Second Wave

Charities and the Spring Statement 2022

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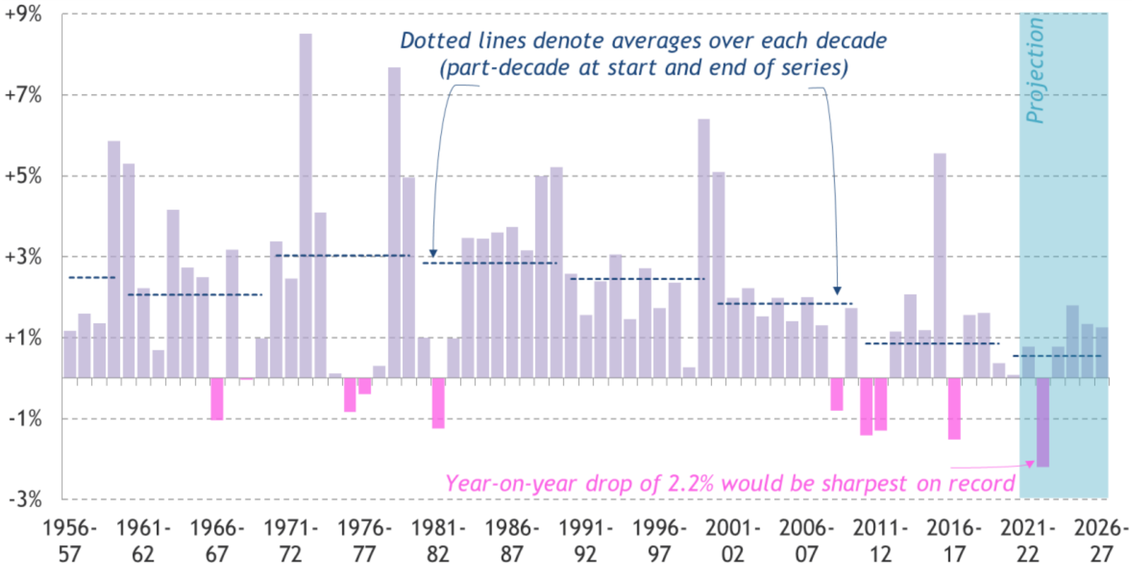
The most vulnerable in the UK are most at risk as living standards plummet

The Chancellor of the Exchequer has presided over a number of unprecedented moments during his relatively brief time in office, and today's Spring Statement proved no different. Despite delivering a fiscal support package amounting to some £17.6bn in 2022-23, he was still faced with the news from the Office for Budget Responsibility that UK household incomes are set to fall at their sharpest rate on record over the course of next year – a period dating all the way back to 1956.

As Figure 1 shows, household disposable incomes are projected to fall by 2.2% in 2022-23 relative to 2021-22 after adjusting for inflation. That's the equivalent of an average drop of £488 per person, or nearly £2,000 for a family of four.

Figure 1: Household income is set to fall at its sharpest rate on record next year

Year-on-year change in real household disposable income per person



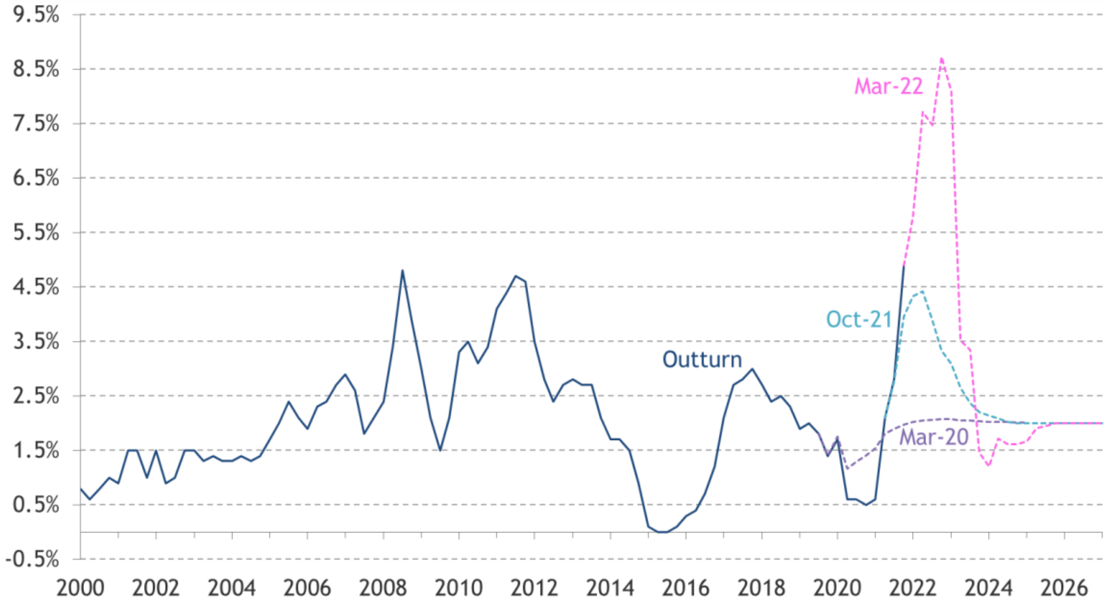
Source: PBE analysis of OBR, *Economic and Fiscal Outlook March 2022*, Chart 2.F

This living standards squeeze owes much to a surge in inflation prompted by a variety of global forces and exacerbated dramatically in recent weeks by the crisis in Ukraine.

As Figure 2 sets out, back at the October Budget the OBR projected that CPI inflation would peak at 4.4% in the middle of 2022 – high by historical standards, but lower than the peaks recorded around the financial crisis. Having reached 6.2% in February however, the OBR now expects CPI to rise to a 40-year high of 8.7% by the end of the year.

Figure 2: Inflation is set to reach a 40-year high this year

CPI annual rate, outturn and selected OBR projections



Source: PBE analysis of OBR, *Economic and Fiscal Outlook*, various

Faced with this much altered picture – and helped by the receipt of a large near-term fiscal windfall in the form of higher tax revenues – the Chancellor *did* take action. The OBR believes that household incomes would have fallen by a further 1% in 2022-23 in the absence of his near-£18bn of support – constituting the energy support package (£8.9bn), the 5p fuel duty cut (£2.4bn) and the raising of the National Insurance primary threshold (£6.3bn).

Yet the help on the offer is partial. And, crucially, it will do very little for those most exposed to the challenges ahead.

Beneath the headline inflation rise, energy bills will soar by 54% in April and could rise by around another 40% in October if worldwide energy prices remain as high as the markets expect. As such, the cost-of-living crisis will fall heaviest on those who spend the largest share of their incomes on staples such as food and energy – namely those at the bottom end of the income distribution. The Institute for Fiscal Studies estimates that the poorest tenth will experience inflation about 1.5 percentage points higher than the richest tenth.

The squeeze will of course play out differently across different family types too. We estimate that a single parent with one child would have to spend an additional £315 on food and heating this year compared with 2019 to purchase the same amount, while a family of four would need to find £580 more.

Despite the evident distributional skew of the cost-of-living challenge however, lower income households were offered relatively little by the Chancellor's support package. The Household Support Fund that allows councils to offer assistance to the most vulnerable families within their areas was boosted by £500m. But the failure to uprate benefits from April by any more than the 3.1% already earmarked via the traditional link to the September rate of inflation is set to drag on incomes by many multiples of this amount.

The Resolution Foundation estimates that just £1 of every £3 of support announced yesterday will flow to those in the bottom half of the income distribution. In cash terms, the new measures set out by the Chancellor are set to benefit households in the top half of the distribution by £475 on average, compared with just £136 for the poorest fifth of households.

This imbalance matters even more because the ferocity of the living standards squeeze comes so close on the heels of the distributionally uneven damage wrought by the pandemic. Even ahead of the inflation surge, 4.4m people were having to use credit to keep up with essential bills and 4.7m were 'food insecure' – unable to afford to eat properly. A third of those on in the bottom fifth of the income distribution were struggling to keep up with their housing costs. And while the aggregate pay of the country's top earners increased 23.3% over the past two years, pay at the bottom of the earnings distribution fell by 10.3%.

This pressure will result in a further increase in demand for the services of charities across the sector

With so many families facing such significant financial challenges in the coming months, the charity sector which has been running hot for the past two years can now expect a further surge – a 'second wave' – of demand for help.

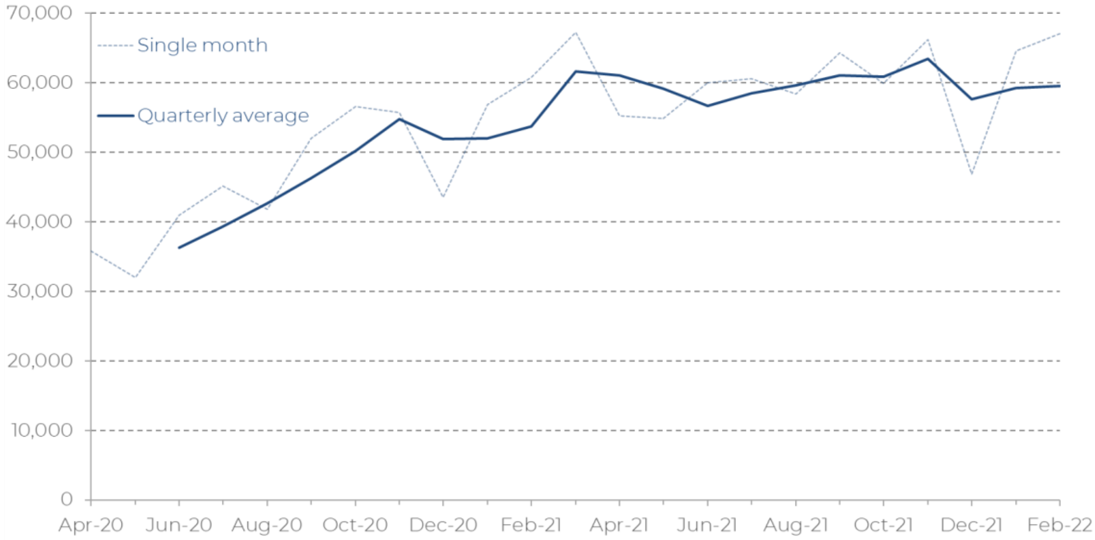
During the first wave, the sector provided vital support to those households feeling the impact of Covid-19. Back in October, 55% of charities were reporting an increase in the call for their help as a result of the pandemic, with over a quarter saying demand had gone up by more than 25%.

As the cost-of-living crisis deepens, many thousands of organisations across the country will be faced with new challenges. Not only those charities providing essential goods to those who can't afford them, but those organisations which support individuals to access work, to recover from crime, to deal with mental health difficulties, to overcome housing challenges and to deal with a myriad of other matters.

Already there is evidence of the second wave starting to appear. Foodbanks in particular have raised the alarm on the pressures they're experiencing. And the Citizens Advice Bureau has reported that demand for its support is now higher than at any point since the pandemic began. That is driven in no small part by a 23% year-on-year increase in the number of people seeking advice about their debts, as depicted in Figure 3. And looking across the period from April 2021 to February 2022, the number of people seeking advice about fuel debt was up 55% year-on-year – even before the lift in the energy price cap.

Figure 3: A record number of people have contacted Citizens Advice for help with debt

Number of people seeking one-to-one debt advice from Citizens Advice each month



Source: PBE analysis of Citizens Advice Trends, Feb 2022

Meeting this second wave of demand will be made more difficult by a simultaneous second wave of funding constraint

That the charity sector was able to provide such vital support over the course of the pandemic was made all the more remarkable by the financial hit that so many organisations faced. As fundraising events were cancelled, shops were closed and households faced competing priorities for their attention, one in four charities reported experiencing a drop of more than 40% in their income.

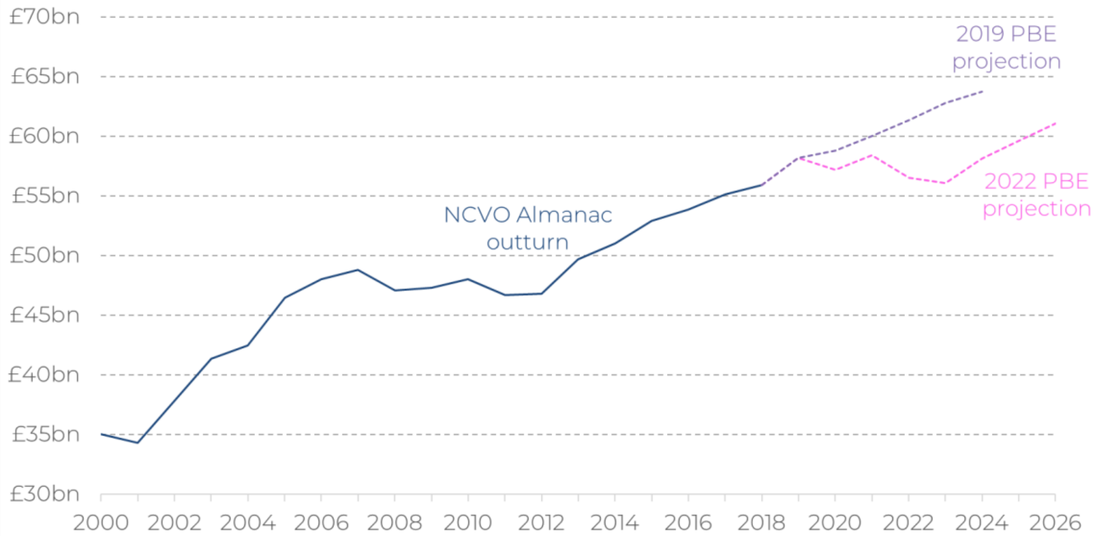
Yet history looks to be repeating with alarming speed: with further demand elevation coming once again alongside a potential resource crisis for the sector. The cumulative effect of these pressures will make them all the harder to endure.

The financial pressure for charities this time around is likely to be twofold. First there is the potential hit to donations, subscriptions and revenues associated with a living standards squeeze. Charity income tends to track household income relatively closely over time. Running a simple regression analysis, our estimate is that the OBR's projections for incomes imply a 3% drop in charity income in 2022, equivalent to approximately £2bn.

Taken together with what's already befallen the sector, Figure 4 suggests that the double wave of pandemic and cost-of-living crisis looks likely to cause a near-£5bn shortfall in charity income in 2022 compared to what might have been expected back in 2019. In cumulative terms, that would leave sector income more than £8bn down on the pre-pandemic trajectory, with this figure continuing to grow in subsequent years.

Figure 4: Charitable income is likely to fall this year, widening the shortfall relative to pre-pandemic expectations

Outturn and forecast charity income: UK



Notes: We use the historic relationship between total charity income and real disposable household income to project the potential path of charity income going forwards. We use historical total charity income data from the NCVO *Civil Society Almanac*, covering the period 2000-2018 to establish our baseline and draw on OBR projections to build a scenario for how incomes could change going forwards.

Source: PBE analysis of NCVO, OBR, ONS

The second element of the pressure that charities can expect in the coming months relates not to their ability to attract new money, but to the extent to which existing funds will be eroded by soaring inflation.

Consider for instance that a £20 donation in 2021 will be worth just £17.60 in 2024. Similarly, a grant of £100,000 in 2021 would be worth just £88,100 by 2024. With many charity contracts and grants operating on a multi-year basis, and with CAF estimating that 36% of donations to charity operate through fixed direct debits and standing orders, this will very rapidly become an issue for charities.

Inflation will similarly impact charities' cash reserves. Charity Commission data suggests that organisations with income between £0.5m and £1m had 5.3 months of reserves held as cash on average ahead of the pandemic. If charity expenditure rises in line with today's inflation projections, the value of these reserves will quickly fall in value. By 2024, they would cover just 3.8 months. A charity earning £1m a year would need to increase their reserves by £70,550 by 2024 to ensure their reserves do not fall in real terms.

In terms of the cost base facing charities, we estimate that a typical organisation with an expenditure of £1m would need to factor in an increase in staffing costs of least £75,000 by 2024 to ensure staff are not worse off. This figure does not include the rise in National Insurance, rises in the minimum wage or the health and social care levy coming next year. Previously we estimated that, for charities to ensure that wages don't fall in real terms as a result of inflation, they would need to spend an additional £2bn in 2024. The significant increases in inflation expectations set out in the Spring Statement mean that we now estimate £3.3bn would be required to meet this challenge.

Charities working to convince government to act on their priorities face an uphill battle this year

The Spring Statement leaves the government's finances finely balanced, and their future uncertain. As a backdrop, this creates notable challenges for charities working on the full gamut of issues where government action could make a difference.

Tax revenues relative to the size of the economy are forecast to be at the highest levels since the 1940s, and in 2021/21 the government even received £37bn more than expected in extra tax receipts. However, government debt is set to be £41bn higher in 2022-23 than previously forecast. In addition, the costs of servicing this debt are now expected to be higher. Meanwhile, increases in inflation will leave the real spending power of government departments £15bn lower in 2022-23 than when they were set at the Spending Review.

The Ukraine crisis has added significant uncertainty to the global economy, and the Chancellor gave this as one of the leading reasons as to why he was reluctant to promise more spending at this time. The evidence of the past 6 years of Brexit debate has shown that uncertainty in the economy is usually linked to a level of paralysis, with both government and business unwilling to take additional risks or invest.

This mood music suggests that it's likely to be even more challenging than it has already been for charities looking to convince government to spend to tackle the root causes of issues they're working to solve. Whether their focus is on supporting the lowest income households or other groups, campaigners are likely to find themselves facing an uphill battle when it comes to spending by both national and local government – potentially compounding ongoing demand issues already in play.

Conclusion

After two years of navigating the pandemic, charities are facing their own second wave. The severe drop in living standards and squeeze on household finances due in the coming months will have major impacts on the people who rely on charities for a range of services – from basic necessities to support with complex mental health needs. At the same time, charitable incomes will be impacted by inflation, by people's ability to donate and by tighter departmental and local authority spending (with cash awards set out at last year's Spending Review now being eroded by inflation).

Doing more with less is a conundrum which has become all too familiar for the charity sector over the last two years. But it is a balancing act which will only become harder to pull off as time goes by. The Spring Statement provided few sources of optimism for charities, which will now need to plan for the long-haul of supporting people despite restrictions on their resources.

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