Charities under pressure

How the cost of living is squeezing non-profit organisations

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Welcome

We are all familiar with the challenges society has faced over the last few years, with the health, social and financial challenges caused by the pandemic followed by the turmoil caused by global conflicts.

The result has been cost-of-living difficulties that, due to globalisation, have transcended borders.

Throughout this period, charitable organisations globally have stood as a crucial lifeline for many, providing essential support that would not otherwise be available - however, as you will know, the charity sector is not immune from the impact of soaring energy prices, rising inflation and interest rates, and other financial pressures.

We spoke to not-for-profit leaders in Grant Thornton Australia and Grant Thornton US to examine the challenges confronting charities across our respective countries as a result of the cost-of-living crisis.

From dwindling donations and statutory funding to escalating operational costs, we reflect on client conversations and use our knowledge of the sector to shed light on how charities are currently mitigating these challenges, and the actions that they can take to remain resilient moving forwards.

We hope you find this report insightful.

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Managing the cost-of-living crisis is critical to the future of the sector

United Kingdom

In the UK, inflation spiked at 11.1% in October 2022 and gas and electricity prices suffered inflation of 28.1% and 18.8% respectively across the twelve months to February 2022. Also in this period, the Office for National Statistics (ONS) reported that two thirds (66%) of adults in the UK identified their cost-of-living increase, with rising energy prices being a major factor in the squeeze on household budgets[1]

Of those who reported a rising cost-of-living to the ONS Opinions and Lifestyle Survey in January 2022, 79% cited higher gas and electricity bills as a cause. Fast forward to early 2024 and the Ipsos Political Monitor found that 58% of adults are worried that the worst of the cost-of-living crisis is still to come, while 35% think this has passed. Millions of workers have seen pay rises now outstrip inflation, but for many others, a real-terms squeeze on their income continues.

With the spike in inflation there followed a rapid increase in interest rates, which peaked and have stabilised at 5.25%. Consequently, mortgage rates increased by approximately 4%. This created further pressure on adults in the UK, especially with a high number of fixed rate mortgages (fixed at a time when rates were very low) coming to an end during 2023 when rates were at their highest. This was yet another financial pressure to absorb, especially when wages weren't generally keeping up with the increase in the cost of living.

While inflation has reduced to 3.2% (for the year to March 2024), interest rates have stabilised and energy costs have started to decrease, this hasn't meant the end of the challenges faced by individuals in the UK. A reduction in inflation simply means that cost rises slow down, rather than them returning to their previous levels. Therefore, the cost-of-living challenge remains.

Australia

In Australia, millions of citizens are also facing a significant cost-of-living crisis. Rising prices in essentials like groceries, utilities, transportation, and housing have led to over 3.3 million Australians living in poverty, according to The Salvation Army Australia. Many are navigating difficulties in the housing market, marked by record-high prices and a shortage in rentals, and compounded by increasing utility bills.

The Australian Bureau of Statistics' December 2023 Consumer Price Index (CPI) reveals a substantial increase in the cost of living since 2013, with certain items experiencing dramatic surges. The CPI peaked at 7.8%, projected to be 3.25% by June 2024 and ease further to 2.75% by June 2025. However, there remain persistent challenges in the housing market around utility prices and other costs.

In addition, there has been a housing construction slowdown, fuelled by rising interest rates and material costs. This is adding challenges, in particular for young home buyers, through inflated housing prices, utility bills, and inflation. Multiple interest rate hikes by the Reserve Bank of Australia since May 2022 have increased signs of mortgage stress, impacting real household income. Public attention is now on the 2023/24 Federal Budget announcement, as Australians cope with these economic difficulties.

1 Energy prices and their effect on households - Office for National Statistics (ons.gov.uk)

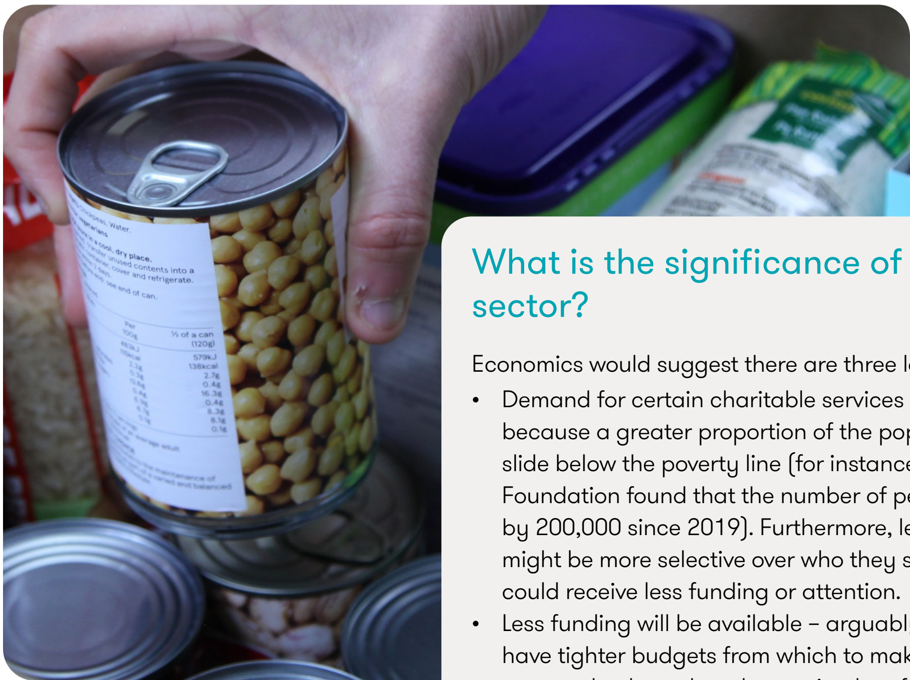
United States

Since the pandemic, US citizens have seen steadily rising costs, with many goods and services about 19% more expensive than they were before Covid struck. In fact, according to Bloomberg[2], since early 2020, prices have risen about as much as they had in the full 10 years preceding the health emergency.

Pretty much all areas of the household budget have been impacted: groceries and electricity are up 25% since January 2020. Used-car prices have climbed 35%, car insurance 33% and rents roughly 20%. While consumers' daily routines have largely returned to their pre-pandemic normal, the cost of living hasn't.

Many Americans have seen their pay rise rapidly since 2020, however, this has largely been offset by inflation. To put this into perspective, some of the fastest wage increases in decades have left the average American largely no better off than before.

As at March 2024, inflation in the US is 3.48%, having peaked at 9.1% in June 2022. Interest rates remain at 5.5% and have stayed at this level since July 2023, having started at 0.25% before the cost-of-living crisis really started to bite. While inflation has reduced, this has simply slowed down the rate of price increase rather than returning prices to anything like their pre-crisis levels.



What is the significance of these factors on the charity sector?

Economics would suggest there are three logical outcomes:

- Demand for certain charitable services (for example, food banks) would increase because a greater proportion of the population is likely to fall in need and perhaps slide below the poverty line (for instance, a 2023 report by the Joseph Rowntree Foundation found that the number of people living in poverty in the UK has increased by 200,000 since 2019). Furthermore, less money in general means that donors might be more selective over who they support, meaning some charities or causes could receive less funding or attention.
- Less funding will be available – arguably individuals might be anticipated to have tighter budgets from which to make donations. Public finance might also be expected to be reduced, meaning less funding available to charities.
- Just as with individuals, charities aren't immune to cost pressures – most will be adversely impacted by high energy prices and salary increases, and many will also be affected by the increase in interest rates if they have borrowings.

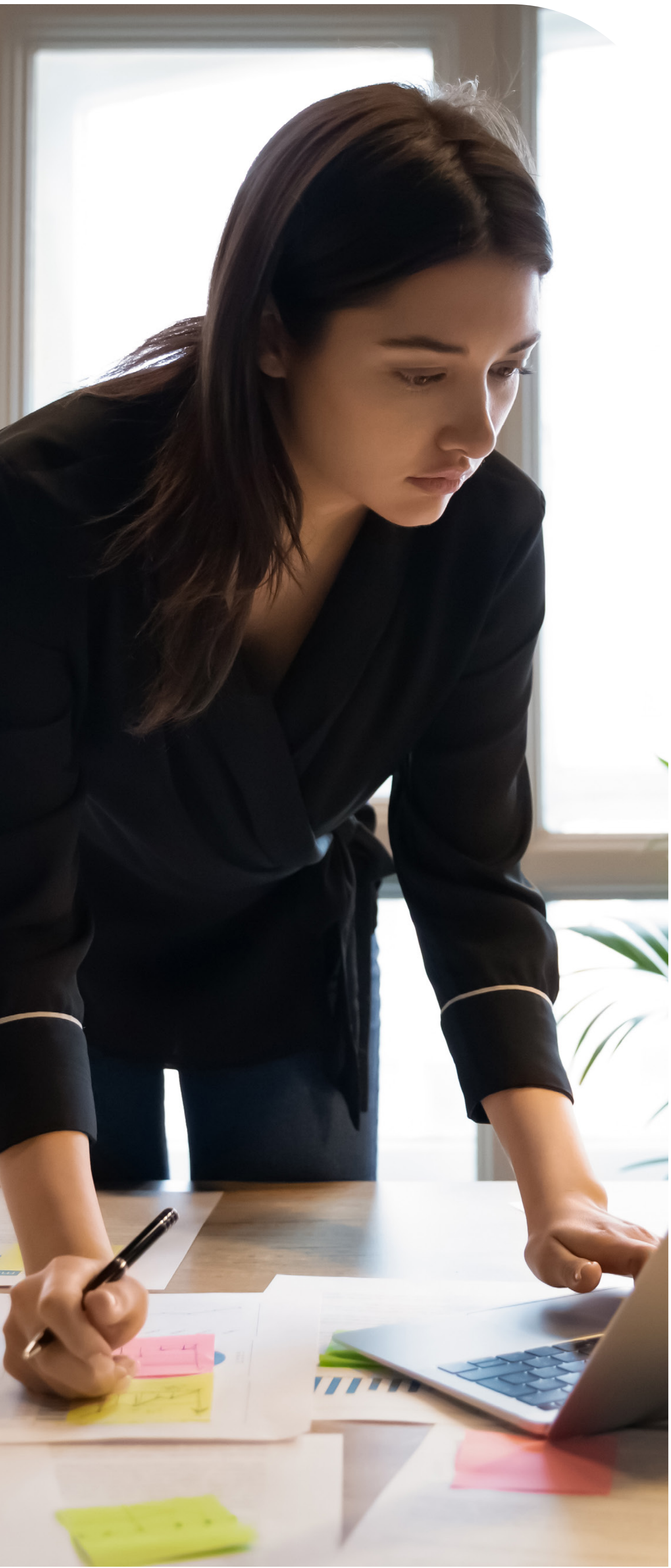
This crisis has created a perfect storm – as the needs and volume of beneficiaries increase, the ability of the sector to support those beneficiaries, and a more diverse range of needs, is squeezed.

This report looks at some aspects of these challenges to see how they are playing out in real life.

2 Inflation Is Making Americans Hate the US Economy (bloomberg.com)

What is the impact on funding?

Charities tend to be dependent on either voluntary giving (either from individuals or from other Trusts, by way of grant) or through contractual funding. As we might expect, the cost-of-living crisis has impacted funding from most major sources of funding in the UK, Australia and the USA.



United Kingdom

At the voluntary income end of the funding spectrum, cost pressures faced by individuals and government has flowed through to lower donations and grants. For example, a large environmental charity in the UK (Canal and River Trust) has seen a reduction in the number of 'friends' (supporters), which in turn has meant that regular giving has decreased. This has flowed through to fundraising income, which has also seen a reduction. Furthermore, charities that receive government funding are reporting a real term, or actual drop in funding.

For charities that rely more on statutory funding or provide their services under contract, there have also been pressures on the levels of income generated. For those charities that rely on government funding, such as in the healthcare sector, the economic pressures already present have been exacerbated by the wider impact of the cost-of-living crisis. For example, one of healthcare charities Grant Thornton UK advises (St Andrew's Healthcare) reports that there's considerable constraint on their ability to offset inflationary pressures through the funding received. In their case, their principal funder is the NHS. This is under its own well-publicised financial pressure and that means it doesn't have the finances to be able to provide even inflationary increases to the funds it gives to healthcare charities for them to perform their services. There's a constant need for charities in these circumstances to provide more for less, and that simply isn't sustainable.

For charities which provide a service, their business model is dependent on employing the right staff (both in term of numbers and skillset) to deliver that service. As we've noted, individuals are in some cases struggling because of the rise in costs and that in turn puts more pressure on wage expectations. Clearly wage increases need to be funded, but that becomes increasingly difficult where funding is squeezed.

The other risk charities face from a reduction in available funding is whether their services remain the priority of the funder. For instance, one of Grant Thornton UK's education charities (Ruskin Mill Trust) notes that because of tighter budgets, local authorities (who are a key funder), are not prioritising SEN (Special Educational Needs) education funding, leading to more tribunals for college placements.

Australia

In Australia, there are similar experiences. Philanthropic revenue continues to face pressure amid the increasing cost of living and tighter economic conditions. Donations from individuals, corporates, and institutions alike have been harder to attain as inflation puts pressure on existing costs.

However, corporate and institutional funding has increased in areas which have attracted greater public attention, including environmental causes, natural disasters, and matters relating to indigenous Australians. As Australian commercial businesses (and global businesses) increasingly focus on the importance of their social license, particularly as focus on ESG principles increases, corporates are increasingly looking at aligning themselves to community organisations. This trend to date has worked in the favour of charities. However, charities and corporates have to be cautious around matters such as greenwashing (the process of conveying a false impression or misleading information about how a company's products are environmentally sound) and blue washing (deceptive marketing that overstates a company's commitment to responsible social practices).

Government funding is highly dependent on the policy of the day and has seen mixed results across different sub-sectors. Funding has increased where governments at different levels have prioritised an area of focus and need and conversely has declined where the focus has shifted. Disability services, aged care and general health sectors have seen an increase in funding over the past few years due to public inquiries into these areas which have highlighted a deficiency in funding relative to the significant and increasing need. Examples have included the recent Disability Royal Commission's report, which made recommendations on phasing out segregated education, establishing a federal government portfolio for disability and creating a disability rights act. It's possible that public enquiries in the UK which focus on social related issues could equally result in greater public interest in the matter and therefore more funding.

USA

In the USA, there have been fluctuating fortunes around funding in the last few years. Covid led to certain boosts in funding to support charities and institutions that might otherwise have collapsed financially. However, with the end of the pandemic and society returning to a new 'normal', this boost in funding has also come to an end. Likewise certain costs, such as payroll, were able to be charged as a loan during the pandemic, with that loan forgiven. However, again, that lifeline has gone.

In addition to financial support at a federal level during Covid, there was also an increase in individual support to the sector. The enforced change in lifestyle for individuals meant that in some cases they had more disposable income, which led to an increase in voluntary giving.

Much like the UK and Australia, more recent macro-economic events have led to an increase in costs and inflation, which in turn has meant that individuals can no longer afford to support the charity sector to the same degree. Consequently, there are fewer donors and lower donations.

Conclusion

There are no real surprises in what we have been observing in the UK, Australia and the USA over funding for the charity sector. However, what the experiences of our clients tell us is just how priorities might change for both individuals and government/institutional funders – less money needs to be used in a more focused way. Some charities may continue to receive sufficient funding, as we have seen in Australia over causes receiving greater public attention, while others are impacted further by the cost-of-living crisis because of less available funding and donations. This is exacerbated by the available funds being focused into a narrower pool of causes. Where resources are finite or limited, there can inevitably be a political angle to what is funded and supported as governments (and to some extent individuals) may choose to support causes or beneficiaries that might ultimately provide an electoral advantage. Of course, this would then be at the expense of other equally important areas of the charity sector.

Key insights and considerations:

Voluntary funding has suffered – individuals and some organisations have less available cash to support the sector

Statutory funding is often squeezed – more is expected to be delivered for less funding

Funders are choosier – they may support causes that benefit them (perhaps politically) with a more focused use of finite funds

How has the cost-of-living crisis impacted on demand and operations?

In the introduction, we hypothesised that the cost-of-living crisis might result in greater demand for services because more individuals could fall into need.

In Australia, this is proving to be the case across certain areas within the charity sector. An increasing demand for community services is being seen, including demand for food, shelter and monetary support for regular expenses as people struggle to cope with the rising cost of living.

Global factors such as geopolitical issues, wars and climate-related matters are leading to greater demand for services, support and hence funding directed towards causes across borders.

This is also true of the UK, albeit not in all areas of the charity sector. In 2022, at the height of cost rises, the Independent Food Aid Network (IFAN), representing 550 independent food banks, found:

93%

of IFAN food banks surveyed in May 2022 reported an increase or significant increase in the need for their services since the start of 2022.

25%

more users of these services at some food banks, meaning more people drifted into the position of needing support from food banks.

95%

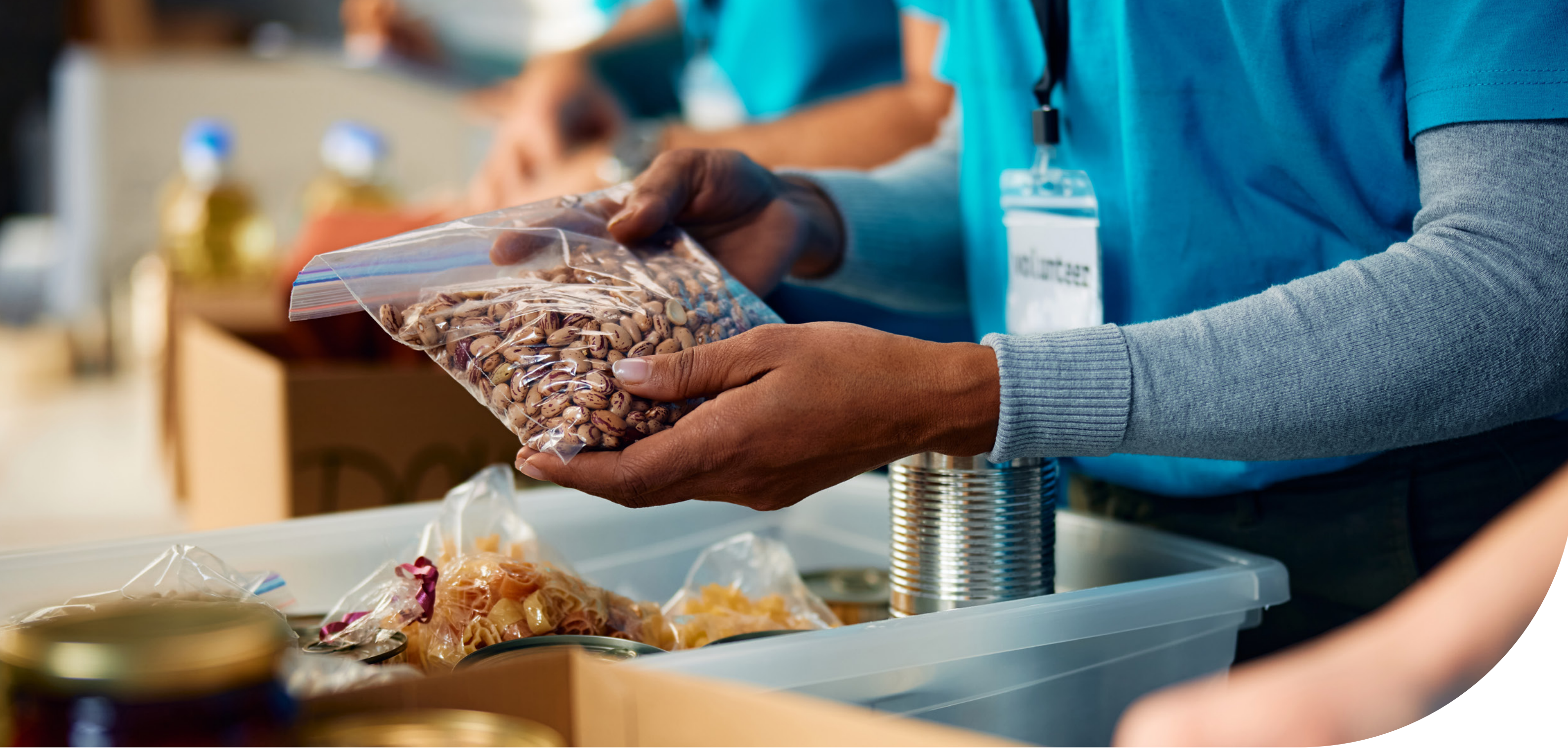
said it was due to the rise in the cost of living.[3]

20%

of food banks had to reduce the size of food parcels, as IFAN also reported a drop in food donation.

As in Australia, we have generally found in the UK that demand has risen for community and social causes.
For Canal and River Trust, one of its activities is supporting the boating community, including the sale of boat licenses and moorings. They're reporting indications that the cost-of-living crisis is taking hold with their boaters. Canal and River Trust campaigned for fuel support for some boating license holders, and many members are applying for this support. Since Covid, Canal and River Trust has seen an increase in non-payment of license fees from moorings. More generally, the footprint of Canal and River Trust network is closely aligned to those areas in the midlands and north, where levelling up policies are intended to have an impact, so demand for their community outreach projects such as their successful Let's Fish! programme (a programme of events to encourage connection with the outdoors, via fishing), are always high.

3 Food bank demand and the rising cost-of-living (parliament.uk)



However, there are corners of the charity sector where demand is unaffected by the cost-of-living crisis. These are generally where a core service is provided or where the beneficiaries are receiving support or a service due to factors that are unconnected to economic variables. For example, the segments of the healthcare sector aren't seeing any change in demand because the service provided is geared towards complex healthcare needs. Likewise, many education charities are equally unaffected. The Academy sector has in fact received more funding from the government to support the increase in utility costs and, to some extent, increases in staff pay. Where demand might increase in the education space is around food for pupils both in and out of term time – this isn't a result of an increase in education demand but is a recognition of how children might be affected by the cost-of-living crisis outside the education environment.

Conclusion

The impact on demand is variable and depends on the segment of the sector. Increase in need typically arises from socially-focused parts of the charity sector, such as those directly supporting individuals falling into hardship. Conversely, where beneficiaries have a need unrelated to economic factors, such as some elements of healthcare, demand is largely unchanged. This is because that need would have existed regardless of any economic crisis.

Key insights and considerations:

Social need has grown – demand for support such as food banks has grown significantly

Growth in demand isn't universal – the charity sector is diverse and therefore not all causes are linked to or driven by social or economic factors

Growth in demand doesn't always outstrip supply – some key services receive more support to counter increased demand, such as in education. Is there a political rather than purely social dimension to this?

How is the resulting financial challenge being mitigated?

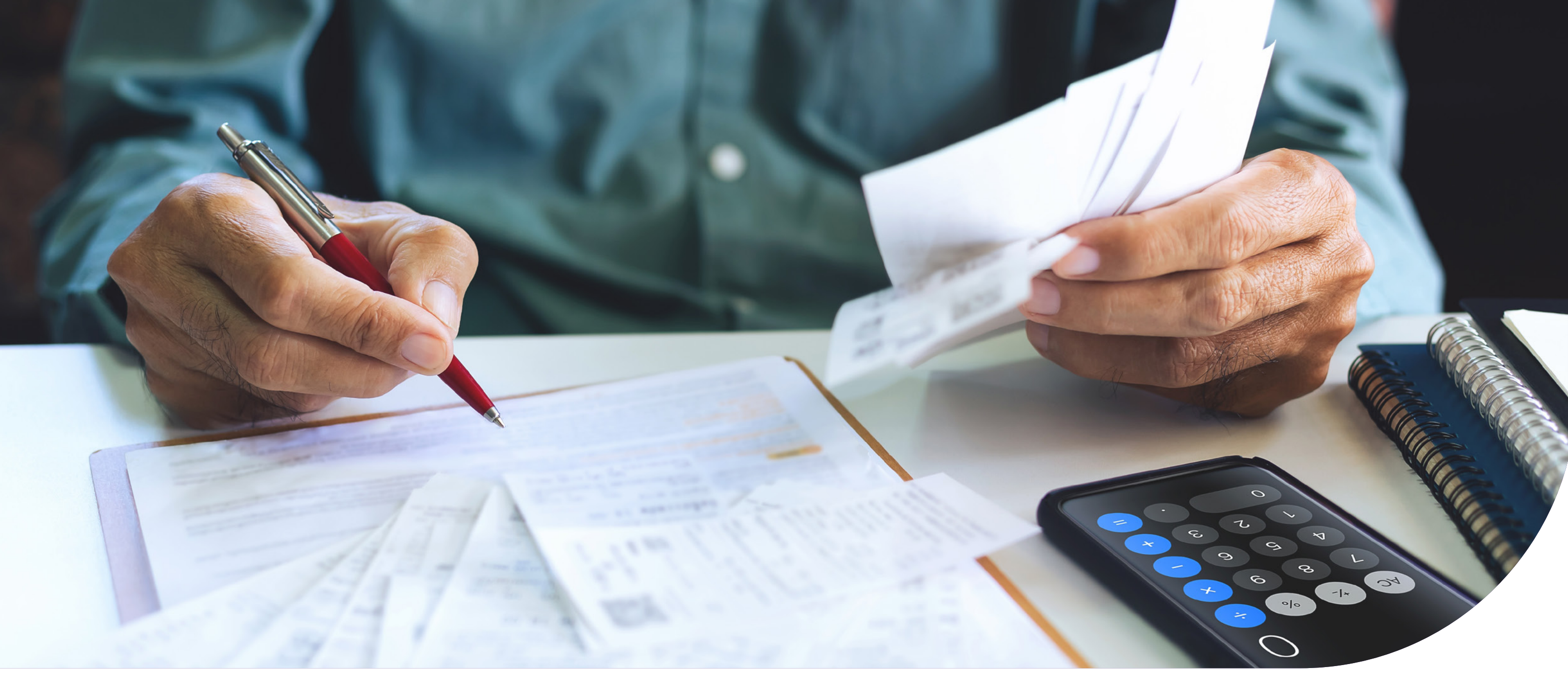
Very simply, the key ways in which the challenge is being mitigated by charities is to find ways to increase revenue, while at the same time controlling or reducing cost. This might seem a basic and obvious solution, but there are challenges and nuances in achieving this.

In the UK, publicly funded charities are managing their revenue needs through tough negotiation with local authorities or government departments to secure inflationary increases. Costs are being mitigated partly through efforts to reduce consumption. With utility costs being so high, it's imperative to reduce usage, which is easier said than done, particularly in winter months. A benefit of energy saving is reduced emissions and a positive route to a net zero future.

While it may be possible to reduce utility costs through lower consumption and cautiousness with tendering for other services, quite often the biggest cost for charities is payroll. There has been pressure from employees to increase wages in line with inflation in order for individuals to afford the cost of living. Some areas of the private sector have come close to matching inflationary pay increases, which inevitably leads to attractive opportunities for employees to move from the charity sector to other areas of the private sector. This in turn adds more pressure on charities to try and remain competitive, which can be counterintuitive to other savings being made and pressures being managed around the tougher funding environment. We've seen this scenario play out in the healthcare sector, where salaries have needed to be increased in order to keep essential staff and skills within those organisations (and in the UK) where they are needed.

Charities also need to consider which services they provide in order to manage costs and operate sustainably, and whether there are any revenue streams that can absorb higher than inflation increases in order to subsidise those activities that cannot. One charity Grant Thornton UK works with has considered their income streams: they've been looking carefully at which strands of their income can be increased by more than inflation to offset inflationary challenge, cost efficiency activity, and also looking at the range of activities undertaken. This has led them to seriously review whether they can continue to pursue all activities, despite the societal impacts that are likely to result, because of the reduced engagement with the public.

We've also seen an increase in the investment in fundraising teams as charities look to diversify their revenue streams or bolster their ability to increase existing revenue streams. Of course, this comes with a cost in terms of recruiting more team members, but it's planned this investment will pay off into the future.



In Australia, many of the same challenges and approaches apply. Measures such as tightening control of budgets and reviewing revenue expectations are taking place. Charities are reducing fixed costs as needed and are looking at in-kind support or shared arrangements with other charities and corporate entities. Efforts are being made to diversify fundraising through tapping into corporate entities, high-net-worth individuals and private and public foundations, all in addition to other individual donors already supporting the charity.

Australia has an ageing population and there's significant wealth among this generation of current and upcoming retirees. Therefore, charities are actively looking at their bequest strategy in order to leverage this situation. There's also a deep commitment to building government relations and maintaining / increasing government funding at both federal and state level. Elections over the last two years and change in governments have increased the need to ensure government relationships are appropriately maintained.

Conclusion

On the one hand mitigation can be achieved through basic financial management measures, such as negotiating adequate funding increases or reducing costs (or both). On the other hand, this may not be enough on its own – charities need to remain attractive to those who work with them and thus need to be competitive on wages. This is often in opposition to the careful management of non-pay costs and securing funding increases from existing sources. Thinking outside the box is therefore needed – this might mean looking at diversification of revenue streams, developing future revenue opportunities or simply cutting activity or services provided. Sadly, the latter can be detrimental to society.

Key insights and considerations:

Revenue can be increased – but hard negotiation might be needed

Costs can be cut – perhaps consumption can be reduced

Alternative strategies could be followed – development of a legacy strategy to match changes in demographics, approaching other sources of voluntary income, such as high-net-worth individuals

Given recent turmoil, what will success look like in five years?

It has been an incredibly challenging environment over the last few years – we have needed to navigate the Covid pandemic, the cost-of-living crisis and there remains uncertainty over international stability and peace with conflict in Ukraine, the Middle East, and tension in the Far East with China and Taiwan, and increasing aggression from North Korea.

With this context in mind, we've reflected on our conversations with clients and knowledge of the sector to consider what actions charities can take to remain resilient and continue to support those in need.

In the UK, charities have reflected on:

- Being agile – having the ability to change plans as circumstances dictate
- Spreading risk – for example, continuing to have a diverse range of income
- Focusing on doing the basics well – it's important to focus on efficiency and effectiveness and keeping these activities simple and right first time, every time.
- Implementing strategic plans and cost-saving measures to future proof the charity but having the courage to pause this to support business as usual, if that's what's needed.
- Ensuring there is the right level of resilience across the charity from both the perspective of the staff and from process
- Strong financial management and effective use of resources, knowing where to invest and where to reduce
- A strong and creative leadership team, and governing body who can make decisions quickly and who have a clear vision for the organisation and are committed to ensuring the vision, values, ethos and method are upheld at all times

From an Australian perspective, there are several themes:

- Maintaining focus on vision and mission
- Sound governance and risk management platform
- Strong financial management
- Diverse donor strategy and ability to use data appropriately
- Donor education and commitment
- Ability to appropriately measure social impact and convey outcomes to stakeholders
- Ability to use technology to be agile and manage uncertainty

This chimes with some of the observations from the US:

- Strategic planning but over shorter horizons
- More focus on financial planning and scenario modelling
- More focus on risk management, including cyber risk
- The strengthening of governance – learn from lessons experienced in the Covid pandemic.
- Charities need to reflect on what makes them unique and then focus their investment on those areas
- Like-minded organisations are evaluating merging to consolidate donors and optimise efficiencies and programmatic impact

Conclusion

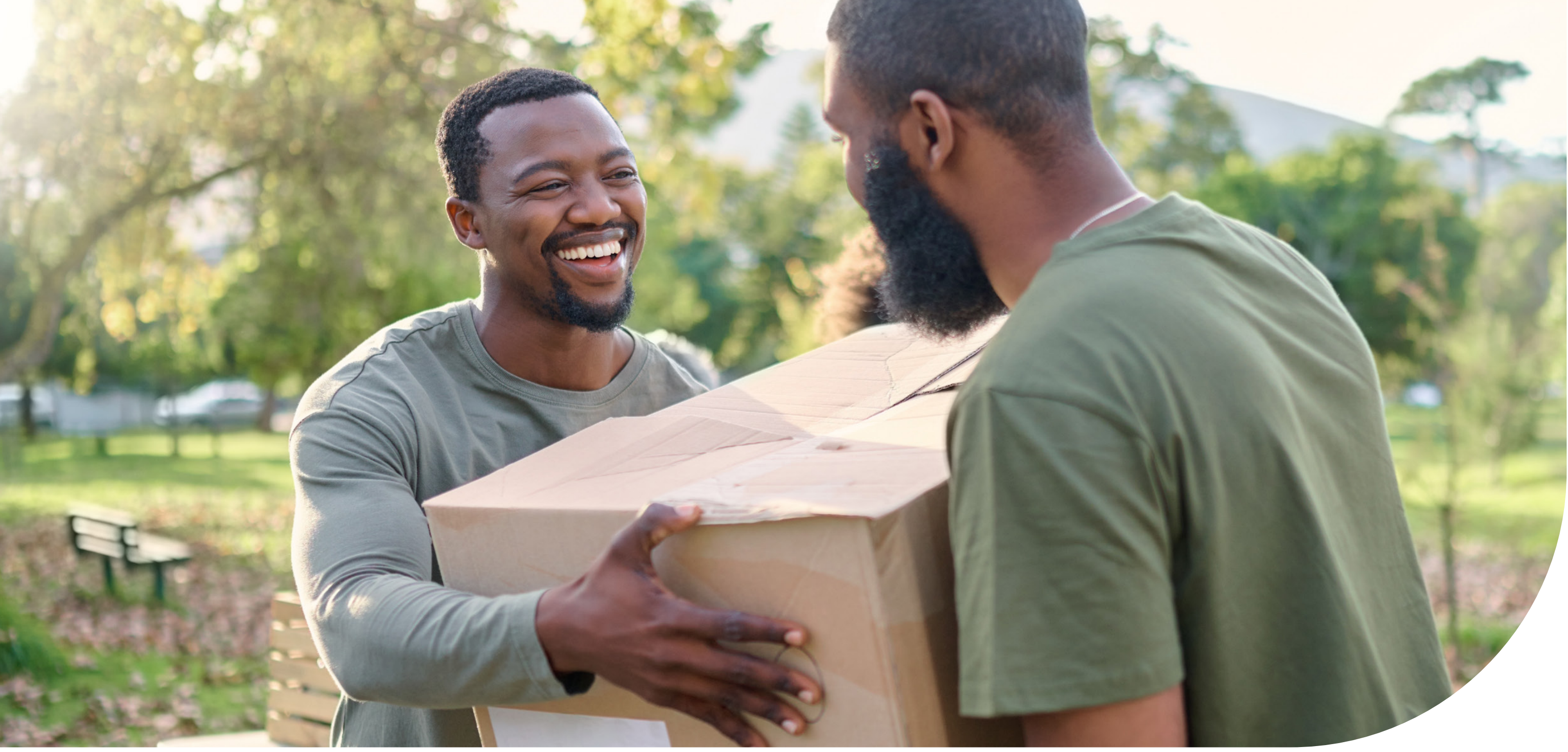
Perhaps unsurprisingly, the themes around being successful in the future are consistent across the UK, US and Australia. Ultimately, these are all the basics of running a successful organisation and almost all charities will realise this. However, the challenge, as we have seen through the pandemic and cost-of-living crisis, is implementing these strategies and having the courage to do what is right over what is easy.

Key insights and considerations:

Agility – it's important to be able to change plans, diversify revenue streams, change your approach

Get the basics right – this allows Trustees and management to focus on the challenges and opportunities

Strong financial management – ensure that there's appropriate scenario modelling and strong budgeting



Where does this leave the charity sector?

We've learned that the charity sector isn't immune to the challenges we've all faced from the cost-of-living crisis. However, we know that the sector is resilient and that it shows the agility to manage one crisis after another, no matter whether the charity is in the UK, the US or Australia (or many other countries for that matter).

A financial crisis leads to several competing challenges, such as a difficult funding climate, and the inevitable need to cut costs while doing everything possible to maintain the support and services provided to beneficiaries and trying to do the right thing by staff who might struggle financially from a personal perspective.

The bottom line is that the world and society would be in a much poorer position, were it not for the charity sector and the way it battles through adversity to continue providing the support that otherwise wouldn't or couldn't be provided by the state.

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