research shows, the charity sector can no longer count on being given an automatic benefit of the doubt.¹⁰ The public wants reassurance that charities are behaving charitably as well as delivering their charitable purposes and the ability of charities to maintain these standards and to meet growing demand depends on retaining the confidence of public, and the public's view of the value provided by the sector. It is this goodwill that underpins the legal and economic privileges charities enjoy. Charity tax relief alone is worth about £5 billion and requires public support to continue.¹¹

In short, the charity sector is recognised as a vehicle of powerful human endeavour and instinct to do good, the impact of which is important to the Government, the economy and to society. Charities have the potential, perhaps even the responsibility to help bridge our divides but they will not be able to fulfil this role if they themselves are seen as contributing to them.

⁷ NCVO, "Civil Society Almanac 2018"

⁸ As reported by the Equality Trust, the UK has high levels of income inequality compared to other developed countries: the richest 10% of households hold 44% of all wealth. The poorest 50%, by contrast, own just 9%.

<https://www.equalitytrust.org.uk/scale-economic-inequality-uk>

⁹ Although public opinion on this may be mixed. See for example nfpSynergy, "Public Service Provision by Charities" (November 2017)

¹⁰ Populus for the Charity Commission, "Trust in charities 2018"

¹¹ National Council for Voluntary Organisations, Charity Tax Commission, "Reforming charity taxation", July 2019.

There are five components to the value of charity

Behaviours and perceived motives are more important than ever in driving public confidence in institutions and charities are not immune to that trend. How best to assess the value of charity in this environment? To start with we can look at how the public receive and perceive charitable services. Research commissioned by the Charity Commission makes clear that the value of the sector is a function of its contribution to people and society.¹²

- Trust: meeting high standards of conduct and behaviour
- Local roots (“localism”): participating in local communities and their ability to connect with, and establish links between, local people
- Experts: the expertise they provide in their area and in how to deliver for the public
- Speaking out (“voice”): providing a voice for the most vulnerable.

These factors, often based on individual judgements, drive how the public experience and perceive the value of charities. They contribute to an understanding of what is charity and what distinguishes it from other activities or institutions – and how charity adds value over-and-above the value added by other institutions.

It is a difficult task to move beyond these high-level assessments of value to more practical measures – quantitative, qualitative, monetary, financial – that are often used to inform decisions about, for example, whether the public would welcome more charitable involvement in services historically provided by the public or private sectors. The aim should not be an expanded role for charities in these areas for its own sake but rather supporting additional charitable activities in these areas if it happens in the right way for the right reasons.

One way of approximating the value of charity is to investigate the components that contribute to the four factors mentioned above: what affects trust, localism, expertise and voice of charities? Discussions with the charitable sector and our review of the evidence (see below and footnotes) suggests five components each of which may be amendable to further analysis:

1. **Direct value to the public in receipt of charitable services:** those who are specifically identified in the defined purpose of the charity (e.g. former armed forces personnel, elderly and infirm, vulnerable children etc).
2. **Value to members of the public who act as volunteers for charities:** those who give their time and, in turn, derive value linked to the services they deliver but often also in terms of the social bonds they form or the catharsis offered (e.g. for some working at a charity related to the loss of a loved one).
3. **Wider value to members of the public who donate to charities, beyond the value of their donation:** who, like volunteers, create and derive value directly linked to the services provided but also may derive value from a range of less tangible impacts on themselves including everything from their social standing to tax relief to emotional wellbeing. The latter explains why people often donate

¹² Populus research for the Charity Commission (July 2018)

to causes linked to events in their lives, rather than based on any formal analysis of the highest returns for their money.

4. **Wider value to the employees of charities, beyond their salaries:** whose value is only partly reflected in their salaries because, at least for some, they willingly earn less than they would earn in alternative jobs for which they are qualified.
5. **Wider benefit to society through their broad role in society as distinct to their specific impacts on individuals:** charities make wider contributions through their participation in public and private debates relevant to their services, in providing an alternative point of view from private and public sector organisations and an alternative means by which people can engage with that point of view.

If it were possible to accurately place values on each of these components that would help to capture the overall value of the charitable sector and where that value is experienced, as illustrated in Figure 1.

Figure 1 How the public benefits from charity



Source: Frontier Economics

Developing an approach to measuring each component in this way does not require it to be used in all circumstances. There will be many in which it is not appropriate – charity is intrinsically worthwhile and aspects may not be amenable to objective measurement.

Nevertheless, there are often situations where charities are required to show their impact (e.g. to attract donations), or where they may benefit from considering who benefits from their activities, and how this benefit could be increased.

Measuring each component may sometimes be attempted using monetary values, but only a proportion of these components of value would ever be directly monetised. Monetary values can be imputed, for example, for the value of volunteer's time or by counting donations. But it is not always necessary – or even desirable – to put a number or monetary value on each driver. There are a range of potential positive impacts for which it is difficult or impossible to assign monetary value, or even to measure. To appreciate and to capture these impacts it can be useful to draw upon a wider range of qualitative evidence (such as case studies).

Any attempt to more fully characterise – including quantify – the extent of the sector's value needs to recognise the limitation of such an exercise: the approximations that are required and the likelihood that even those approximations will not cover the total value delivered. However self-assessment by charities themselves clearly has an important role to play.

There are risks for charities if they do not try to measure – in a way which is relevant and proportionate to their organisation – the value they create. The risks of not being able to clearly articulate – and quantify more widely than efforts to-date – the sector's value include:

- mistakenly overlooking or even undermining the wider public benefit function of charities while focusing on the services charities deliver
- failing to adequately guard or regulate entry to and exit from the charitable sector
- inability to judge whether the trade-offs being made about who and how services are delivered are correct.

There are a range of approaches that could be used to develop evidence – and quantify—the impacts of charity for each of the five components of value. Running through all of these components of value is the concept of **wellbeing**. An overview of existing evidence provides a ranking of the factors that matter for wellbeing: health (physical and mental), employment prospects and volunteering.¹³ These are reflected in the categories of beneficiaries and their measurement:

1- Recipients of charity

Firstly, the charity sector creates value for the direct recipients of its services. The primary benefit is the value of the service delivered. The value of services can be quantified through many techniques, including willingness-to-pay, using proxy measures (e.g. drawing on value of similar services in other countries) and outputs-based survey measures that can be used to capture the value attributed by the recipient.¹⁴

¹³ Fujiwara et al (2014), Measuring the social impact of community investment: A guide to using Wellbeing Valuation Approach", *HACT: ideas and innovation in housing*

¹⁴ Salomon et al. (2011). Measuring the Economic Value of Volunteer Work Globally: Concepts, Estimates and a Roadmap to the Future. <http://ccss.jhu.edu/wp-content/uploads/downloads/2011/10/Annals-September-2011.pdf>

Further, the charity sector might be able to deliver services to a higher quality standard than a private or public sector provider.

“By being close to their users, charities have a unique perspective on their needs and how to improve services.”¹⁵

Compared to their private counterparts, charities are well suited to inform the delivery of public services, by addressing informational asymmetries and barriers to accessing services.¹⁶ Their regulatory framework also pushes them to be driven by higher ethical standards in developing services focused on meeting human needs.¹⁷

2- Volunteers

There is also evidence to suggest that, beyond the recipients of charity or charity-led services, the value of charity to those who volunteer their time can be significant.¹⁸

Charitable work can bring substantial benefits to volunteers, mainly in the form of enhanced well-being and health benefits. Volunteering and charitable activities have been shown to increase life satisfaction and levels of happiness¹⁹, and research suggests that these effects might be long-lasting.²⁰ Volunteering also increases skills and employability, especially for marginalised groups of society.²¹ Each of these impacts can be quantified, and potentially monetised.

The main challenges associated with measuring the value to the volunteer are the demands associated with collecting appropriate survey data, and potentially the low reliability of self-reported measures of wellbeing.

¹⁵ Ibid.

See also National Audit Office, Successful Commissioning Toolkit, “What are third sector organisations and their benefits for commissioners?” <https://www.nao.org.uk/successful-commissioning/introduction/what-are-civil-society-organisations-and-their-benefits-for-commissioners/>

¹⁶ Charities and public service delivery: an introduction (CC37). <https://www.gov.uk/government/publications/charities-and-public-service-delivery-an-introduction-cc37>

¹⁷ Civil Society Strategy: building a future that works for everyone. <https://www.gov.uk/government/publications/civil-society-strategy-building-a-future-that-works-for-everyone>

¹⁸ For example see Haldane, “In giving, how much do we receive? The social value of volunteering”, Pro Bono Economics lecture (September 2014)

¹⁹ For example, see Harbaugh, W. T. (2007). Neural responses to taxation and voluntary giving reveal motives for charitable donations. *Science*, 316, 1622-1625, Meier, S. (2007). Do subsidies increase charitable giving in the long-run? Matching donations in a field experiment. Working paper, Boston Federation and Dunn, E. W., Aknin, L. B., & Norton, M. I. (2008). Spending money on others promotes happiness. *Science*, 319, 1687-1688.

²⁰ Choi, N. G., & Kim, J. (2011). The effect of time volunteering and charitable donations in later life on psychological wellbeing. *Ageing & Society*, 31(4), 590-610.

²¹ For example, those excluded from formal education channels and the long term unemployed. See <https://www.probonoeconomics.com/sites/default/files/files/Social%20Value%20of%20Volunteering%20-%20Andy%20Haldane.pdf>

3- Donors

The charity sector creates wider value to members of the public who donate to charity. They might derive intrinsic benefits from donating, including an increase in happiness and from the pursuit of personal values of importance to them.²²

Research suggests that donating leads to greater happiness and fulfilment: spending more of one's income on others predicts greater happiness.²³ There is also evidence of a positive feedback loop between prosocial spending and happiness, as prosocial spending increases happiness which in turn encourages prosocial spending²⁴. The value of these outcomes can be measured.

These findings were confirmed to have physical manifestations: a study of MRI scans found that the brain's pleasure centres became activated as people decided to donate part of their money to charity.²⁵

4- Employees

The sector generates additional value to employees, which is only partly reflected in their salary. As least some third sector employees are willing to earn less in favour of a working environment where a sense of fulfilment trumps salary expectations.²⁶

There is also evidence to suggest that employees in the charity sector value work that contributes to society more than public and private sector employees.²⁷ These individuals benefit from a rewarding career path focused on driving change and helping to improve the life of others.²⁸ Understanding the income that could be earned by charity workers with other employees can be used to quantify this additional value.

²² <https://www.cafonline.org/my-personal-giving/long-term-giving/resource-centre/five-reasons-to-give-to-charity>

²³ both cross-sectionally (in a nationally representative survey study) and longitudinally (in a field study of windfall spending).

Dunn, E. W., Aknin, L. B., & Norton, M. I. (2008). Spending money on others promotes happiness. *Science*, 319(5870), 1687-1688.

<https://science.sciencemag.org/content/319/5870/1687>

²⁴ Aknin, L. B., Dunn, E. W., & Norton, M. I. (2012). Happiness runs in a circular motion: Evidence for a positive feedback loop between prosocial spending and happiness. *Journal of Happiness Studies*, 13(2), 347-355.

<https://link.springer.com/article/10.1007/s10902-011-9267-5>

²⁵ <https://www.nih.gov/news-events/nih-research-matters/brain-imaging-reveals-joys-giving>

²⁶ <https://www.charityjob.co.uk/careeradvice/an-employment-overview-of-the-charity-sector-in-the-uk/>

²⁷ Lyons, S. T., Duxbury, L. E., & Higgins, C. A. (2006). A comparison of the values and commitment of private sector, public sector, and parapublic sector employees. *Public administration review*, 66(4), 605-618.

<https://www.jstor.org/stable/pdf/3843945.pdf>

²⁸ <https://jobs.theguardian.com/article/why-you-should-work-in-the-charity-sector/>

5- The public or society in general

Finally, the charity sector contributes to fostering economic and social cohesion at the community level.²⁹ This role may be increasing in importance given some of the divisions in society highlighted in the paper. Involvement in voluntary activities is an expression of participatory democracy. Charitable activities build social capital in the form of increased trust and cooperation, and promote social inclusion, potentially bringing divided communities together. The activities generally contribute to individual and wider wellbeing.

It is also possible that the subjective value of the output from the charity sector – amongst recipients, or the wider public – is greater than the objective measure of that output (as illustrated in Figure 2).

Figure 2 Objective vs subjective value



Source: Frontier Economics

Put simply, people think charity is a good thing:

“Charities are the eyes, ears and conscience of society. They mobilise, they provide, they inspire, they advocate and they unite.”³⁰

²⁹ EU Parliament report on the role of volunteering in contributing to economic and social cohesion (2007). <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A6-2008-0070+0+DOC+PDF+V0//EN>

³⁰ House of Lords, Select Committee on Charities, “Stronger charities for a stronger society” (March 2017)

A SUBJECTIVE WELLBEING APPROACH

An innovative alternative is to frame all the above analysis in terms of the sector's impact on subjective wellbeing (SWB). This approach builds on the ideas used in health where the benefits of a new drug are assessed by asking patients about the impact on their quality of life. The National Institute for Health and Care Excellence (NICE) uses this approach to assess whether the NHS can afford new drugs: balancing their cost against the benefit measured in quality adjusted life years.

The What Works centre for Wellbeing has documented various studies that use similar approaches to assess the impact of various policies on subjective wellbeing as measured by using people's answers to some standard questions. The Office for National Statistics (ONS) asks questions about how satisfied are you with your life, how worthwhile you feel it is, your happiness and degree of anxiety. Researchers are examining the responses to discover, for example, what causes people to report higher or lower satisfaction with their lives. This work is providing ways of calibrating how far particular policies are having an impact on people's quality of life.

In the charitable sector this would involve the direct impact on wellbeing of being the recipient of charitable services. But it would also look at how far volunteers, for example, feel their wellbeing was enhanced by helping others. There might also be an overall gain to communities, for example if a charity managed to keep a library from closing. This would show up by looking at the levels of subjective wellbeing reported in such areas.

This broad approach could be used by the Treasury to help in the next spending review, allocating money to where it most improves wellbeing (e.g. see the All Party Parliamentary Group report on a Wellbeing Spending Review).³¹ It could provide very powerful evidence to assess whether the tax reliefs provided to the charitable sector provide good value for money.

It is time to examine the value created by charity in more detail

This note is one part of a process, initiated by the Charity Commission, to discuss how best to understand, and capture, the value of charitable activities. The note combines ideas about:

- **What** charities should be doing: maximising their public value. The framework set out in this note provides a way to define that public value and articulate (in some cases through measurement) its size.
- **How** charities should be carrying out their activities: through activities that build, rather than reduce, the overall support of the public for the special status of charities. Something that would be helped by the

³¹ <https://wellbeingeconomics.co.uk/wp-content/uploads/2019/05/Spending-review-to-ncrease-wellbeing-APPG-2019.pdf>

greater understanding of the limits to their activities facilitated by a framework such as this one.

Absent a better understanding of the value of charity (the “how”), there is a risk that the boundaries between what is charitable activity, what is state activity and what is private sector activity (the “what”) are blurred beyond recognition. The resulting confusion, in the mind of the public, could endanger the special status of charities, including their special legal and financial privileges.³²

There is an alternative, much better, outcome in which charity offers a range of opportunities and expertise to the public, donors and volunteers and the wider public can see the value charity adds distinct from the contributions of other institutions.

Action to understand the value of the charitable sector is needed urgently if we are to avoid the risks and achieve that better outcome. Policy decisions about the role and nature of charities in society will be prominent in the coming years. Without a clear articulation of the sector’s value, those decisions could further blur the lines between charitable and other activities, to the detriment of all.

The Charity Commission, as the regulator of charities in England and Wales, is responding to the danger posed by confusion over the role of charity and benefits that would stem from a more active, trusted sector. Its five-year strategy, published in October 2018, sets out a new purpose for the Charity Commission: to ensure charity can thrive and inspire trust so that people can improve lives and strengthen society.

The strategy focuses on key issues such as:³³

- Influencing charities to ensure that public expectations are met and shaping the debate about how charities thrive in a changing world;
- Proactive intervention to prevent and deal with harm and wrongdoing;
- Better data and information about charities which is easy to access and use; and
- providing charities with tools and guidance to enable them to continue to improve.

As charities become more prominent in the delivery of a wider range of services, including many that were previously the purview of government, it is important, and urgent, to understand the value they deliver, what determines that value and what makes charities unique in the eyes of the public. The Charity Commission’s strategy reflects the fact that the public’s perception of the value of charity is determined by how well charities meet public expectations about both what they achieve and how they do it. The question for the charitable sector is how best to maximise its value and the broader contribution it can make to society while safeguarding what has made charity a cherished part of our national life in the first place.

³² Including the protection of charitable tax reliefs, as noted above, amounting to about £5 billion (NCVO, Charity Tax Commission, “Reforming charity taxation”, July 2019)

³³ <https://www.gov.uk/government/publications/charity-commission-strategy-2018-2023>