

## The Impact of the Current Economic Challenges Facing Surrey's VCFS

# February 2023 Update

Surrey Community Action

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Quotes from individual respondents are shared anonymously as requested, but their honesty and candour are much appreciated.

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## Introduction

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In September 2022, we carried out some research into the impact the developing cost of living crisis was having on charities and community groups. This research, available to download for the Surrey Community Action website, gave a snapshot of the status of the voluntary sector at that point in time, but the situation has evolved since. We therefore repeated the research in February 2023 to understand the most recent situation and how the sector continues to respond.

In 2022, the Voluntary, Community and Faith Sector in Surrey, in common with other sectors, communities and individuals, was facing a period of significant, long-term challenges due to rapidly increasing cost of living due to energy, fuel and food prices, disrupted supply chains, all caused or exacerbated by the war in Ukraine.

We have seen annual Consumer Price Index inflation continue to rise from 10.1% in September 2022, peaking at to 11.1% in October but now falling back to 10.1% in February 2023, still very high compared to previous decades. The current forecast for 2023 is still 4.5%.

As the economy continues to stumble, more people are continuing to see a reduction in their quality of life, and the demand for the services the VCFS provides is increasing in the face of increased costs and reduced funding.

There has been a range of support offered to individuals, businesses and charities from national and local government, including direct cost of living payments, the energy bills support scheme, the Surrey Crisis Fund, the Household Support Fund, Warm Hubs and food banks. It is expected that some of these will continue through 2023, but other support is likely to tail off over time.

It remains important that we understand the impact of current and developing challenges on the VCFS so we can work together to ensure the sector thrives and can deliver vital services to the residents of Surrey.

## September 2022 Summary

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In September 2022, the VCFS in Surrey, in common with other sectors, communities and individuals, faced a period of significant, long-term challenges that were evolving quickly and unpredictably.

While the sector on average remained well placed to meet the developing needs of the county, a significant minority were facing challenges not of their own making, and others were likely to struggle until things improve.

As with the Covid pandemic, we saw that small, local community groups remained well placed to meet immediate local needs such as befriending, volunteers transport, etc, and were confident that they would continue to meet the needs of their communities. Their

small size, volunteer management and lower overheads were to their advantage. Even so, some were concerned about rising costs and the challenges their communities faced.

Larger organisations, who were more likely to have salary costs, premises costs and equipment costs, appeared to be facing greater challenge, especially around salaries, recruitment, rising prices of energy, goods and services.

Most organisations expected to weather the storm, but a large proportion expected to have to reduce their services, if they had not already done so, a grave concern in the face of rising demand. Few were facing drastic reductions or closure, although the figure was expected to increase as the crisis deepened.

Charities and Community Groups have always been skilled in managing their costs. Even with this prudence, some still expected to have to cut costs further, and many were using their reserves to maintain services. Staff costs are often the largest cost that organisations face, and cutting staff is always seen as a last resort, since staff cuts seriously impair an organisation's ability to deliver their services.

Many charities were looking to increase their fundraising efforts and to renegotiate with existing grants and contract funders.

Most organisations had either made changes in response to the current challenges or were planning them. Some were not, and may have been at risk by failing to do so.

Most organisations expected the situation to deteriorate over the next 12-18 months, but most expect to survive, even if they end up smaller than when they started.

## 2023 Refresh

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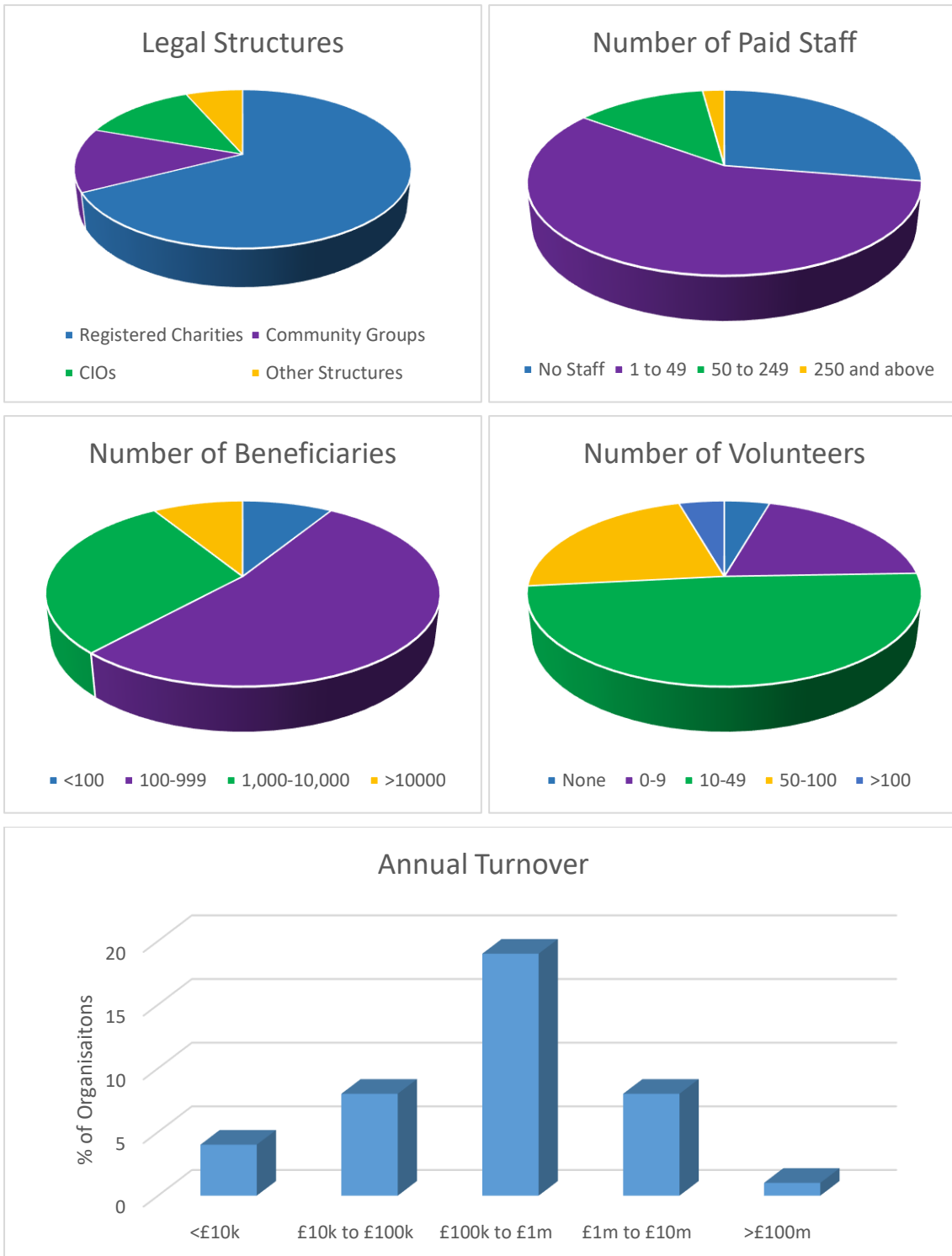
As with the first round of research, we gathered data from a range of VCFS peers to try and understand the impact of the current challenges on them in four main areas:

- The challenges they currently face
- The impact these challenges are having on their organisations
- How they are responding to mitigate against the impact
- Their forecast for 2023 and beyond

In September 2022, we had 80 responses, whereas we had 70 responses in February 2023, with an estimated overlap of 50-60 organisations who responded to both surveys.

In February 2023, we added an additional question to assess how the cost-of-living increase might be having an impact on the recruitment of volunteers.

As with the September 2022 research, we received responses from a wide range of VCFS organisations of varying sizes, structures, activities, and delivery areas which combine to make a representative picture of the VCFS in the county. The relative numbers of legal structures, numbers of paid staff and number of beneficiaries were largely consistent between the September 2022 and February 2023 surveys, but the February 2023 saw proportionately fewer very small, hyper-local Community Groups.



Charts showing profile of respondents

As in September 2022, the February 2023 responses came from charities who provide services around:

- Families, Children and Young People
- Domestic Abuse Survivors
- People with Disabilities
- People and Nature
- Housing
- Infrastructure
- Local Residents
- Mental Health
- Older People
- Mental Health
- Physical Health
- Unpaid Carers

The VCFS is characterised by having a relatively large number of organisations that employ no paid staff, and are led, managed and deliver services with volunteers alone. Many are formally constituted (for example Good Neighbour Schemes) and many are not (for example mutual aid groups built around social media).

As in 2022, we see profound differences between organisations who employ paid staff, and those that don't, and these differences will be highlighted throughout. It is worth mentioning that organisations without paid staff tend to be smaller, operate very locally (often at a village level), and have a smaller per-group impact on less acute social issues. These smaller organisations are notoriously hard to identify and engage with, so they tend to be under-represented in reports such as these. Best estimates are that there are 3-4 such groups per registered charity.

Conversely, an organisation large enough to require paid staff will tend to operate over a wider area, have a larger per-organisation impact, and be addressing issues that require a deeper and more professional intervention.

Together, smaller informal groups and larger constituted organisations each have a massive collective impact on the lives of the people and communities of Surrey.

The section below highlights changes to the data reported between the September 2022 and February 2023 surveys, along with an indication of whether circumstances have improved or deteriorated for organisations.

## Challenges Facing Organisations

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Respondents were asked again about the biggest challenges they would face due to the current cost of living crisis. They were asked specifically about recruitment and retention (a significant issue even before the current situation), energy costs, accommodation costs and other costs and encouraged to highlight other issues they were facing.

### Recruitment and Retention

Recruitment and retention remains a significant challenge to VCFS organisations who employ staff. In the second round of research, there is very slight increase in the number of employers who feel that recruitment and retention challenges are improving, but over 75% are still having problems.

Organisations are still facing:

- Competition between sectors for skilled staff
- Lower salaries in the VCFS
- Fixed multi-year funding regimes with no/low inflationary uplifts
- Part time staff seeking new jobs with higher hours or salaries
- Staff taking on multiple jobs

Responses by organisations include:

- One off cost of living payments to staff
- Salary uplifts funded by reserves or reductions in the number of staff
- Introducing or expanding non-salary benefits

Many respondents have offered, or are going to offer, salary increases to staff ranging from 3% to 10%, slightly higher than the previous year.

While many organisations are offering or would like to offer salary uplifts, many are hampered by fixed budgets in contracts and grants, and a concern that any uplift in salaries today will become an ongoing cost when current cost-of-living pressures abate.

**Overall change:** *Slight Improvement*



## Energy and Fuel Costs

Last year, over half of respondents worried about energy cost increases, and this figure has risen to two thirds this year, often due to fixed price energy deals coming to an end.

In September 2022, very few voluntary car schemes are least concerned about the impacts, a surprise given the nature of their work, but now more are concerned about whether further fuel price increases are sustainable, and whether the number of willing volunteer drivers might be hit.

Charities remain concerned about the impact energy price increases are having on their beneficiaries, especially where some energy costs need to be passed on.

**Overall change:** *Significant deterioration*

## Costs of Owning or Leasing Office Space

In 2022, less than one in ten organisations were facing increases in rent or mortgage payments. In 2023 this has more than doubled to one in four.

As per 2022, many of the very small local organisations, and even some of the larger charities, do not have dedicated office space or buildings, and they tend to be more worried about the cost-of-living impact on home working staff and volunteers.

More than one organisation has moved to home working in the face of increasing office costs.

**Overall change:** *Significant deterioration*

## Goods and Services

Two thirds of larger organisations are still worried about general purchasing cost increases. Even smaller organisations who were previously unconcerned about cost of goods and services, are now more likely to express concern.

Some specialist organisations remain worried about equipment availability and lead times.

We still see a definite split between smaller local organisations and larger charities. Smaller groups tend to be less worried about rising costs other than fuel as their spending on goods tend to be very small. Those that are more worried about purchase prices are worried about costs of services such as external speakers.

Around two thirds of larger organisations are concerned about non-fuel and non-salary price rises. Concerns range from costs of repairs and maintenance through to vehicle purchase costs, the cost of specialist training and even important safety measures. Care settings are hit by increases in the price of PPE necessary to operate in a world still impacted by Covid.

An important concern for some charities providing counselling and therapy services is that there is still a massive increase in people seeking help to manage their mental ill-health means that the charities are finding it increasingly difficult to find available specialists to sub-contract some of their services.

**Overall change:** *No significant change*

### Availability of Volunteers

In 2022, many respondents reported concerns that financial pressures would reduce the numbers and availability of volunteers who may need to prioritise work over volunteering. We now know that almost half of respondents are seeing a reduction in the number of people volunteering, the time each volunteer can give and an increase in difficulty finding new volunteers.

## Impact of Challenges on Organisations

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Organisations were then asked what the likely impact of cost increases would be on their operations. They were also asked what the impact would be on the number and profile of people seeking support might be. Finally, they were asked whether the current challenges would pose an existential threat to their organisation.

### Risk of Closure

The February 2023 data shows that significantly more organisations see a possibility of closure in 2023, from 2% to 10%. This is bad enough in and of itself, but it is probable that this is a significant underestimate given that organisations in crisis are probably not going to spend time filling out surveys, rather they are spending time on emergency fundraising and negotiating with funders.

We (Surrey Community Action) have had requests for help from a number of organisations concerned about their viability or considering closure, as have the Centres for Voluntary Service. The Community Foundation for Surrey has had a lot of applications for crisis funding and strategic development funding.

**Overall change:** *Significant deterioration*

## Impact on Service Delivery

Smaller, more simple organisations remain less likely to need to reduce services, but about 67% of larger organisations expect to reduce some services or increase costs (versus 20% in 2022). Conversely, some still plan to increase services in response to increased demand.

It is important to remember that organisations may only be closing one service out of a large portfolio and therefore the overall impact on service delivery may be smaller than the data might initially suggest. There is also a consideration to be made about the impact of a recused service, such as the number of people disadvantaged, the collective impact they make, the knock-on impact caused by their absence (eg how many of their beneficiaries will have to access support from elsewhere in the system), whether other comparable organisations exist, their longer term health, and whether short term funding can lead to a sustainable future, or whether it would just put a plaster on intractable longer term problems and create dependency on short term funding.

**Overall change:**      ***Significant deterioration***

## Impact on Demand and Beneficiary Numbers

Slightly more larger organisations are reporting that the number of people accessing their services has gone down. In 2022, one in four saw a reduction, up to one in three in 2023. Conversely, the picture has improved slightly for smaller organisations who report that they are seeing a smaller reduction in beneficiaries accessing their services versus last year.

While some organisations expect to see the number of people they can help drop, more than half still expect to see an increase in demand for their services and many continue to see a change in the profile of people requesting their help, for example more people slipping into food and fuel poverty and needing help for the first time.

**Overall change:**      ***No significant change***

## How Organisations Are Responding

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The survey asked what measures organisations have been taking to mitigate some of the cost of living rises.

### Spending Reserves

The Charity Commission recommends that a registered charity needs to build and maintain reserves so that it can protect itself against drops in income and allow it to take advantage of new opportunities, as well as meeting its obligations should it close. The reserves a charity should hold will depend on its operations, assets, liabilities and running costs, but a figure 3 - 6 months' worth of funding is usually recommended.

Unfortunately, the Covid pandemic and lockdowns had a devastating effect on the ability of many charities to fundraise, and so many have been spending their reserves for much of 2020 to 2022.

In 2022 we saw that three quarters of larger organisations are dipping into their reserves, up from one in three in 2022. Twice as many small organisations now report that they are using reserves to maintain services (now over a third)

Spending reserves is not a sustainable response to financial challenges and so most are looking for other ways to mitigate against the increased costs they face.

**Overall change:** *Significant deterioration*

### Fundraising

In 2022, one in three respondents, of all shapes and sizes, stated that they had to increase their fundraising efforts to offset cost of living rises. In 2023, that figure has increased to two in three – a 100% increase.

Some are specifically asking for cost-of-living support, but more are bringing forward new project ideas to fundraise for or are targeting new audiences with their fundraising efforts, while acknowledging that there will be increased competition for funding pots that are not necessarily getting any bigger.

**Overall change:** *Significant deterioration*

## Service Fee Changes

Some organisations have implemented fee increases where necessary although they recognise that this puts an increasing burden on service users who are feeling pressure themselves. Some charities have introduced fees for the first time in an effort to offset some of their increasing costs.

**Overall change:** *Significant deterioration*

## Renegotiation with Funders

Again, smaller organisations that do not use grants and contracts are faring better on average, but around a third of larger organisations are trying to renegotiate some of their contracts, especially multi-year contracts that have not had to have inflationary uplifts in the second year and beyond. As in 2022, some funders have spontaneously offered uplifts to their grant holders, which is much appreciated and goes some way to offsetting the increases. Typically, these uplifts are between 5% and 7% in spite of the pressures the funders and commissioners themselves are facing.

**Overall change:** *No significant change*

## Cost Cutting

Charities and community organisations are long used to keeping operating costs as low as possible and tend to be very adept at minimising costs to ensure that as much of their income as possible is spent on their services.

In 2022, when asked about what cuts they might be planning to make, more than half said they were looking to cut operating costs, but less than one in ten were considering cutting staff.

Unfortunately, in 2023, one third of organisations are now facing cutting staff despite the fact that further cuts will negatively impact their ability to deliver their services or meet their obligations to funders.

**Overall change:** *Significant deterioration*

## Our Forecast for 2023 and Beyond

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In 2022, we asked organisations when they were planning to make changes in response to the crisis. We also asked them how they expected the cost-of-living crisis to evolve over the coming months. In 2023, we have asked them what the actual impact has been, and what they expect to see for the rest of 2023.

In 2022, round three quarters of respondents believed that they were resilient enough to survive the next year or so without significant changes. In 2023, that figure has dropped to one in three as the crisis has continued. In 2023, we are also seeing more of the smaller organisations, who previously did not feel the need for change, are now having to respond to the crisis. The data shows that more organisations are monitor the situation closely, ready to respond to further challenges. Unfortunately, at least in one case, this is waiting for the outcome of a final funding bid to decide whether they will survive or close.

In 2022, 11% of organisations were optimistic that things would improve in the next six months, but in 2023 only 6% reported that things had actually improved for them.

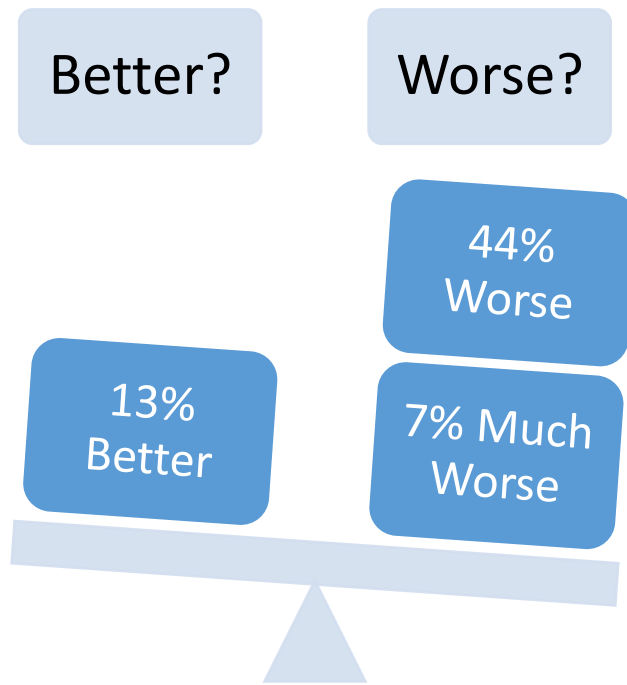
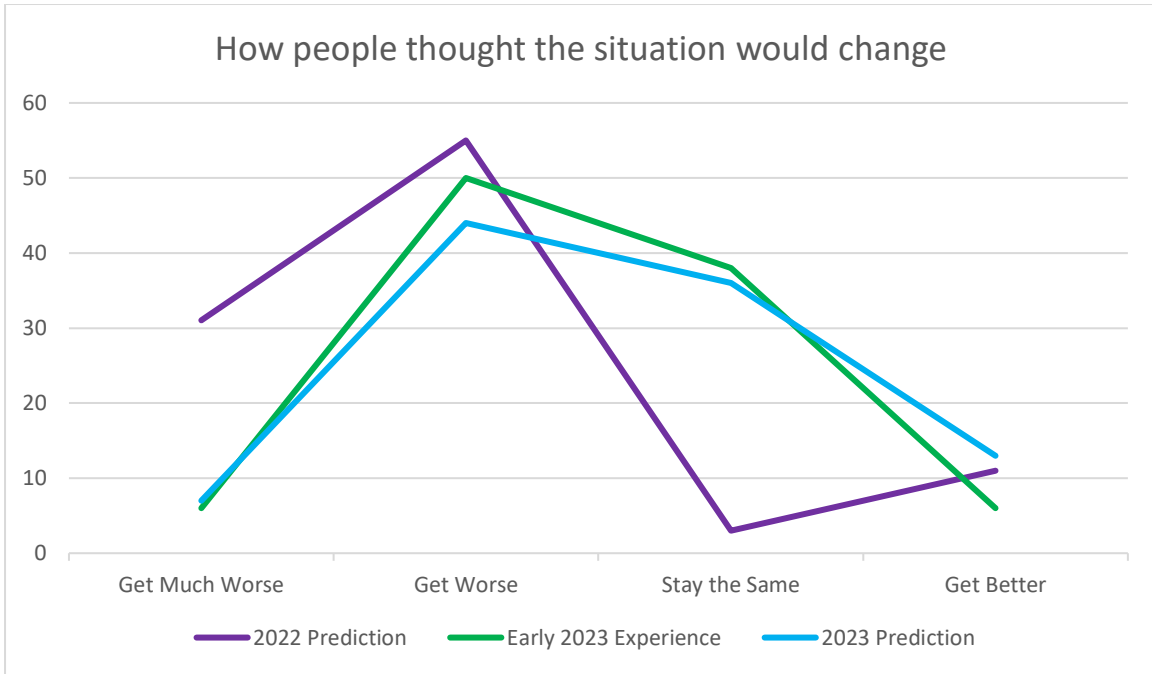
More positively though, in 2022, while only 3% expected things to stay the same, almost 40% saw things stay the same.

Unfortunately, organisations who expected things to get worse when asked in 2022 were largely proven right, even though it was not quite as bad as they had predicted.

Overall, between 2022 and 2023, there was a general shift to the more optimistic end of the spectrum.

Looking forward to the rest of 2023, organisations remain split between those who expect things to get better, or at least not deteriorate further, and those who expect to see things continue to get worse.

|                                       | What organisations thought would happen after September 2022 | What actually happened between September 2022 and February 2023 | What organisations think will happen after February 2023 |
|---------------------------------------|--|---|--|
| Things will get/have got better       | 11%  | 6%  | 13%  |
| Things will stay/have stayed the same | 3%   | 38%   | 36%  |
| Things will get/have got worse        | 55%  | 50%   | 44%  |
| Things will get/have got much worse   | 31%  | 6%  | 7%   |

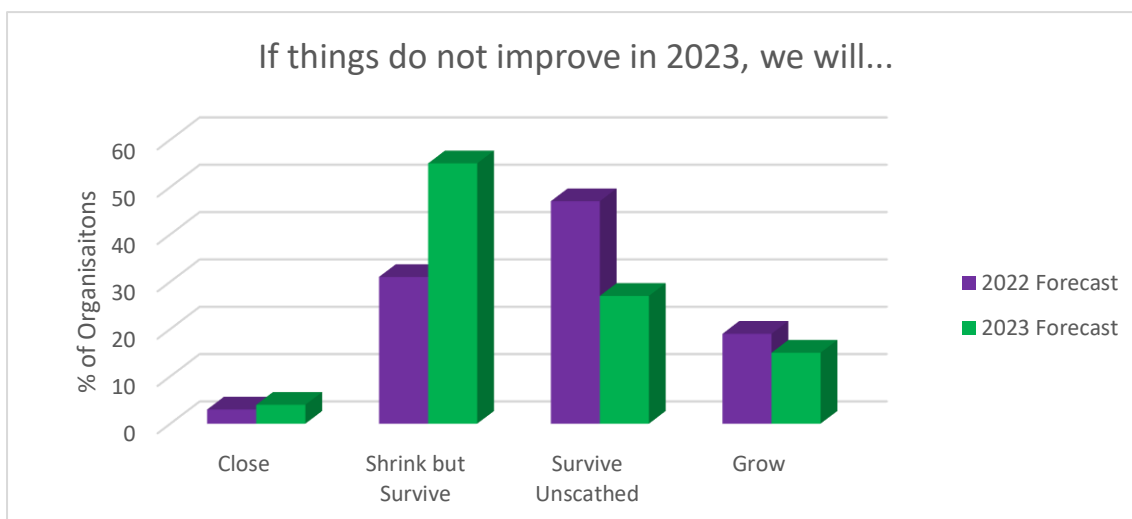


How do VCFS organisations expect things to change from February 2023 and beyond?

The final questions asked of our respondents was, assuming things don't improve in 2023, what would happen to them?

In 2022, the majority of organisations, of all sizes, scopes and location, expected to endure the current crisis. A third thought they may need to shrink, but almost half expected to survive unscathed and some even expect to grow.

In 2023, almost two thirds now expect to shrink and only one in ten expect to survive unscathed – an overall less optimistic picture.



*VCFS expectations of the impact the challenges on the operations of their organisations*

*Note that, as described above, we expect the number of organisations who will close to be significantly higher than this data predicts due to organisations in crisis being less likely to have the time to participate in this research.*

## Summary and Calls to Action

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We are pleased to report that the sector overall remains well placed to meet the developing needs of the County, even though an increasing minority are facing massive challenges not of their own making. Small local community groups remain well placed to meet immediate local needs such as befriending, volunteers transport, etc, but even they are less confident that they will continue to meet the needs of their communities.

Larger organisations (facing salary costs, premises costs, equipment costs, etc) continue to face greater challenge, especially around salaries, recruitment, rising prices of energy, goods and services.

We are now expecting to see a significant cut in the services offered by organisations from across the VCFS, and we even expect to see an increase in the number of organisations facing closure. In the first survey, only a very small number of organisations were contemplating cutting staff. In 2023, that number has risen considerably.

Even more organisations are now spending their reserves to keep themselves or their services going. Staff costs are often the largest cost that organisations face, and cutting staff is always seen as a last resort, since staff cuts seriously impair an organisation's ability to deliver their services.

While most organisations expect the situation to deteriorate over the next 12-18 months, many expect to survive, even if they end up smaller than when they started.



There remain things that VCFS organisations and funders can do to help the VCFS (and therefore their beneficiaries), including but not limited to:

### VCFS Organisations

- Ensure trustees are fully aware of the risks their organisations face from an extended period of price rises and uncertainty; make sure they are added to the Risk Register and mitigation is fully considered.
- As well as managing costs effectively, consider in-kind support to offset some running costs in lieu of cash funding. The Surrey Social Value Marketplace may be a good place to start: <https://socialvalue.supplytosurrey.co.uk/about/>
- Consider whether partnering with peer organisations could lead to economies of scale, for example shared recruitment.
- Look at salary packages and consider non-salary benefits to encourage recruitment and retention (eg employee assistance programmes)
- Approach funders and ask for more funding with data to evidence increasing costs, demonstration of value for money, and data on the impact on those you support of cuts you might otherwise have to make. Be honest about the challenges you face.
- Ensure you have a robust cost recovery model that allows you to accurately calculate overheads and build inflationary uplifts into multi-year projects.
- Highlight your challenges and the impact they will have on your beneficiaries with your local Councillors and MPs
- Contact Surrey Community Action or your local Centre for Voluntary Service (via <https://www.surreycc.gov.uk/community/voluntary-community-and-faith-sector/councils-for-voluntary-service-in-surrey>) who can offer help and support.

### Funders and Commissioners

- For existing funded work consider an automatic cost of living increase across all grants and contracts, reflecting that the cost of failure is likely to be significantly greater than the costs of the uplift.
- Where uplifts cannot be offered, redefine outputs and outcomes to allow for reduced service delivery to the existing budget.
- Consider offering in-kind support to VCFS organisations, such as office space and access to facilities.
- Consider inflationary uplifts in new contracts and ensure bidders have a robust cost recovery model that includes inflationary pressures.
- Consider further emergency support to front-line VCFS organisations supporting Surrey's vulnerable communities.
- Recognise that the challenges are being felt more in some sectors (eg care) that may require extra support, but that pressure is being felt everywhere.

## Local and National Government

- Work with VCFS organisations locally to understand their pressures and factor those pressures into action plans and support packages at a local and national level.
- Reflect that the VCFS is a large and important part of the UK economy and so should be considered equally when support to business and vital sectors are discussed.
- Work with the VCFS to design and deliver meaningful support to those in greatest need, directly and with minimal bureaucracy.
- Support implementation of measures to cap or reduce energy costs for VCFS organisations providing front-line services to vulnerable communities.

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