

What impact does inflation have on charitable giving?

This year UK Giving is complemented by briefings on a range of related issues. These can be found online at www.cafonline.org/ukgiving and www.ncvo-vol.org.uk/research/giving

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Key findings

- The cost of goods and services tend to rise over time, in effect devaluing what charities can do with the same amount of income.
- The value of a £10 donation has decreased by 15% between 2000 and 2008 when adjusted for inflation, worth £8.46 in real-terms by 2008. Conversely a £10 donation made in 2000 would need to increase to £11.54 by 2008 in order to keep pace with inflation.
- Donors tend to give round amounts, so it is unlikely that donations at an individual level will keep pace with changes in inflation.
- Inflation matters for regular methods of giving, as donations that stay at the same level are essentially worth less in real-terms each year.
- The effects of inflation will not be uniform across the sector, with rising costs more likely to be an issue for large charities.

Introduction

This briefing paper is part of NCVO/ CAF's UK Giving research programme. Now in its fifth year, UK Giving provides essential robust analysis of long-term trends in individual charitable giving. To access the UK Giving 2009 report or to download other briefing papers in this series visit www.ncvo-vol.org.uk/research/giving or www.cafonline.org/ukgiving

Analysis

Charitable donations are a significant source of income to the sector, but what happens to charities' finances when the level of donations received does not keep pace with inflation? Inflation is a measure of how much the cost of goods and services are changing over time. As an example, the Retail Prices Index (RPI) is a measure of inflation that is often used

as a benchmark for wage negotiations as it reflects the average change in household costs. This process recognises that the same level of pay effectively buys less over time. Similarly, if charities receive the same amount of income year-on-year, in effect they are able to purchase less with that amount.

Figure 1 shows what happens to the value of a donation if the amount given stays the same over time. The value is gradually eroded due to increases in inflation, such that a £10 donation made in 2000 is worth £8.46 in real-terms by 2008. Effectively the donated amount has lost 15% of its value in terms of what charities can do with it.

Figure 1 The change in the value of a £10 donation over time, 2000–2008

	2000*	2002	2004	2006	2008
Devalued by CPI inflation	£10.00	£9.77	£9.57	£9.08	£8.46

Source: NCVO, Office for National Statistics

**Note: the base year is 2000, for subsequent years the same amount has been devalued/adjusted for Consumer Price Index (CPI) inflation*

To keep pace with inflation, the savvy donor would need to donate £11.54 in 2008 for it to have the same value as £10 donated in 2000 (see Figure 2). For a £50 donation the increase is even greater: a donor would need to give £57.70.

Figure 2 The change required in the value of a donation to keep pace with CPI inflation, 2000–2008

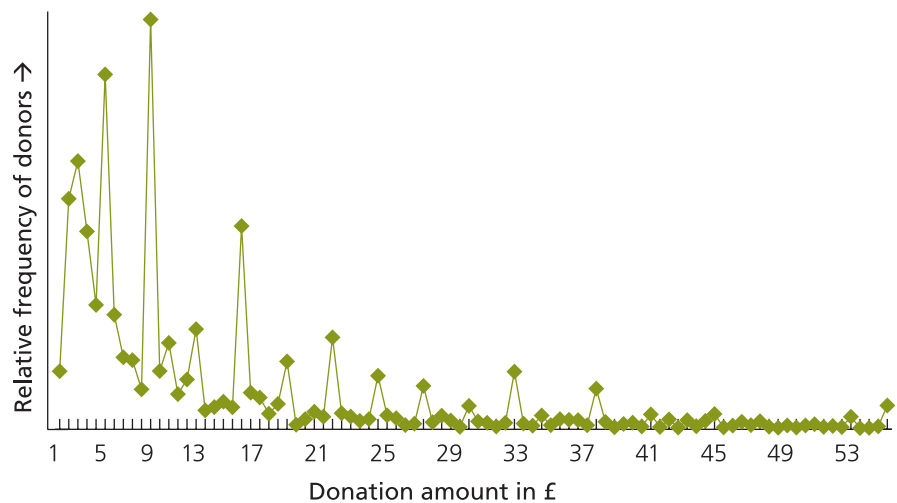


**Note: the base year is 2000*

Do donors' giving habits keep pace with inflation?

There is some evidence that people tend to give round amounts for donations. As we see in Figure 3, the number of people giving at certain price points spikes at the round figures (eg, £5, £10, £20). If people tend to give round amounts, it seems unlikely that giving will keep pace with inflation. In the UK, inflation increased by 4% from 2007 to 2008¹. This means that a £10 donation made in 2007 would need to increase to £10.40 to be worth the same amount in real-terms. This suggests that charities may need to nudge donors up to a higher price point, rather than simply trying to keep up with changes in inflation.

Figure 3 The frequency of people giving at different price points



What effect will inflation have on regular methods of giving?

Inflation effectively devalues currency over time. This may particularly be an issue for regular donations (eg, donations made by direct debit or payroll giving). Imagine this scenario: someone donates £5 per month in 2004. If they continue with this level of giving, by 2006 it would be worth £4.77 per month in real-terms. The cumulative effects of this drop in value may be significant for some charities.

UK Giving 2009 found that regular methods of giving have increased in 2008/09, accounting for almost one-third (31%) of the total amount donated². With 37% of donors using a regular method of giving, it would perhaps make sense for charities to ask donors who give by regular methods to review their giving on an annual basis and to consider incremental increases in the amount given.

¹ Office for National Statistics website: www.statistics.gov.uk/default.asp

² 'UK Giving 2009' CAF and NCVO, 2009

Does inflation have the same impact on all charities?

Since the recession began, inflation in the UK (as measured by the Consumer Price Index) peaked at 5.2% in September 2008³. This means that the price of an 'average basket' of goods and services was 5.2% higher when compared to the same month the year before. The CPI is calculated comparing prices of popular items, which change over time. As such the impact of inflation will affect people differently depending on what they spend money on.

Across the sector, charities will have different operating expenses (and many have no outgoing costs) and so will not be affected by inflation in a uniform way. Some charities will be more affected by rises in the cost of petrol, food, or staff costs than others. According to the UK Civil Society Almanac, expenditure by charities increased overall by 3.3% in real-terms between 2005/06 and 2006/07⁴. Over the same time period, estimates from the UK Giving series are that donations declined by 3% when adjusted for inflation. Obviously charities receive income from many sources, but those charities reliant on donated income may feel the pinch when costs rise above what their income can support.

Perhaps unsurprisingly, large charities account for most of the expenditure in the sector, with charities providing social services spending the largest proportion overall⁵. Charities with greater expenditure are likely to feel the effects of inflation the most. Large charities (with incomes greater than £1 million) overall receive approximately 15% of their income from donations from individuals, making them vulnerable to depreciation in the value of donations.

It is important to keep in mind that while donations at the individual level may not keep pace with inflation, this does not mean that donation levels are stagnating overall. UK Giving 2009 shows that, adjusted for inflation, the total amount given has increased since 2004/05, except for in 2006/07 and in 2008/09, when giving seems to have been affected by the recession. From the charities' perspective, donations are an important source of income to maintain, but where donation levels drop below the level of inflation, charities may not be able to meet rising outgoing costs.

³ Office for National Statistics website: www.statistics.gov.uk/default.asp

⁴ 'The UK Civil Society Almanac 2009' NCVO, 2009

⁵ 'The UK Civil Society Almanac 2009' NCVO, 2009