

Cost of Living Crisis – Charity Excellence update

A useful article from Charity Excellence on the impact of the Cost of Living crisis on UK charities. You can find more on their website

<https://www.charityexcellence.co.uk/>

There are no major changes to our previous forecast, as the crisis appears to be following our modelling predictions.

Good News.

- There has been some hopeful economic news, such as falling gas prices giving the Chancellor some head room
- Inflation expected to fall soon.
- Plus, the deterioration in fundraising that began in late 2021, has been slowing in recent months.
- We think we may see some signs of recovery earlier than our predicted mid-year 2023.

Not So Good News.

- The Bank of England forecast suggests that economic recovery will take longer and.
- We are seeing signs of deep financial distress amongst charities.
- If there are significant closures as we fear, those charities won't be coming back, and.
- For others that are liquidating large amounts of reserves, restoring those will take years, with a commensurate impact on service delivery.
- Our forecast for full sector recovery has moved from 2024 to 2025.

We are now at or close to the bottom and will probably remain there at least until the Spring.

Overall, there is a substantial threat of closures within the next 6 months and, potentially, a 2nd longer term threat of closures being driven by cuts to charity governmental contracts and grants across 2023.

Front line charities, such as food banks and those providing advice and support to the vulnerable are at most risk, but almost all charities are being impacted.

Whilst we don't have the data to be able to say that a wave of closures has begun, equally we cannot say it hasn't.

March Budget Statement - An Opportunity For The Chancellor

Falling gas prices and the March budget offer the Chancellor the opportunity to direct some funding to target the most vulnerable and, at the same time, prevent those supporting them from insolvency. And to put in place safeguards to prevent the false economy of charity contracts being swept away by cost cutting.

- Charities are far more able to reach the most vulnerable and excluded.

- That support would be far better targeted than the blanket welfare funding provided so far.
- With only 1 million staff and an estimated 13 million unpaid volunteers, they are massively cheaper than the public sector.
- If they don't get funded, the 'cost' won't go away, it will simply transfer to an already badly overstretched public sector.
- If the widespread closures happen, the impact will be felt for years.

Responding to those needs would be very popular and demonstrate that the Government does care about its voters. We argue that £500m provided to major charities, such as the Trussell Trust, to distribute would be fast, low cost and a very effective way to direct small grants to front line charities best able to support their communities.

Charity Cost of Living Crisis - Funding Pipelines

Fundraising effectiveness has been falling since late 2021, but has now stopped.

We're not sure why, as we had expected donations to be significantly impacted by the crisis.

A recent survey found that 6 in 10 people have [reduced charity donations](#) over the past six months.

It may be that charities have significantly cut back their fundraising expectations, so that funding pipelines are now less high risk.

Charity Cost of Living Crisis - Meeting Demand & Maintaining Service Quality

The ability of charities to meet demand continues to deteriorate. We do not think that this is likely to improve until the financial impact of the crisis on families wanes; maybe mid-2023. However, if significant numbers of charities close and/or cut back or close services this may continue even after family incomes recover.

We believe that there is also a hidden cost. The demand and liquidity data combined suggests that charities may be, or already are, unable to meet demand and may have to shut down or restrict existing services.

It is the most vulnerable and those most in need who will suffer.

The reason the Chancellor should allocate some of the gas price savings to the sector is not for us, but them, because they have no-one else.

Charity Cost of Living Crisis - Closures

At 5542, the number of charities in England & Wales removed from the register in 2022 was significantly up, but compared to the long term average of 5186, this may not necessarily be material.

Our analysis is very limited, but we've found no data that suggests the rate of closures accelerated towards year end 2022, which is in line with our modelling.

Charity Commission - Charities Removed from Register

| Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------|------|------|------|------|------|------|------|
| Charities Removed | 5409 | 5161 | 4721 | 5566 | 5623 | 4281 | 5542 |

However, a number of the very large front-line charities have either made 7 figure operating losses or liquidated reserves of similar magnitude. The cost of this for the Trussell Trust, Age UK and Citizens Advice alone is about £15m.

The Fare Share report on demand for food banks in late 2022, suggests that the current situation is likely to be just as difficult for smaller front line charities.

We have seen a significant increase in the [reporting of charity closures](#), which is what the model has been suggesting may happen, but we do not have the data to be able to state confidently that this is the case.

Our assessment is that there is probably very serious financial distress in front line charities, such as food, poverty and advice, plus some niche areas, such as animal rescues, taking in pets people can no longer care for.

However, with sector resilience having fallen since late 2021, we think there is a high (albeit less so) likelihood of closures across the sector

Charity Cost of Living Crisis - Liquidity (Cash Positions)

The ability of an organisation to pay its bills, as these fall due, is a key test for insolvency. Charities continue to report a deteriorating cash position.

However, we think the reason for this has changed from funding in late 2021 to late 2022, to the impact of rising costs, demand and inflation.

We are hopeful these factors will improve in the coming 6 months, but that will stop them from worsening, not make them better.

We think that the risk of public bodies seeking to cancel or cut contracts with charities remains.

For many, these contracts can be a large part of their budgets and overhead margins are usually very low, leaving almost no room to cut.

It's been reported that the StepChange debt advice charity is preparing for a [£12 million cut](#) in its grant funding from central Government.

Obviously, we're not suggesting that is evidence of this risk materialising, but if public sector pay settlements are significant and taken from existing departmental budgets that could make this risk materially greater.