

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

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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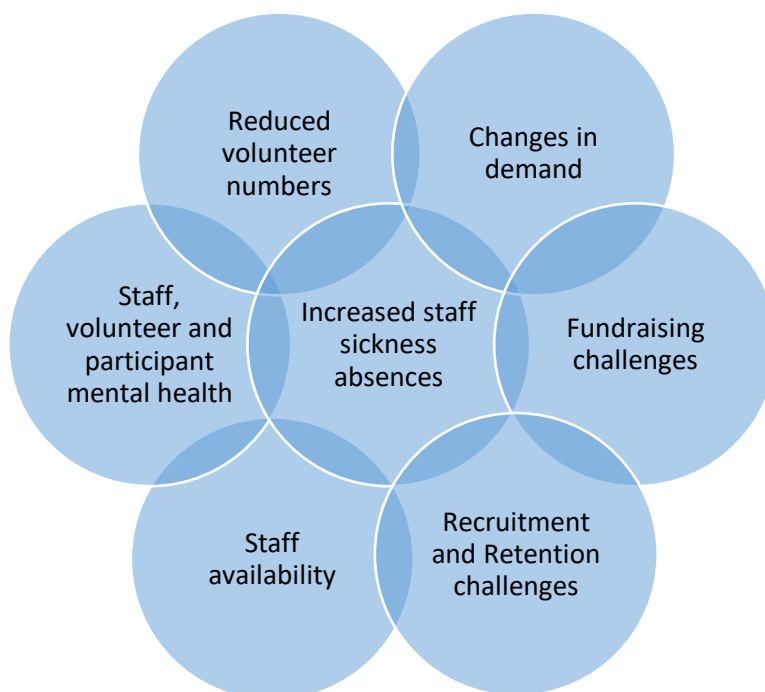
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Introduction

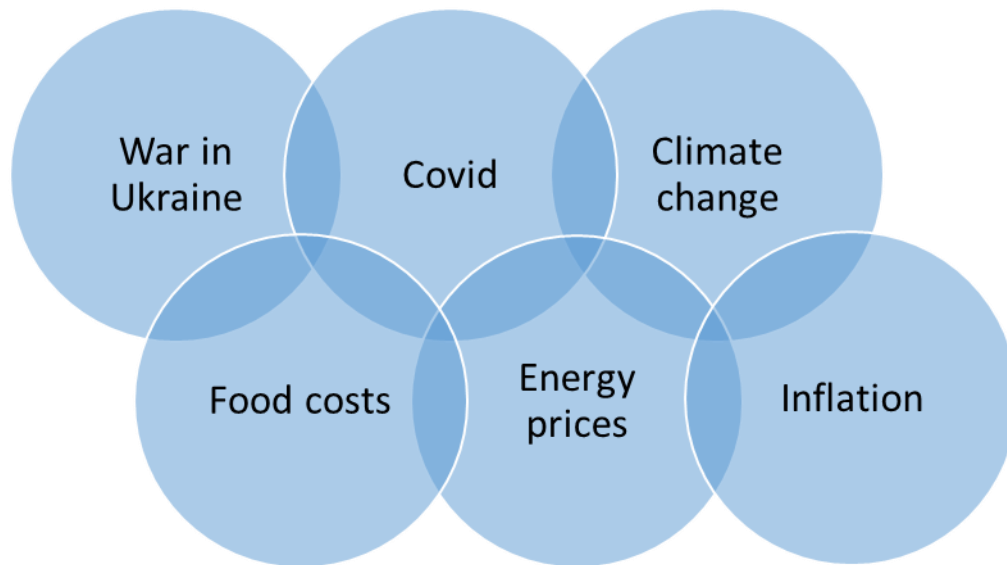
The Voluntary, Community and Faith Sector in Surrey, in common with other sectors, communities and individuals, is currently facing a period of significant, long-term challenges. While the country is no longer under lockdown and Covid is no longer front-page news, its impact is still being felt across society.



The ongoing impact of Covid-19 on Surrey's VCFS

Covid is also still prevalent, impacting on our staff, volunteers and communities, and will continue to have an ongoing impact.

In 2022, we are also facing one of the worst economic environments seen in decades, with a perfect storm of Covid, war in Ukraine, supply chain disruption and climate change combining to give us increased energy, fuel and food prices, disrupted supply chains, and a soaring inflation rate driving quality of life reductions. The VCFS is not immune to these challenges.



Factors leading to the current cost of living crisis

The VCFS relies heavily on public and statutory fundraising, and with less money to spend, both groups may need to reduce the funding offered to charities and other good causes.

As the economy stumbles, and more people are seeing a reduction in their quality of life, the demand for the services the VCFS provides is increasing and crashing headlong into increased costs and reduced funding.

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

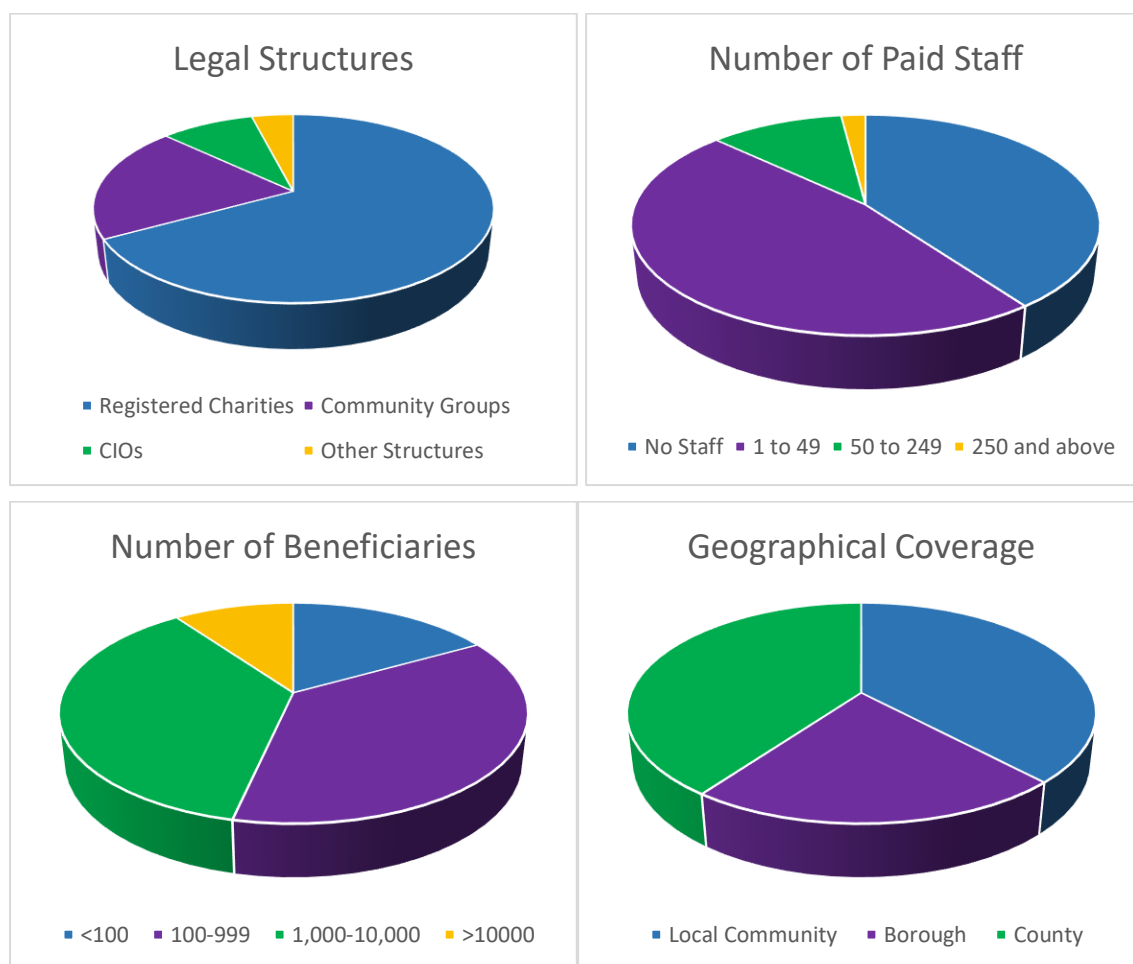
How We Gathered Our Data

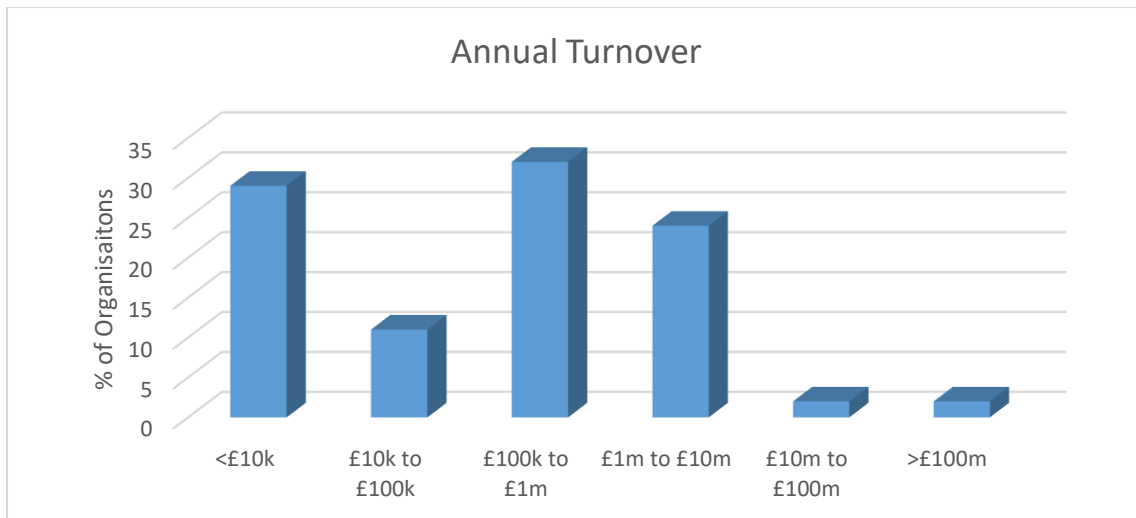
We have gathered data from a range of VCFS peers to try and understand the impact of the current challenges on them in four main areas:

- 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

We asked respondents a series of open questions around the themes above, and encouraged other feedback they thought relevant. We received over 60 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 survey was anonymous to encourage sharing of sensitive information, but quotes supplied below are verbatim comments from respondents.





Charts showing profile of respondents

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 number of volunteers supporting individual organisations ranged from 5 to 3,000, but most utilises fewer than 50 volunteers.

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).

Throughout the report, we see 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.

Challenges Facing Organisations

Respondents were asked 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

Respondents were asked whether they were facing recruitment and retention challenges due to the current cost of living crisis.

Unsurprisingly, the vast majority (85%) of organisations who employ staff were facing challenges.

The reasons for this are varied, but include:

- 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

Organisations who are tied to local authority or NHS salary scales are hardest hit, as are those who have vacancies in fields such as care where demand for staff is outstripping demand.

Many organisations are reviewing their salary scales, recruitment channels and non-salary benefits to attract new people.

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 salary increases to staff, ranging from 2% to 10%, and many are expecting to review their salaries again later in the year.

“We simply can not compete on salaries with the statutory or private sector”

Housing Charity

“We have increased our wages to our staff, unless we obtained funding from somewhere it’s unlikely we would be able to recruit anyone further.”

CIO

“We have introduced a well-being table with food essentials for staff so we can ensure that those struggling have access to at least 2 meals a day”

Mental Health Charity

“We need to consider how these additional costs are covered sustainably going forward”

Children’s Charity

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.

Energy and Fuel Costs

Around half of respondents are concerned about rising energy and fuel costs. Larger organisations tend to be more concerned as they are likely to manage premises and may use pool or fleet vehicles.

Of the smaller organisations, voluntary car schemes are least concerned about the impacts, which is surprising given the nature of their work. Most have local volunteer drivers who cover fuel costs out of their own pocket, or can increase the mileage rate given to volunteers. However, some are increasingly concerned as to whether further increases are sustainable, and whether drivers will be more reluctant to accept transport requests.

These schemes drive a collective 500,000 miles per year, usually taking vulnerable people to medical appointments from areas with little or no public transport infrastructure.

Other community transport organisations are concerned about rising fuel costs, with one reporting an increase in diesel costs of £60,000 per year, and another worried about electricity costs as they move towards an electric fleet.

Considering other energy costs (gas and electricity), many organisations are facing significant increases, but some are currently enjoying fixed rate deals. Of these, most are worried about what happens when those deals expire, and whether to risk another fixed rate deal, assuming one can be found.

Charities are also concerned with the impact energy price increases are having on their beneficiaries where some of their energy costs need to be passed on.

Costs of Owning or Leasing Office Space

Fortunately, only one in ten organisations are currently worried about rent and mortgage cost increases. 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.

Those that do lease or own their accommodation are more concerned about rising running and service costs than rent or mortgage costs. VCFS Landlords are warning about increased service charges in coming months and years.

“Fuel is the big one for us – year on year our fuel costs (Diesel) have gone up £5k a month!”

Community Transport Provider

“Our energy bill tripled in 2021 as fixed term contract came to an end. Our current 12-month contract will renew in December – no idea what the impact will be!”

Education charity

“Rising fuel bills are hitting clients hardest, and those who we’ve been able to protect through an energy contract we entered into a few years ago are going to face massive increases in costs within the next year”

Housing Charity

Purchasing of Goods and Services

Again, we 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.

A knock-on effect of the cost of living crisis being experienced by everyone is the number of people, including charity beneficiaries, who need additional support with their costs. Several charities are having to refer their beneficiaries to other services such as food banks, baby banks, fuel vouchers schemes, etc.

Availability of Goods and Services

Fortunately, most organisations are not seeing a reduction in the availability of goods and services (although they are seeing some price rises).

However, around a quarter are seeing challenges in getting access to goods and services. These tend to be more specialist organisations such as those maintaining buildings,

An important concern for some charities providing counselling and therapy services is that 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.

There is a similar picture for some charities who deliver using a lot of external speakers and trainers. They are trying to bring more training in-house, but this is hard for some of the more specialist courses.

A combination of increasing costs and reduced availability is putting some capital build projects on hold or making them economically unviable. One charity reports that costs of a new building have risen 20% since the project started.

“The cost of all materials has increased dramatically which means some safety measures cannot be installed”

Sanctuary Provider

“40% rise in cost of new and used vehicles – struggling to replace older fleet right now”

Community Transport Provider

“We have launched our Christmas campaign earlier with funders as we know this year will be very difficult [...] The same toys we bought last year would be £8.5k more this year, and that is before we have factored in a rise in requests”

Poverty Charity

Impact of Challenges on Organisations

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 vast majority of organisations expect to be able to weather the current storm, which is good news overall. However, while an organisation might survive, they might have to do so at the expense of some of their services and with a consequent impact on the people they support.

None of the respondents have needed to close so far, but several have some concerns over their longer-term futures if things do not improve in coming years.

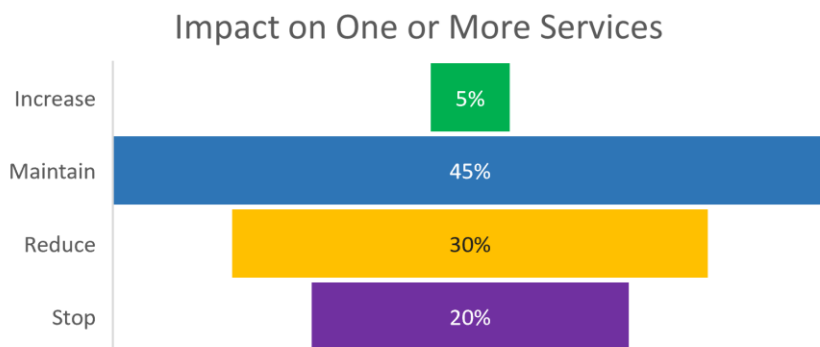
Anecdotally, at least two other charities (known to the author, but not respondents to this research) are expecting to close imminently due to a combination of Covid impact and the current challenges.

Impact on Service Delivery

As with most of the other questions, smaller local organisations are less heavily impacted than their larger counterparts. Only 1 in 20 expect to have to reduce or stop any of their services.

Of the larger organisations (those employing staff) around a quarter expect that one or more services might need to close and a third worry that one or more services will be reduced. The overwhelming reason for this is increases in staffing costs.

On a more positive note, several expect to increase their services in response to an increase in demand (see below).



What impacts on service delivery to VCFS organisations expect?

“Our reserves are there for a reason, but they won’t last forever. First Covid and now this, it’s worrying.”

Disability Charity

“Closure of a service would be the last thing we would consider but it may happen.”

Disability Charity

“The cost of living crisis affecting families’ ability to afford the parental fees – leading to either children not attending, or an impact on revenue.”

Disability Charity

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 is smaller than the data might initially suggest.

Some organisations also rely on contributions from participants, and the organisations are facing reduced revenues or need to offer more bursaries and subsidies.

Impact on Demand and Beneficiary Numbers

While this report does not focus directly on the impact of the crisis on vulnerable communities, around 20% of respondents state that financial pressures on their participants and beneficiaries will influence their ability to access support, for example being less able to afford fees or facing increased travel costs.

Others are concerned that financial pressures will reduce the numbers and availability of volunteers who may need to prioritise work over volunteering.

Several Community buildings are concerned that having to pass on some of the increased running costs of their buildings may make hiring unaffordable to some of the community groups that use them, and so they may see some of these groups close.

While some organisations expect to see the number of people they can help drop, more than half expect to see an increase in demand for their services.

Many charities support vulnerable people in Surrey and so when those people experience yet more challenges, they need yet more support at a time when all services, statutory and VCFS, are stretched. For example, the number of people seeking fuel vouchers has doubled in recent months, and calls for help from survivors of domestic abuse are also increasing dramatically.

Many charities are also reporting a change in the profile on people requesting their help, for example more people slipping into food and fuel poverty and needing help for the first time. Others report that the needs of their beneficiaries are becoming more complex due to Covid and new financial pressures.

“[Cutting services] not only reduces the beneficiary impact; it is demotivating for staff.”

Disability Charity

Fewer volunteers will impact our response time and availability.”

Bereavement Charity

“We have already planned a price increase to our hirers ... and another in 2023. Ultimately this will impact upon groups, and we will lose groups that are running at a loss.”

Disability Charity

“We have seen a much greater demand for services this year but can't grow offer meet the demand.”

Children's Charity

How Organisations Are Responding

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 of between 3 and 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 even with furlough and other government support, many have been having to spend their reserves for much of 2020 and 2021. In 2022 we now have massive cost of living challenges which means that many charities still must dip into their reserves. Some have precious little left which leaves the charity vulnerable to further economic challenges and without the resources to bid for or cashflow other work – a vicious cycle.

More than half of the larger organisations and one fifth of the smaller expect to have to spend their reserves to offset increased costs. For many, this is to offset increased salary costs to prevent loss of staff and capacity to deliver. For others, it is continued higher costs on Covid PPE.

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.

Fundraising

A large majority of community groups and charities rely on public fundraising and donations and as mentioned, Covid had a significant impact on fundraising activities, especially event and face to face fundraising activities.

Over a third of organisations are planning to increase their fundraising activities to help offset spiralling costs. This may be a specific cost of living appeal on behalf of their beneficiaries, bringing forward new project ideas to fundraise for, or targeting new audiences for their fundraising efforts, such as corporates and Grant Making Trusts. They realise and expect that there will be increased competition for funding pots that are not necessarily getting any bigger.

“We are already spending more of our reserves this year than we planned.”

Family Support
Charity

“We feel we need to move quickly to retain as many staff as possible, hence funding salary increases from reserves.”

Children’s Charity

“We’re doing The Big Give Christmas Challenge for the first time this year.”

Bereavement Charity

“We are applying for grants for specific things such as a new website and are also looking at the possibility of seeking sponsorship for certain things.”

Community
Organisation

Anecdotally, several charities (including one respondent) are looking to invest funds in recruiting a paid fundraising post that they expect to secure additional funds and recoup the post's costs through their cost recovery model.

Furthermore, several respondents reflect on their increasing workload and feel that they lack the capacity to fundraise further but nonetheless recognise its importance.

Service Fee Changes

Some organisations, in particular some village halls and voluntary car schemes are planning to increase the fees they charge their service users. As mentioned above, this puts an increasing burden on service users who are feeling pressure themselves.

Some charities are looking to introduce fees for the first time in an effort to offset some of their increasing costs.

Renegotiation with Funders

Many organisations benefit from multi-year funding from local authorities and other sources. It is usual to include some inflationary uplift across the lifetime of the project but (a) not all funders will accept this and (b) figures may have assumed that inflationary pressures would remain low throughout the life of the project.

These projects may now be seeing significant shortfalls. While charities will seek to reduce costs to offset those shortfalls, around a third are trying to renegotiate with one or more funders, with very mixed success.

Some funders have spontaneously offered uplifts to their grant holders, which is much appreciated and goes some way to offsetting the increases.

Respondents recognise that while the environment for funders is also incredibly challenging, the costs of service failure would be even greater.

"We generate income through one of our services and will be increasing prices. We are actively looking for more income generating avenues and are now charging for some of our services where we can."

Infrastructure Charity

"When I recommended adding a 2% uplift, I thought I was being over cautious. I was wrong."

Infrastructure Charity

"Most are fixed but we have managed to gain one inflationary rise."

Mental Health Charity

"We have tried, but funding has reduced year on year so likely to continue to drop."

Mental Health Charity

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 non-staff costs to ensure that as much of their income as possible is spent on their services.

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. Those that expect to reduce staffing numbers feel they have exhausted all other channels available to them.

Many feel that they have cut as much as they can, and so further cuts will negatively impact their ability to deliver their services or meet their obligations to funders.

One respondent reflects that the move to digital caused by the pandemic lockdowns has left them with significantly lower overheads and is helping them deal with the current crisis.

“Any charity not doing this [reviewing costs] all the time is not being run effectively.”

Disability Charity

“Our [funders] are telling us that the financial envelope is fixed so we will need to talk with them regarding reducing or stopping services, cutting the staff that deliver them and allocating their budgets across the remaining team.”

Children's Charity

“We trimmed all the fat years ago. Any cuts now are into the bone.”

Infrastructure Charity

Our Forecast for 2023 and Beyond

Around three quarters of respondents believe that they are resilient enough to survive the next year or so, although they will be monitoring the situation closely. Unfortunately, some may be underestimating the impact that cost increases will have and may not respond until too late.

Around a quarter of respondents have already implemented significant changes and are confident that this will allow them to get through a challenging year, and one in ten have made changes but expect to make more in coming months.

Respondents were asked what they expected 2023 to look like.

One in ten were optimistic that things would improve in the next twelve months, and around one in twenty expected things to remain roughly the same. The remaining 85% expect things to get worse, and half of those expect things to get much worse.

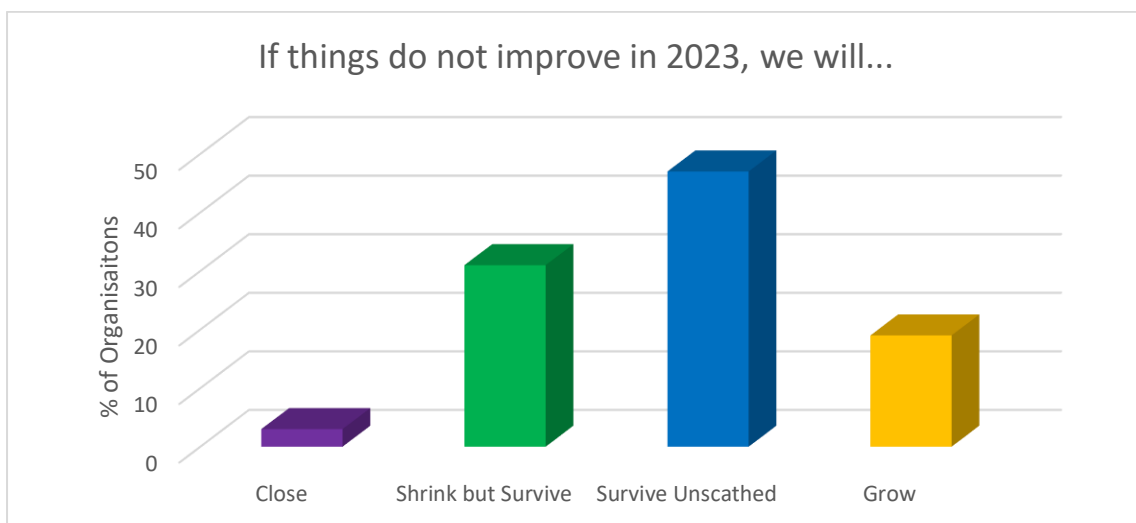


The final questions asked of our respondents was, assuming things don't improve in 2023, what will happened to them?

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

Growth will come from an increasing need for the organisation's services, which is not necessarily something to be celebrated.

Unfortunately, we do expect to see some organisations forced to close their doors due to the continued challenging environment that has been developing for many years but has been exacerbated first by Covid and now by the cost of living crisis. We should mourn the loss of these organisations and the gap in support for the people of Surrey that they will leave.



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

Summary and Calls to Action

A healthy VCFS is essential to a thriving Surrey, especially in the face of challenges like Covid and the current cost of living crisis. As residents experience greater hardship and challenge, more of them might need to access the support that the VCFS can offer, so the sector needs to be able to cope with increased demand and more complex needs.

This report therefore looks at how the VCFS is coping with the latest set of challenges, and their expectations for the future.

We are pleased to report that the sector overall is in an optimistic mood and remains well placed to meet the developing needs of the County. However, a significant minority are facing massive challenges not of their own making, and others are likely to struggle in the future unless things improve dramatically soon.

As with the Covid pandemic, we see that small, local community groups remains well placed to meet immediate local needs such as befriending, volunteers transport, etc, and are overwhelmingly confident that they will continue to meet the needs of their communities. In many ways, their small size, volunteer management and lower overheads are to their advantage. Even so, some of them are concerned about rising costs and the challenges their communities face.

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

While most organisations expect to weather the storm, a large proportion may have to reduce their services. This would be bad news in normal circumstances, but in the face of rising demand, this becomes even more of a problem. Fortunately, few are facing drastic reductions or even closure, although this figure might increase if the crisis continues for too long.

Charities and Community Groups are skilled in managing their costs. Even with this prudence, some are still expecting to have to cut costs further, where possible. And many are spending their reserves to keep 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.

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

Most organisations have either made changes in response to the current challenges or are planning them. Some may not be, and there may be risks in failing to do so.

Most organisations expect 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.

There are 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. Assume things will get worse before they get better.
- 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. Do not be afraid to discuss challenges you are facing.
- 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
- Consider sharing the joint statement issued by ACEVO and others on the Cost of Living Crisis: [Cost of living crisis: joint statement – ACEVO](#).

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.
- For Surrey County Council, continue to offer VCFS partners access to the recruitment portal to allow effective recruitment at a lower cost.
- Encourage inflationary uplifts in new contracts and ensure bidders have a robust cost recovery model that includes inflationary pressures.
- Consider 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.
- Refer to the joint statement issued by ACEVO and others on the Cost of Living Crisis: [Cost of living crisis: joint statement – ACEVO](#).
- Support implementation of measures to cap or reduce energy costs for VCFS organisations providing front-line services to vulnerable communities.

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