Breaching the Dam

An analysis of the VCSE Sector Barometer, in partnership with Nottingham Trent University's National VCSE Data and Insights Observatory

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Pro Bono Economics uses economics to empower the social sector and to increase wellbeing across the UK. We combine project work for individual charities and social enterprises with policy research that can drive systemic change. Working with 400 volunteer economists, we have supported over 500 charities since our inception in 2009.

Summary

Whether providing food or advice, mental health services or warm spaces, the charity sector has stepped up to make a meaningful difference to the lives of people bearing the brunt of the cost of living crisis. The sector has done so while still tackling the social and economic consequences of the pandemic, from helping children ‘catch up’ on missed education, to supporting people managing long-term health conditions. And it has done so while also bearing additional burdens from the backlogs in public services, which are creating extra demands for charitable services.

This triple tide of demand means more people are seeking more help from charities and community groups, and the help they need is often more intensive and for longer periods of time.

Such elevated, protracted levels of demand are now overwhelming many charities and community groups. Half (49%) of charities and community groups expect that demand for their services over winter will exceed their ability to meet it, with almost one in five (19%) charities and community groups expecting to fall significantly short in their ability to meet demand.

Larger charities are attempting to staff up to keep up with this demand. However, many charities with vacancies are having difficulties finding the people they need to fill them. In the meantime, charity sector employees are working longer hours to cover the gaps. But doing so is not sustainable after almost three years of running at pace. In total, 36% of charities and community groups struggling to recruit the staff they need are failing to meet demand as a result, and 41% are being forced to cut services. That ultimately means less support for people who need it.

It is also not clear that recruiting to keep up with demand is a sustainable strategy. More staff means a larger cost base to fund, and a substantial proportion of charitable organisations have experienced a deterioration in their financial positions over the past three months, with many more anticipating further deterioration to come. This financial stress is of such a scale that a majority of charities and community groups are now using their reserves in order to meet their operating costs.

Small charities and community groups are the most vulnerable to this impossible pressure cooker of rising demand and deteriorating finances. Indeed, many small organisations may already have breached their capacity to manage. Small charities and community groups are more likely than any other group to be experiencing financial difficulty, and a net balance of more than one in four (27%) have been forced to reduce the number of paid staff in their employ over the past three months – with further reductions anticipated over winter.

Overall, just under a fifth (17%) of charities and community groups have had to reduce the number or level of services they offer as a result of financial pressures – rising to 23% of large charities, which may be focusing in on their core provision. This follows one in five (20%) charities reporting that they have reduced their use of premises as a result of energy costs, and just under one in ten (8%) having reduced their hours of operation.

The situation now being experienced by charities and community groups requires an urgent response from funders, regulators and government. This data makes a strong case that the safety net is not just fraying, but that parts of it have snapped. People are falling through the gaps as services are being pared back. The unsustainable footing that much of the sector is now on means that the gaps in the safety net charities find themselves filling will continue widening.

Methodology

The new analysis in this paper describes selected results from the VCSE Sector Barometer, which was conducted by Pro Bono Economics and Nottingham Trent University's National VCSE Data and Insights Observatory, and backed by over 50 major social sector membership organisations and networks.

The survey was undertaken between 7 and 21 November 2022, and is the first in a quarterly barometer series. In total, there were 783 social sector organisation respondents after a process of data cleaning and de-duplication. The figures in this report reflect the responses of the 643 registered charities and 28 community groups which completed 90% or more of the survey.

The results have been broken down into sub-sectors (where there were a sufficient number of responses), and into organisation sizes. Small organisations are those with an income of less than £100,000 a year; medium organisations are those with an income of between £100,000 and £1 million a year; and large organisations are those with an income over £1 million a year.

Data tables from the survey are available upon request.

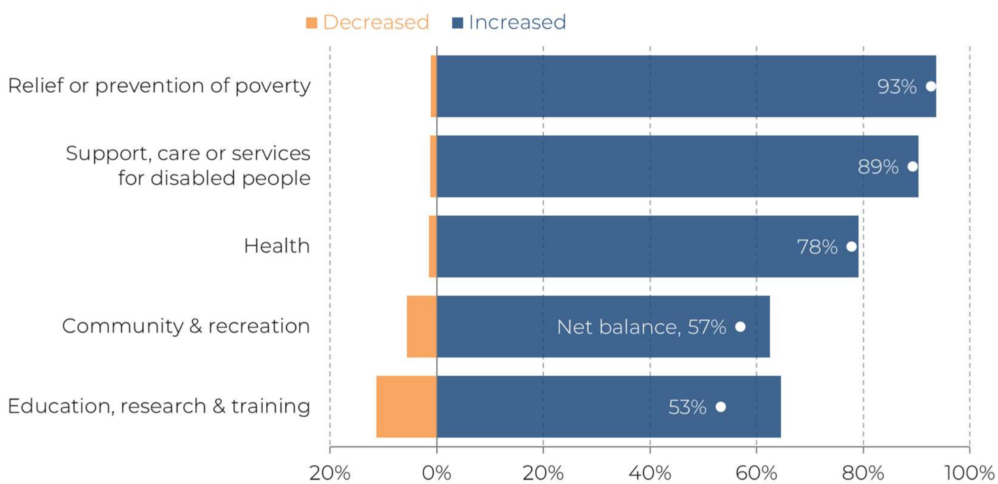
An increasingly overwhelmed sector

Every part of the social sector is under pressure. The economic crisis currently gripping the UK has driven up demand for the charities and community groups which serve people on low incomes, whether they are providing food, children's clothes, white goods or advice. Meanwhile, the secondary effects of the economic crisis on mental health, for example, combined with the impact of the backlogs gripping the country's public services and the consequences of the pandemic, has driven up demand for a huge swathe of other charitable and community services.

Overall, a net balance of seven in ten (71%) charities and community groups report that they have experienced an increase in demand over the three months to November, with four in ten (41%) reporting that demand has increased a lot. As Figure 1 shows, poverty and disability organisations are bearing the brunt of much of this demand, but no part of the sector is unaffected.

Figure 1. Every part of the charity sector has experienced rising demand

Over the last 3 months, has demand for your services/activity...?, by charitable activity type



Note: All, n=671, residual is 'Not applicable/don't know' – 0.6%, 'Stayed the same' – 19.1%. Poverty, n=95, residual is 'Stayed the same' – 5.3%. Health, n=72, residual is 'Stayed the same' – 9.4%. Disability, n=83, residual is 'Stayed the same' – 8.4%. Education, training & research, n=62, residual is 'Not applicable/don't know' – 1.6%, 'Stayed the same' – 22.6%. Community, n=72, residual is 'Stayed the same' – 31.9%.

Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

Elevated levels of demand are not expected to let up. Facing into a challenging winter, with energy costs at record highs and inflation still pushing up the prices of basics like food, a net balance of seven in ten (71%)

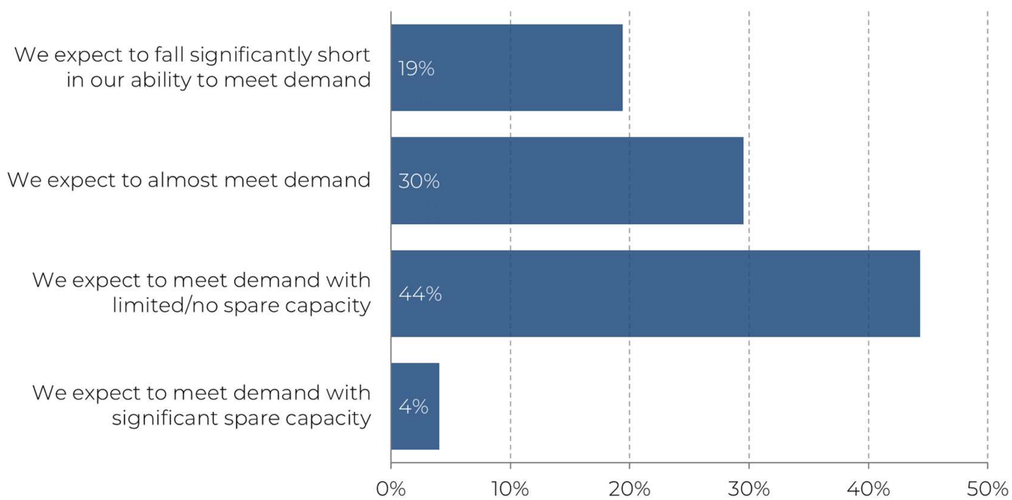
charities and community groups anticipate demand continuing to rise in the three months ahead.

It is now anticipated that these elevated levels of demand will overwhelm much of the sector. Half (49%) of charities and community groups expect that demand for their services over winter will exceed their ability to meet it, with almost one in five (19%) charities and community groups expecting to fall significantly short in their ability to meet demand.

As Figure 2 shows, just 4% of charities and community groups expect to meet demand with significant spare capacity. This suggests that any sudden deterioration of the economic and social situation would push a large swathe of 'just about managing' charities and community groups into a state of 'trying and failing to keep up'. And when social sector organisations are unable to meet demand, it means that people go without the help they may desperately need.

Figure 2. Half of charities and community groups are not expecting to meet demand for their services this winter

To what extent do you expect to be able to meet demand for your services over the next three months?



Note: n=671, residual is 'Don't know' – 1.5%, 'Not applicable' – 1.2%
Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

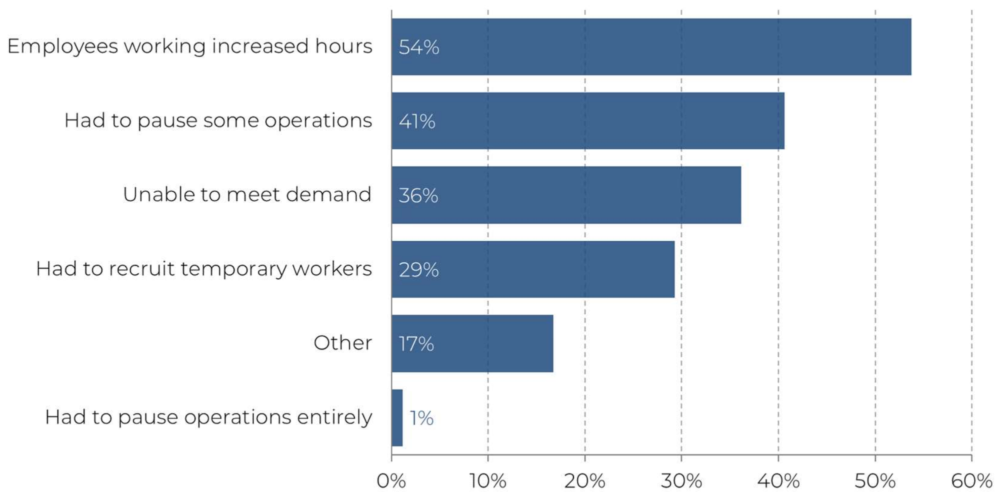
Staffing up to keep up

In an attempt to keep pace with this ever-spiralling demand, a notable number of social sector organisations are trying to recruit their way out of trouble. A net balance of one in five large (20%) and medium-sized (21%) charities and community groups report that their intention is to increase the size of their paid workforce over the next three months. This follows a third (33%) of large charities and community groups reporting that they have already increased their paid staff teams in the three months to November, and 13% of medium-sized organisations reporting the same.

However, the sector's attempts to scale up staffing in order to meet demand has been hitting the buffers of the UK's tight labour market. The large charities and community groups which are leading this recruitment drive are struggling to find the staff they need, with a net balance of almost half (47%) of large charities and community groups reporting difficulty recruiting. As Figure 3 demonstrates, charity employees are working increased hours and some temporary workers have been added to charities' ranks in order to plug these recruitment gaps.

Figure 3. Inability to fill vacancies means that demand isn't met and employees are working increased hours

How have recruitment difficulties affected your organisation? (of those who said they had experienced recruitment difficulties)



Note: n=335, residual is 'Don't know' – 1%. Respondents could select as many responses as were applicable

Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

However, as one charity highlights, hiring temporary workers is not a sustainable solution – as temporary agency staff come at a higher cost than permanent staff members.

"Due to staff shortages, we have increased agency workers at higher cost. This compounds financial pressures from rising energy costs, increases in the national minimum wage, and underfunding of our service from local authorities. This is resulting in an unsustainable operating model."

And relying on staff members and volunteers to work longer hours and additional days without end is untenable.

"We are exhausted. All our volunteers have families with additional needs, but yet they push themselves, because we know only too well [withdrawing] could affect our families and members."

"[There's] increased strain on back office, management staff and other colleagues. That also leads to burnout and issues of retention in turn."

Ultimately, these recruitment difficulties are hitting service delivery. Not only are some charities and community groups unable to meet demand as a result, but over four in ten (41%) organisations experiencing recruitment difficulties have had to pause some operations as a consequence – meaning some services are falling away.

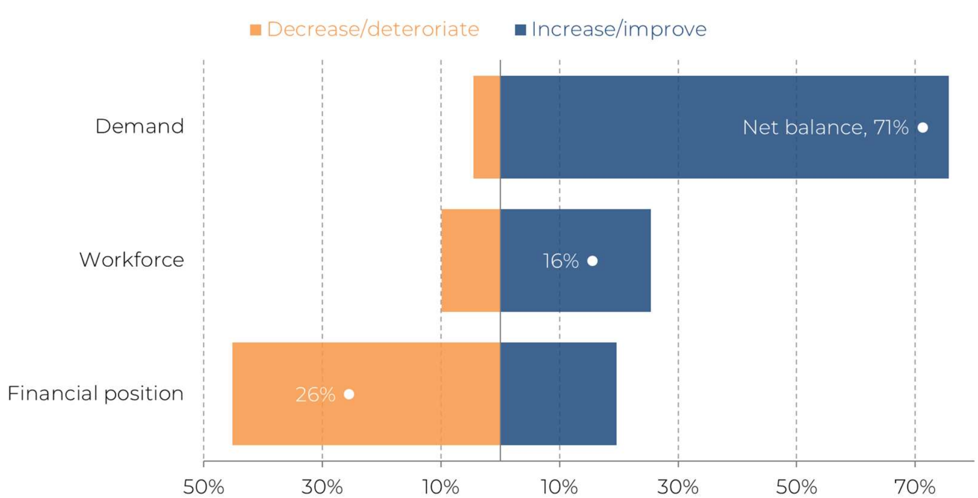
Betting on a better future

It is not at all clear that the social sector has the resources to sustain the employment growth needed to keep up with accelerating demand – and certainly not to offer the pay rises that might help to alleviate recruitment difficulties, which is likely contributing to this barrier.

As Figure 4 shows, while demand is rising, the financial position of many organisations is deteriorating. A net balance of one in five (19%) charities and community groups report that their financial position deteriorated in the three months to November, while a net balance of a quarter (26%) anticipate their financial position deteriorating in the three months ahead.

Figure 4. Demand and workforces are increasing, but financial positions are deteriorating

Charity and community group expectations for demand, size of workforce and financial position in the next 3 months



Note: n=671

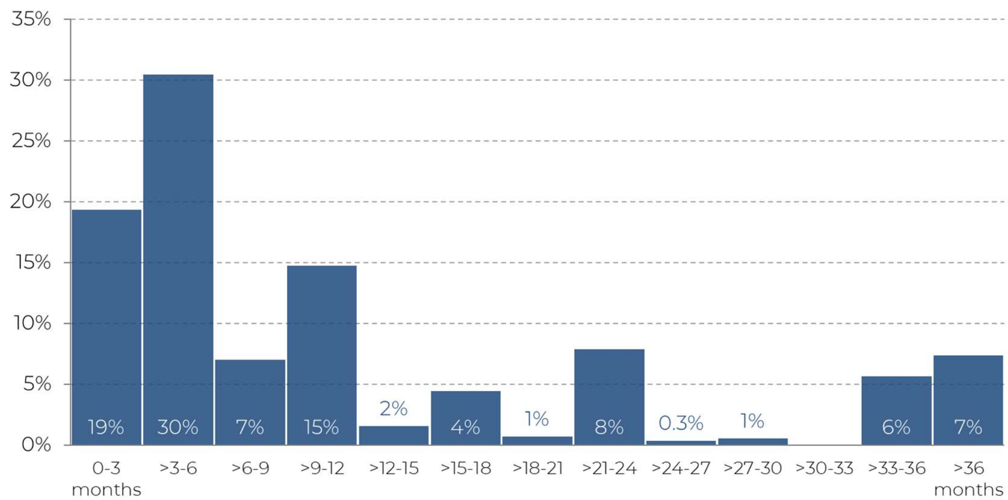
Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

This financial deterioration is of such a scale that a majority of social sector organisations are now using their reserves in order to meet their operating costs, with 55% of charities and community groups reporting they are taking this step.

With one in five (19%) charities and community groups reporting that they only have enough reserves to last through the winter, an extended period of high costs will further damage the availability of charitable services.

Figure 5. One in five estimate that they only hold enough reserves to get through the winter

How many months do you expect your reserves to last, based on current levels of expenditure?



Note: n=584. Totals do not sum to 100% due to rounding

Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

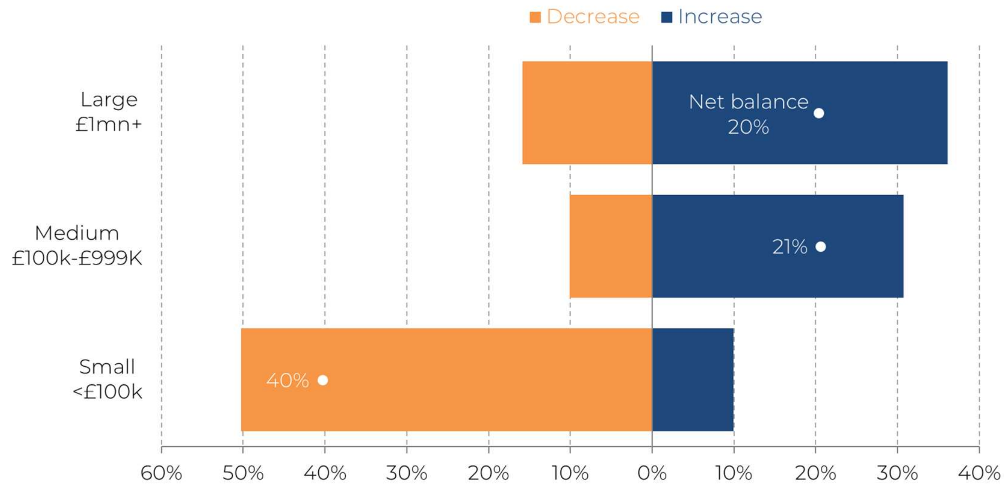
Such a position is clearly unsustainable.

Indeed, many small organisations may already have breached their capacity to manage rising demand and deteriorating finances. Small charities and community groups are more likely than any other group to be experiencing financial difficulty, with a net balance of more than one in three (36%) saying that their financial position deteriorated in the three months to November, and a net balance of more than one in four (27%) reporting that they cut down the number of paid staff in their employ over that period.

Small organisations anticipate this trend worsening in the months ahead, with a net balance of almost half (48%) reporting that they expect their financial position to deteriorate over winter and a net balance of two in five (40%) anticipating staff numbers falling over that period, as Figure 6 shows.

Figure 6. While large organisations are recruiting to meet demand, small organisations are considering shedding staff

Over the next 3 months do you expect your paid workforce to...?



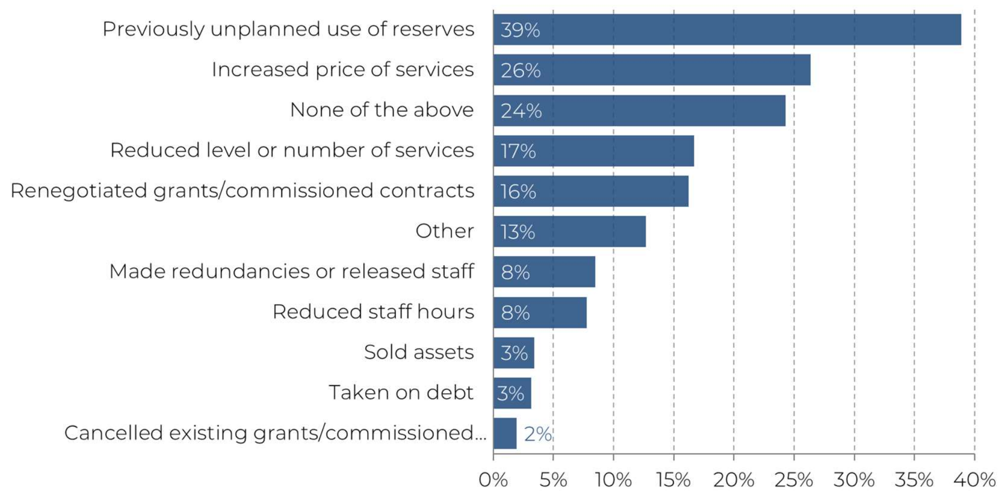
Note: Small n=191, Medium n=267, Large n=177

Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

Many charities and community groups are trying to take steps to manage this financial detoriation, with Figure 7 demonstrating the wide range of strategies that organisations are taking to respond to increasing costs. The most concerning of these is that almost one in five (17%) charities and community groups have reduced the level or number of services that they offer as a result of rising costs. This further suggests that people in need of support by charities are already seeing some forms of it falling away.

Figure 7. Charities and community groups are using reserves, increasing prices and cutting services to manage rising costs

Which of the following actions has your organisation taken as a result of rising costs?



Note: n=671. Respondents could select as many answers as were applicable. Excludes 'Don't know' (2.7%)

Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

After unplanned use of reserves, one of the most common actions charities and community groups have undertaken is increasing the prices of their services. Some organisations have the ability to do this immediately, such as leisure centres and museums which charge ticket costs for entry. Indeed, organisations in the community and recreation sub-sector are the most likely of those in this survey to have raised their prices. Some organisations have to phase price rises in as new contracts and opportunities arise – which is likely why just 16% of charities and community groups have renegotiated grants and/or commissioned contracts.

However, many social sector organisations do not have pricing structures that they can adjust without excluding the very service users that they have been established to serve. This is likely to be reflecting the large numer of charities and community groups which have taken none of these steps to manage rising costs, particularly among those focused on poverty and health. More than half (51%) of community and recreation organisations have raised the prices of their services. This is significantly more than poverty relief or health organisations, with just over one in ten (13% and 14% respectively) having done so.

Without the ability to adjust pricing, these charities and commuity groups have much less ability to absorb future price rises, such as further increasing energy bills. Indeed, nearly a quarter (23%) of charities which pay for energy directly are on fixed electricity and/or gas rates that will expire by the end of March 2023, and will therefore soon be experiencing additional costs. One in five charities (20%) are on variable rates for their gas, electricity or both and will therefore be additionally vulnerable once government discounts for charities' energy costs cease.

The need for an urgent response

The situation now being experienced by charities and community groups requires an urgent response from funders and government. This data makes a strong case that the safety net is not just fraying, but that parts of it have snapped. People are falling through as services are being pared back. The unsustainable footing that much of the sector is now on means that the gaps in the safety net charities find themselves filling will continue widening.

Ultimately, the most important steps that need to be taken in the short-term are those which meaningfully reduce demand – better support for people on the lowest incomes, and a reduction in the backlogs which are gripping public services. Only government has the power to act at scale large enough to achieve this.

In the long-term, government, funders and regulators must work together to enhance the resilience of the social sector. If charities and community groups are to continue to act as such a critical piece of our national infrastructure – and there is no indication that is likely to change – government, funders and regulators must make a serious and sustained effort to improve how it operates. From improving the skills of the sector's workforce, to reforming the basis for its financing, from fixing the data blindspots that exist, to enabling organisations to invest in the long-term, there are a litany of practical improvements that need to be made that would both improve charity servies and create better value for the taxpayer. The work that is needed to do so can no longer wait.

Conclusion

Charities and community groups have stepped in to support people through the pandemic, during the cost of living crisis, and to manage backlogs in public services. However, this triple threat of demand is now overwhelming some parts of the sector.

Though some organisations are trying to hire to keep up with rising demand, many more are reporting deteriorations in their financial state. This is an impossible and unsustainable position for many organisations to manage. As price rises continue to outpace income levels for many charities and community groups, some are failing to meet demand, some are cutting or reducing services, some are limiting opening hours, and some are reducing use of their premises.

This means that the help that charities and community groups provide to people is less available to those who need it. The fraying safety net that charities provide has snapped in some places, and some people are falling through.

Government must act to reduce demand, with support for those on the lowest incomes and investment to reduce backlogs. And alongside funders and regulators, it must act to shore up the social sector's resilience if it is to continue acting as the essential source of support it is for so many.

Acknowledgements

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