Private giving and philanthropy – their place in the Big Society

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Summary

While government has clearly signalled the importance it attaches to the growth of charitable giving and philanthropy in building the Big Society, there has been little appraisal of what needs to be achieved through this approach, and how far growth is feasible. This paper identifies current thinking and policy expectations of giving and philanthropy, and the messages which emerge from a review of evidence on current distribution, the donors, donations and emerging demand. It looks at how far philanthropy is likely to take the place of statutory support, and meet new needs. It is concluded that charitable giving is far more driven by donor preference and less socially instrumental than many acknowledge. An increase in the scale of charitable giving and philanthropy may only lead to an expansion in its role if it is accompanied by a new awareness of public need.

Keywords: giving, philanthropy, charities, funding, income.

The renewed emphasis which Big Society thinking and policy has placed on the relationship between individual initiative and public responsibility lies at the heart of how charitable giving and philanthropy might develop in the new era. In writing about the response of the US people after the 9/11 tragedy, Salamon commented on how it demonstrated the mobilisation of ‘private initiative for the common good’. (Salamon, 2002). Analysis of voluntary sector funding in the UK often treats giving as no more than one ‘income stream’ amongst others, rarely focussing on the highly personal and often complex nature of donor choices and motivation. Decisions about giving in the UK are largely taken by private individuals, possibly with other family or household members, and sometimes within the corporate context of a private charitable trust or company. Private giving and philanthropy have not only supported, but have also had a strong influence on shaping the nature of, the charitable sector today. Government has clearly identified an increase in giving and philanthropy as part of its Big Society thinking, but there has been little appraisal of whether this is feasible, and what it might mean or achieve in terms of reconciling private and public needs. This paper aims to explore and identify policy expectations of giving and philanthropy, review what
the evidence can tell us about its current landscape, and explore what this means for the place of giving and philanthropy within the Big Society concept.

For the purposes of this paper ‘giving’ will be taken to mean simply the donating of funds, and ‘philanthropy’ will be treated very generally as referring to the wider framework of beliefs, structures and practice governing the way in which donations are transferred. In practice, most of the research which will be discussed relates to the giving of money. It should be noted that the relative uses of the terms ‘giving’ and ‘philanthropy’ in emerging discourse could provide the topic for another paper in itself, but it is not within the remit of this paper to deal with this terminology in depth. A good example is the innovative reference both to ‘charitable giving’ and ‘philanthropic giving’ in Prime Minister David Cameron’s quotation below.

**Policy context**

Private giving and philanthropy provide financial support for a wide range of voluntary activities in the UK. Today private giving from individuals, companies and charitable trusts is worth over £18 billion per year (Pharoah, 2011), and represents about one-third of the income of charities and other voluntary organisations. Giving has been particularly actively promoted by successive governments since the 1980s when huge increases in private wealth resulted from global capitalism, and the new Conservative administration expressed its belief that the frontiers of the state should be rolled back, allowing a greater role for private and voluntary sectors. Measures to stimulate giving since that time include new tax incentives (for example, the payroll giving scheme 1988, Gift Aid tax relief 1990, with substantial enhancements in 2001), legal reforms (Charities Act 2006), and awareness-raising (for example, Giving Campaign, 2001-4). Firmly within this tradition, the promotion of giving and philanthropy has been given an integral part in the Coalition government’s vision for building a Big Society.

The first formal evidence of the importance attached to giving and philanthropy by government was the inclusion of its intention to ‘take a range of measures to encourage charitable giving and philanthropy’ in a brief note entitled ‘Building the Big Society’ released shortly after the Election. (Cabinet Office, May 2010) However, as in other policy contexts noted elsewhere in this edition of the journal, while there are clear expectations that giving and philanthropy will play a role in Big Society, there has been little ‘fleshing out’ of what this might mean in material terms. There is, for example, almost no discussion of where, when, how and how much government feasibly expects giving and philanthropy to contribute.

Where government has been quite clear, is in stating that the promotion of giving and philanthropy is not aimed at replacing government funding. For example, in recent remarks defending the Big Society against criticism that it was simply a cover for government spending cuts, the Prime Minister highlighted his general belief that ‘it would be good if we had more philanthropic giving, more charitable giving and more volunteering in our country, so that all of those three things need to happen... It is not a cover for anything’. However, he added that ‘...If there are facilities that the state can’t afford to keep open, shouldn’t we be trying to encourage communities who want to come forward and help them...?’ (Cameron, 15 February 2011).

The Department of Culture, Media and Sports was one of the first to announce spending cuts, with the announcement that it would develop a strategy to promote philanthropy a few months later. Any policy link between the promotion of philanthropy and government spending cuts was specifically refuted by Jeremy Hunt, the Secretary of State for the Department of Culture, Media and Sports (DCMS) in a speech to the European Association for Philanthropy and Giving, 8 December 2010. His opening
remark was 'I want to start by addressing the biggest challenge I face when it comes to the philanthropy agenda. Namely, to explode the myth that it is simply a response to cuts in arts funding...Nothing could be further from the truth.’ He added that what government was looking for was ‘...an opportunity....to turn philanthropy into a tap that could support the arts as effectively as the National Lottery.’

Further evidence of the government’s aspirations around the growth of giving and philanthropy is the cross-departmental strategy for promoting giving set out in the Giving White Paper published in May (Cabinet Office, 2011). It states that its ‘ambition is to stimulate a step-change in giving’. It takes an inclusive approach in incorporating ideas and initiatives from both inside and outside government, providing a ‘showcase’ for ‘trailblazers and innovators’. And following Cameron’s approach that giving should be promoted because it is generally desirable (see above), specific objectives behind the drive to increase philanthropy are not given in the paper beyond the belief that ‘giving is good. It offers benefits for everyone – those giving, as well as those receiving’. The Paper sets out ‘how we as Government intend to support the good work that is already happening, and to encourage more.’ The implication is that individual giving choices will lead to a better society. A main thrust of the policy set out in the paper is to promote individual philanthropy through modernising transactional processes for giving, such as enabling a donation to be made when people use automatic cash machines, or ATMs.

But if government is clear that the promotion of giving and philanthropy is justified because it is an inherent part of a good society, and is not linked to levels of reduction in public spending, others have seen it differently. The issue came to a head first in the field of arts and culture, as the impact of the reduction in government subsidy to the Arts Council through which many arts and culture organisations are funded, became clear. The immediate response to the cuts from many arts organisations, critics and the media has been to ask how far philanthropy would and could fill the gap, and there has been considerable scepticism in a highly impassioned debate (See for example, Glynn, 2010; Youngs, BBC, 2011). In relation to the wider voluntary sector, the National Council for Voluntary Organisations (NCVO) has clearly linked the potential impact of cuts to central and local government budgets and the future role of philanthropy, noting that ‘charitable giving and philanthropy is the most significant source of funding to the VCS, and it is likely that its importance will proportionately increase as state funding declines' (NCVO, 2011). The Association for Chief Executives in Voluntary Organisations (ACEVO) went even further, arguing that even if there were more giving and philanthropy, it would be unable to meet all of the voluntary sector’s needs. In an open letter to Cameron it wrote ‘Big Society has for too long been promoted as a Utopian ideal with calls for more giving and more volunteering. But the reality is the hard grind of charities trying to provide services for more, against cuts in their funding’ (ACEVO, 2011).

The next section of the paper briefly reviews a range of evidence relevant to assessing the scope for giving and philanthropy to develop the notion of Big Society, to meet expectations around funding gaps and to grow.

**Landscape of giving and philanthropy**

There is little research available to indicate how donors might react to the new funding environment for voluntary organisations and activities. This section draws on existing research on current patterns and trends to illuminate four areas of the giving and philanthropy landscape relevant to understanding its future shape and place:
• current scale
• current patterns in causes supported
• current and emerging demand
• current trends in donating and donors

Scale

Data on giving in the UK is patchy and fragmented. To get a comprehensive picture means using different sources, and there are some discontinuities such as, for example, in what is considered a charitable gift. The figure of £18 billion quoted at the beginning of this paper is combined from the following figures and sources as follows:

- Corporate donors (cash) £0.5 billion (Pharoah, CMM 2010, ibid)
- Higher-rate tax-payers £1.1 billion (McKenzie and Pharoah, 2010)
- Ultra-high net worth donors £1.7 billion (Sunday Times, Rich List 2011)
- Legacies £2 billion (Legacy Foresight, 2010)
- Charitable trusts and foundations £2.4 billion (Pharoah, CMM 2010, ibid)
- General public £9.5 billion (NCVO/CAF, 2010, ibid)
- Gift Aid tax reclaim £1.0 billion (HMRC, 2010)

As can be seen, the vast majority of private giving is derived from individual members of the general public, but a significant gap in our information is accurate information on individual major donors who are too thinly spread throughout the population to be captured in general population surveys. The general public gives around four to five times as much as charitable trusts, and as is given through charitable wills, and twenty times as much cash as corporate donors. Putting this in perspective, while giving provides around one-third of the funding of voluntary organisations and activities, it is equal to just 2.7 per cent of current government spending approximately. The next paragraph looks at where the money goes.

Current distribution of private giving

There is very little comprehensive data in the UK on the distribution of private charitable resources either by charitable cause or by beneficiary group. To get some insight into the extent to which private donating could potentially substitute for statutory funding, a new analysis of existing data on the distribution of statutory funding and private donations across causes and sub-sectors in the top fundraising charities was undertaken (Pharoah, 2011). This was considered a relevant sample as it consists of the 500 largest charities receiving private donations. Many of these also receive government funding. The sample represents about one-third of the value of all private donations, though less than 1 per cent by number. Results are set out in Table 1, and illustrated graphically in Figures 1 and 2.
Table 1: Comparative distribution of a) private donating b) statutory funds by cause, top 500 charities, 2009-10, £ million

<table>
<thead>
<tr>
<th>Causal area</th>
<th>£ m</th>
<th>Causal Area</th>
<th>£ m</th>
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<tr>
<td>Community devt/ regeneration</td>
<td>16</td>
<td>Animal welfare</td>
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<td>49</td>
<td>Religious (missionary)</td>
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<td>Elderly</td>
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<td>Community devt/ regeneration</td>
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<td>89</td>
<td>Chest and Heart</td>
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<tr>
<td>Service/ex-service</td>
<td>138</td>
<td>Service/ ex-service</td>
<td>1.8</td>
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<tr>
<td>Education/professional</td>
<td>139</td>
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<td>9.9</td>
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<td>Benevolent</td>
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<tr>
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<td>208</td>
<td>Religious (welfare)</td>
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<tr>
<td>Arts and culture</td>
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<td>Cancer</td>
<td>41.6</td>
</tr>
<tr>
<td>General soc welfare</td>
<td>258</td>
<td>Health Information/Research</td>
<td>48.3</td>
</tr>
<tr>
<td>Env't/ Conservation</td>
<td>314</td>
<td>General soc welfare</td>
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<tr>
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<td>334</td>
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<td>International</td>
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Total: 6015

Source: Pharoah, C. ‘Charitable Causes’ in Charity Market Monitor 2011, and additional unpublished analysis based on data taken from the report.
Figure 1: Distribution of private donating to the top fundraising charities, by cause, 2009-10

Figure 2: Distribution of statutory funds to the top fundraising charities, by cause, 2009-10
The results reveal that there are very marked differences in the way in which philanthropic and statutory funding is distributed across this sample. Almost half of the philanthropic funding goes to four causes – international, cancer, animal welfare and religious (international and welfare). While international causes also attract a great deal of statutory funding, the other two main recipients of statutory funding are arts and culture, and children and youth. Animal welfare and religious missionary causes receive no statutory funding, although high recipients of philanthropy. It is also clear that several of the social welfare and special needs causes get a much larger slice of the statutory funding cake, than of the philanthropy cake, while health causes are much more dependent on philanthropy.

There is particular evidence of the strength of charitable giving for health at the local level. Local hospices have shown the fastest growth in philanthropic support of all local causes, raising funds on a par with many big national charities, but given the large place which cancer holds in private giving, it is likely that commitment to the cause is a much stronger driver for giving than commitment to the local area.

The evidence of this sample indicates that the preferences of philanthropic and statutory donors and funders are very different, and that one would not easily substitute for the other. An increase in charitable giving on these trends would not necessarily bring help to the causes which are most at risk from statutory spending cuts. Andreoni’s (1990) research on ‘impure altruism’ established that giving decision-making is not motivated simply by the need to fill gaps in public funding but also by the additional private rewards the donor may be seeking, related to his own needs and preferences.

Other research on flows of funding to health charities shows the very different functions of charitable and state funding: charitable funding is aimed mainly at medical research and hospital facilities, while the NHS funds voluntary organisations to support user groups in areas such as mental health, drugs and alcohol rehabilitation, and dedicated services for various minority groups (Pharoah and Harrow, 2011). About one quarter of all corporate giving, worth about £144 million, is dedicated to arts and culture, and heavily skewed to the major national institutions in London (A&B, 2010).

There are few published studies of the distribution of charitable giving and philanthropy in relation to social justice. A recent study of the North East has shown that registered charities were least likely to be located in the most deprived areas, while the opposite was true for small non-registered local ‘below the radar’ organisations (Northern Rock Foundation, forthcoming 2011). Turning to the US literature, it has been concluded that there is very limited evidence of redistributive effects from the non-profit sector more generally (Clotfelter, 1992; Reich, 2005).

While evidence on the comparative distribution of different types of funding within the voluntary sector is limited, the examples quoted above indicate both that there are significant differences in the priorities and choices of charitable and statutory funders, and that the redistributive effect of charitable resources more generally is not clear. This indicates that an increase in charitable giving and philanthropy would not necessarily ensure funding to a full and diverse range of need within Big Society. The next section turns to the donors and levels of donating.

Donors and donations

Evidence on long-term trends in donating is available from a new study which has studied patterns in household giving over 30 years from 1978-2008 (CGAP/CMPO, 2011). Like other regular studies of giving amongst the general population, such as
the annual surveys of carried out by NCVO and Charities Aid Foundation (CAF), this study finds that the main donor groups by participation and amount of giving are the older and better–off, and that women are more likely to donate than men. With data derived from the annual Office of National Statistics Living Cost and Food Survey (formerly Expenditure and Food Survey), the new study has provided additional insight into patterns in giving which have persisted over time, throughout a period of considerable change in the political, economic, technological and communications environment.

A main finding from the research is that the donor population has been narrowing steadily, and increasingly focussed on older and wealthier donors. Participation in giving has declined steadily in all age groups except the over-60s, except for a small increase at the end of the last decade in giving by the 20-25 age group. It is too early to tell whether this latter finding heralds a new interest in giving by younger people, and participation is still not at the levels of 30 years ago.

The research also found that positive links between age, household expenditure and likelihood of giving have been growing stronger. The over-65s’ share of total giving by value grew from 24 per cent to 35 per cent over the 30-year period. The gap in ‘generosity’ (share of household expenditure given to charity) between older and younger households widened, and by 2008 older people were devoting three per cent of their spending to charity, compared with two per cent at the beginning (McKenzie and Pharoah, 2011). Poorer households continue to donate a higher percentage of income, but are decreasingly likely to give.

While the real value of donations increased over the thirty-year period, this was largely related to generally increased spending power amongst donors, particularly in the 1980s. But overall the lower participation rates meant that the average percentage of expenditure devoted to charity by the general population did not change over that time.

These findings have some important implications. One is that while the building of Big Society will need a greater diversity of giving, the donor group is narrowing in terms of age and wealth, and there is some evidence that different causes attract different sizes of gift.

A study of the effect of options for tax reliefs on giving last year, for example, found that bigger gifts favour the arts, while smaller gifts favour animal welfare (Scharf and Smith, 2010). This is a topic which would merit further research. There is an interesting ‘counter-trend’ in the area of animal welfare, which attracts a large share of major legacy gifts (Pharoah, 2010). Against this background, the final section looks at some evidence on the widening demand for philanthropic support.

**Demand**

An important point is that, regardless of future need, the demand for private donations has already been growing steadily over the last decade or so. The income of the registered charity sector has doubled in a decade, £24 billion - £52 billion (Charity Commission, 2011). This growth only partly represents the expansion of existing registered charities. It has also been fuelled extensively by transfers of former central and local government bodies into the sector, from major arts and culture institutions to local leisure and recreation, cultural and environmental trusts, and community buildings. As charitable trusts, however, these are all now competitors for private donations.
Examples of other types of agency increasingly seeking private donations include housing associations, where registered as charities, independent schools, professional membership associations, think-tanks and research institutes. Universities in the UK have become major fundraisers, encouraged by the government-led matched funding scheme now entering a second phase. It is reported that they now raise well over half a billion pounds per annum, and have a growing number of alumni donors (Ross-CASE, 2010). Universities and their associated research institutes have always been attractive to major donors, particularly institutional donors, as they are seen as a valuable way of investing for the future. With their growing fundraising capacity, and evidence of their increasing attractiveness to ultra-high net worth donors (Coutts, 2010), they are likely to be well-positioned to benefit from any increase in major giving.

The arts and culture sector, also attractive to major and institutional donors, particularly corporates, has also been developing its fundraising capacity over the last few years. Intrinsic artistic merit is not a charitable object, but arts and culture bodies have been investing increasing research and development into establishing their social and health benefits (see, for example, www.cultureandwellbeing.org.uk, a new resource to help arts organisations articulate the wider benefits they can offer). A significant increase in the donations they receive from charitable trusts was reported last year (Arts and Business, 2010). At a time when charitable trust donations were falling because of the weak performance of the investment market (Pharoah, 2010), this is evidence that the arts and culture sector is becoming a strong competitor for funds. A recent paper on US trust funding to the arts argued that ‘...US support from private foundations has tended to gravitate towards larger, high-profile ‘fine arts’ institutions – the plurality of the US model is not resulting in a diverse arts community’ (Ragsdale, 2011).

Finally, it is worth drawing attention to the emerging field of social investment. A number of charitable donors have become interested in diverting all or part of the funds available for charitable expenditure away from gifts and grants, to alternative forms of financial support such as loans, or investment on long-term and other conditions tailored to suit the growth needs of the recipient organisation. The hope of government and of other potential investors is both that private finance will increasingly be available on commercial, or quasi-commercial terms, and that social investment will provide a recyclable and more sustainable source of funding. In the short to medium term social investment represents another competing claim for charitable funds (for example, the Big Lottery Fund and a number of other trusts have together recently invested over £11 million in the new Social Impact Bonds, an experimental financial product invested in government cost savings to be made from reducing re-offending rates), which can potentially encourage the growth of demand from a new set of social enterprise organisations.

In addition to these growing demands, there will be pressure from organisations losing statutory funding. Predicting the scale of the funding shortfall is difficult at this point, as we do not know yet where the axe will fall. It has been estimated that donations to arts organisations alone will see an overall total drop of need of around £500 – 900 million in statutory funding over the next four years (Arts and Business, 2010). On a rough estimate, however, if the voluntary sector were to lose an amount equivalent to the 27 per cent cut planned in local government funding over the next four years, this would amount to around £3.3 billion of its current £12 billion total funding from government (NCVO, 2010). In fact the loss could be higher, as NCVO estimates only relate to a selected set of ‘general’ charities, missing out, for example, many of the large arts and culture bodies. To compensate for a loss at this level, private donations would have to grow by around one-fifth.
Conclusions and discussion

The evidence presented above reveals some of the key features of the charitable giving and philanthropy landscape today. There is a growing and diversifying demand for charitable support from many sources, as a result of government policy past and present; in contrast, the donor database is increasingly narrowing towards older and wealthier donors. While increased wealth appears to be linked to increased giving, philanthropic support is partisan, part of a pluralist society but not inherently pluralistic; meeting needs would appear to require a very large percentage increase in giving.

These conclusions suggest that while there is every reason to believe that charitable giving and philanthropy will play a part in building a Big Society, it does not necessarily have sufficient resources and a diverse enough donor base to extend easily or rapidly into meeting the new demands of building Big Society while also picking up areas such as libraries, an early victim of statutory cuts. Local giving and philanthropy is strong in the field of health, but the extent to which locality in itself could become a stronger focus for fundraising is unknown. Local arts organisations struggle to get the corporate support which flows to the major charities.

It could be argued that differing expectations of charitable giving and philanthropy relate to fundamental differences in the way in which giving and philanthropy is perceived. It is useful in this context to refer to Schneewind’s (1996) distinction between giving and philanthropy as the expression of a generally humanitarian ‘state of mind’, and as an instrumental activity devoted to specific needs such as poverty and ill-health, regardless of where the resources come from. While current policy approaches appear to recognise that charitable giving and philanthropy is about individual motivation and choice, delicately balanced between private and public poles of interest, the voluntary sector tends to take the more instrumental view. Thaler and Sunstein (2009: 5), architects of the behavioural economics influencing much current policy, state that people are ‘...Free to choose...but we argue for self-conscious efforts, by institutions in the private sector and also by government, to steer people’s choices in directions that will improve their lives.’ An expansion in the scale of charitable giving and philanthropy may not lead to an expansion in the diversity of causes met or in local engagement unless the willingness to give is strongly aligned with a sense of responsibility towards emerging public need.

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