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The cost of Living crisis and its impact on the third sector – A perfect storm

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OVERVIEW

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Impacts

Summary



Context

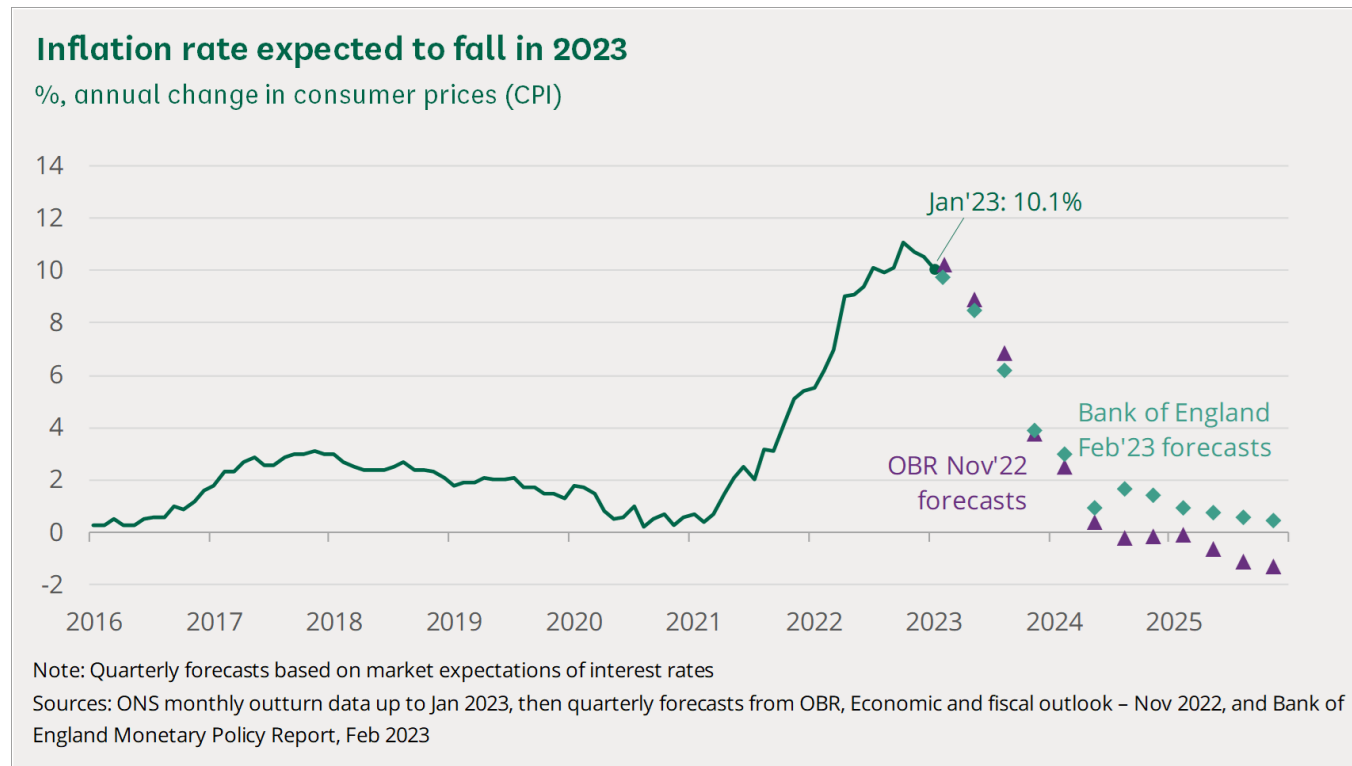
The cost of living increased sharply across the UK during 2021 and 2022.

The annual rate of inflation reached 11.1% in October 2022, a 41-year high, before easing in subsequent months to 10.1% in January 2023 ¹

ONS state 94% of adults in Great Britain reported an increase in their cost of living in January-February 2023 ²

The OBR expects real post-tax household income to fall by 4.3% in 2022-23, the biggest fall since records began in 1956 ³

Trussell Trust reported that in April-September 2022 they provided almost 1.3 million emergency food parcels, a third more than in the same period in 2021 and 50% more than pre-pandemic levels ⁴



Context

Research shows 71% of third sector organisations reported a rise in demand for their services over the three months to November 2022. This trend is expected to continue ⁶

Nearly half (49%) expect demand to exceed their ability to meet it and 19% expect to fall significantly short.

Growing evidence is showing how the cost of living crisis will disproportionately impact Black and minority ethnic people⁷, women⁸ and disabled people⁹.

Research found 55% of charities are using their reserves to meet operating costs, as demand for their services soars.

Meanwhile the capacity for the third sector to respond is being squeezed.



Rising costs

Charities are not separate from these rises.

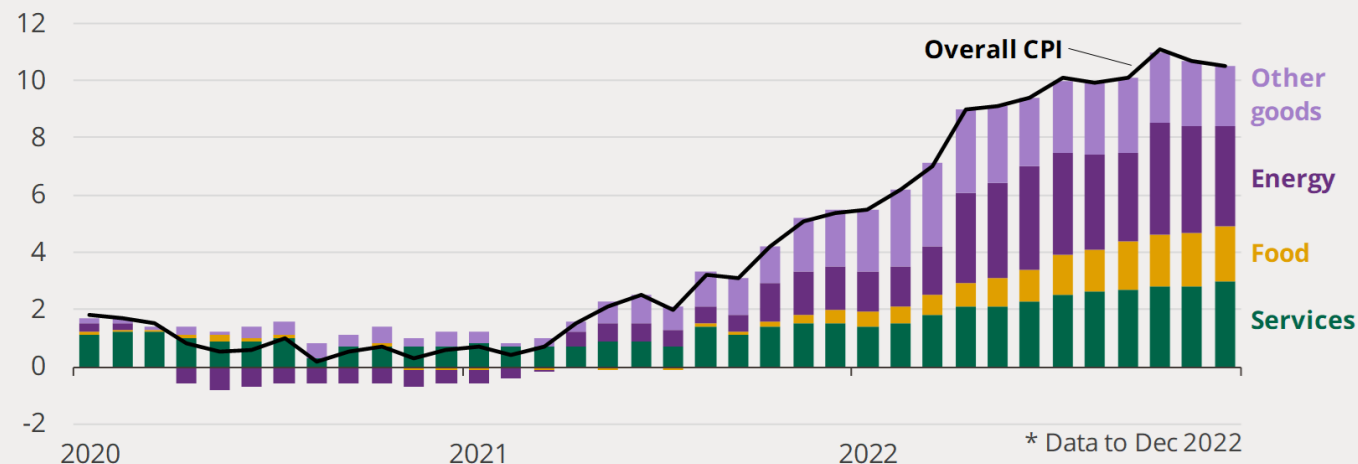
Electricity prices in the UK rose by 65.4% and gas prices by 128.9% in the year to December 2022. Despite wholesale price falls, retail prices are unlikely to fall until the 2nd half of 2023¹⁰.

Staff costs are rising, The National Living Wage will rise to £10.42 from 1 April 2023, an increase of 92p or 9.7%¹¹. In addition, charities will be under pressure to make significant cost of living rises.

In addition to these rises, other suppliers are raising costs in response, driving up office rents, consumables and services. Research shows that 82% of charity leaders concerned about how they are going to pay their own utility bills, including rent, energy and fuel¹².

Energy and other goods driving inflation higher in 2022

Percentage point contributions to annual CPI inflation rate



Note: Food includes non-alcoholic drinks

Source: Reproduced from Bank of England, Monetary Policy Report – February 2023, Chart 2.6 (p38)

Falling income

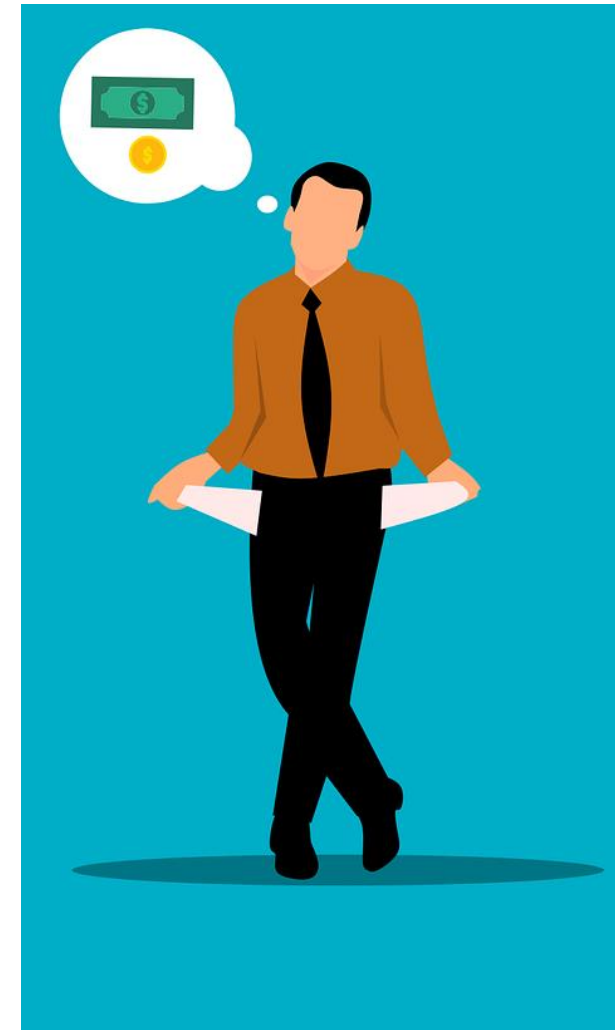
Rising costs are having big impacts on charity's ability to raise funds.

Inflation is eroding the relative value of funds – a £20 donation in 2021 will be worth £17.60 in 2024¹³

Research shows that 55% of the public find their financial situation makes it harder to donate.¹⁴ Whilst CAF research reveals, donation levels for every month in 2021 were lower than their equivalent in 2019¹⁵.

Relative government departmental funding is set to fall after 2025. Growth is set to drop to 1% a year in real terms, versus 3.4% a year under previous plans¹⁶.

This is likely to exacerbate cuts in local government services and commissions. The Local Government Association forecasts funding gaps of £3.4 billion in 2023/24 and £4.5 billion in 2024/25 just to provide services at 2019/20 levels. This means that cuts to charity contracts are likely¹⁷.

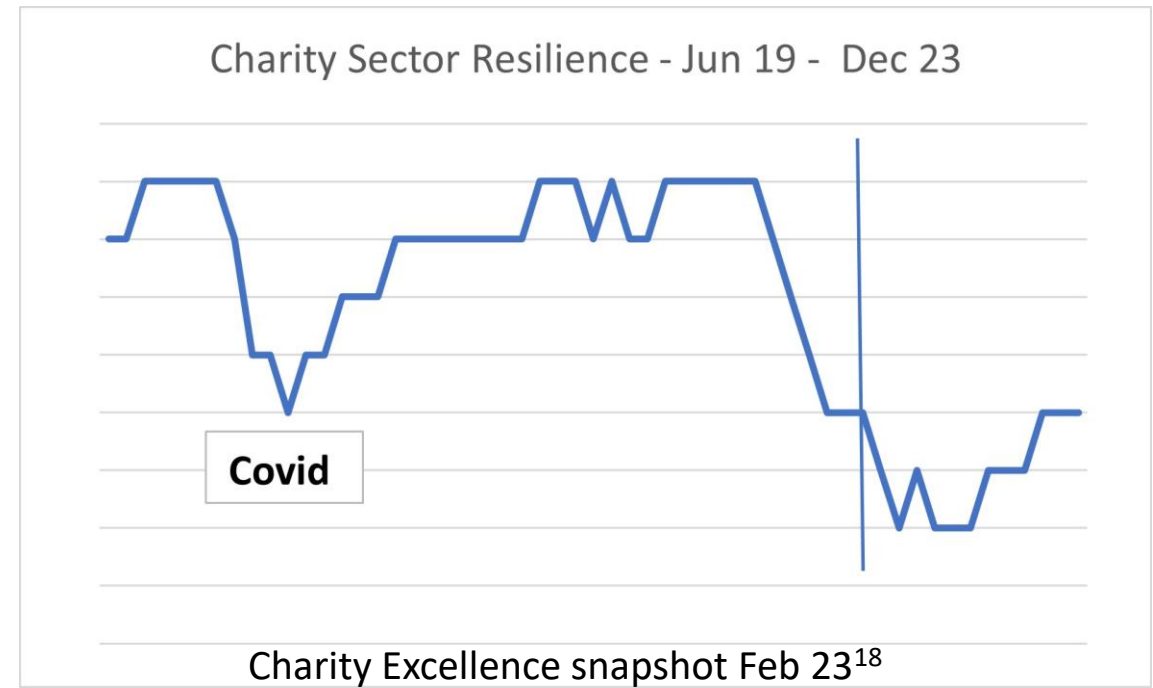


Impacts

Four in five charity leaders (82%) are concerned about the increased cost of utilities, including energy bills, rent and fuel, and managing demands for higher wages (80%). While nearly two-thirds of charity chief executives (65%) are worried about the higher cost of stock, equipment, and supplies¹⁹.

More than half (53%) of charities worry about struggling to survive, rising to 71% of charities providing services for disabled people, children or older people²⁰.

There is some evidence that this is leading to an increase in charities failing.



Charity Commission - Charities Removed from Register

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

Summary

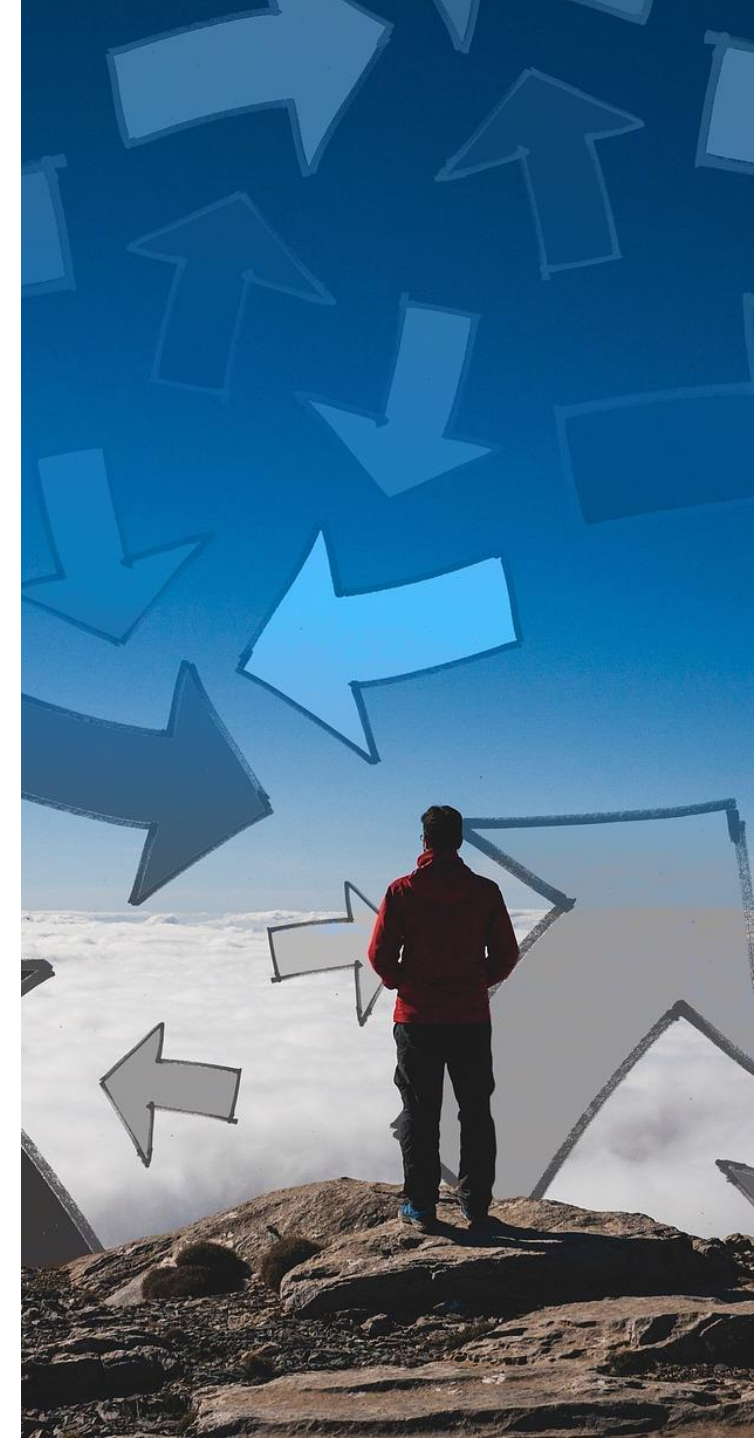
Rising costs are leading to massive inflation

This is affecting living standards, driving more people to need help

It is reducing donations, and the value of donations

Funders and local authorities are also affected

Rising costs, squeezed incomes and increased demand are reducing charity resilience



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