



CAF Charity Resilience Index

How the cost-of-living crisis is affecting the sector



About CAF

The Charities Aid Foundation is a leading charity operating in the UK and internationally. Our work connects and enables the vital organisations, institutions and individuals working together to ensure that everyone has a stake in the future. We believe that the agency of lasting change lies across sectors and borders, in the hearts, minds and hands of those driven to make a difference. We exist to **accelerate progress in society towards a fair and sustainable future for all.**

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FOREWORD

We are all acutely aware of the severe financial strain facing people and organisations up and down the country. Charities find themselves with an increasing number of families relying more and more on their essential services. They are providing debt advice, food packages, somewhere warm to stay and care for the vulnerable. But they are having to meet this growing demand while facing their own financial challenges. They are stretched beyond measure with inflation increasing their costs and donations falling.

Charities play a distinctive role in society as a whole and in the communities in which they work. They are recognised for their ability to really understand local needs, to fill gaps, to provide specialist knowledge, and to stay close to the needs of the people who rely on them.

Having been so dramatically demonstrated by the pandemic, and now the cost-of-living crisis, the resilience of the charity sector has never been more important. This report offers insights into charities' challenges, their ability to adapt, and their confidence for the future. The Charity Resilience Index is a practical tool, which we hope will be especially useful during this challenging time by providing a quantitative basis for understanding the outlook and experiences of charities across the sector.

Our wider research into charity resilience, charity finance, and changes in giving habits is providing evidence of the challenges that charities are facing. These insights inform our work with partners across the charity sector and support our engagement with the Government and partners on issues of public policy.

We are strong advocates for unrestricted funding, especially to build organisational resilience, since charities are best placed to decide how to use funding. After three years of very high demand, many also need to invest in their people, processes and systems but lack the funds to do so. Government, charities and business all have a role to play in promoting recovery, growth and social progress across the country.

2023 is going to be another enormously important year for all of us socially and economically – every one of us, and every community, has a vested interest in strengthening the resilience of charities across the UK and around the world.



Neil Heslop, OBE

Chief Executive, Charities Aid Foundation



Key findings



MOST CHARITIES HAVE SEEN AN INCREASE IN DEMAND FOR THEIR SERVICES

In January 2023, nearly three in five (57%) charities reported that demand had increased compared to the same time last year, including a quarter (24%) of charities who say that it has increased 'a lot'. The research indicates that charities working for the prevention or relief of poverty are particularly likely to report an increase in demand for services.



ONLY ONE IN THREE CHARITIES ARE HIGHLY CONFIDENT IN THEIR FUNDING

A third (31%) of charities are very confident that their current funding is secure, whilst around half are confident that they have the funds to meet current demand. Less than two in five are confident that they can afford to maintain their staffing levels over the next year (36%) or have a plan for maintaining or growing their income over the next 12 months (37%).



MORE THAN HALF OF CHARITIES ARE WORRIED ABOUT THEIR SURVIVAL

Concern about survival peaked at 60% in December before dropping back in January (53%). The concern is particularly acute among charities involved in support or care services (e.g. those working with disabled people, children or the elderly). Across December and January, around seven in 10 (71%) of these charities said that they were worried about struggling to survive, compared to 44% of faith-based charities.



CHARITIES IN THE NORTH OF ENGLAND ARE AMONG THE HARDEST HIT

In the North of England, demand has increased for nearly seven in 10 (67%) charities, and two-fifths (40%) say it has increased substantially (compared to 55% and 24% across the rest of England). Charities in the North (63%) are also significantly more likely to have used their reserves to meet running costs than those based elsewhere in England (50%).



THE CAF CHARITY RESILIENCE INDEX STANDS AT 67%

The sector shows signs of vulnerability as it faces into the cost-of-living crisis, with an Index score of 67%. However, this has risen from 62% in December 2022 indicating that there is a slightly more positive outlook amongst charities in 2023.



Introduction

About the Index

The Charity Resilience Index focuses on three key dimensions: charity income, demand for services, and operational costs. Charities were asked to rate their confidence on the following six statements/measures (two for each of the three dimensions):

Income stability

- Our current funding is secure (e.g. donations, fees from services, grants, etc.)
- We have a plan for maintaining or growing our income over the next 12 months

Demand for services

- We have the funds to meet current demand for our services
- We expect to have the funds to meet demand over the next 12 months

Operating costs

- We are able to meet our current overheads (e.g. energy, buildings, supplies)
- We can afford to maintain current staffing levels over the next 12 months

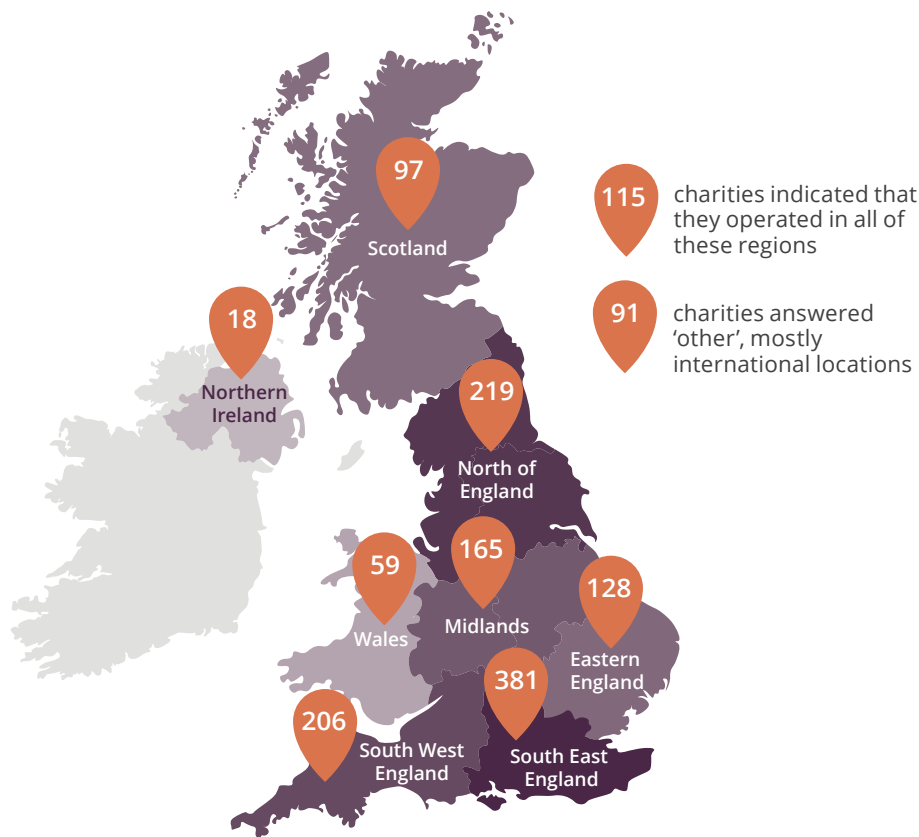
The value of the Index is calculated using the self-reported scores of charities on an 11-point scale (from 0 'not at all confident', to 10 'extremely confident'). The combined score for the six questions is calculated, and the mean is found (i.e. the combined score is divided by six). The Index is the mean score, expressed as a percentage.

Scores above 80% indicate 'resilience', whilst scores between 40% and 80% indicate that a charity may be 'somewhat vulnerable'. A score below 40% indicates those charities that may be 'at risk'.

About the data

A total of 1,323 charities were interviewed from October 2022 to January 2023. Respondents were drawn from across the charity sector and all four nations of the United Kingdom.

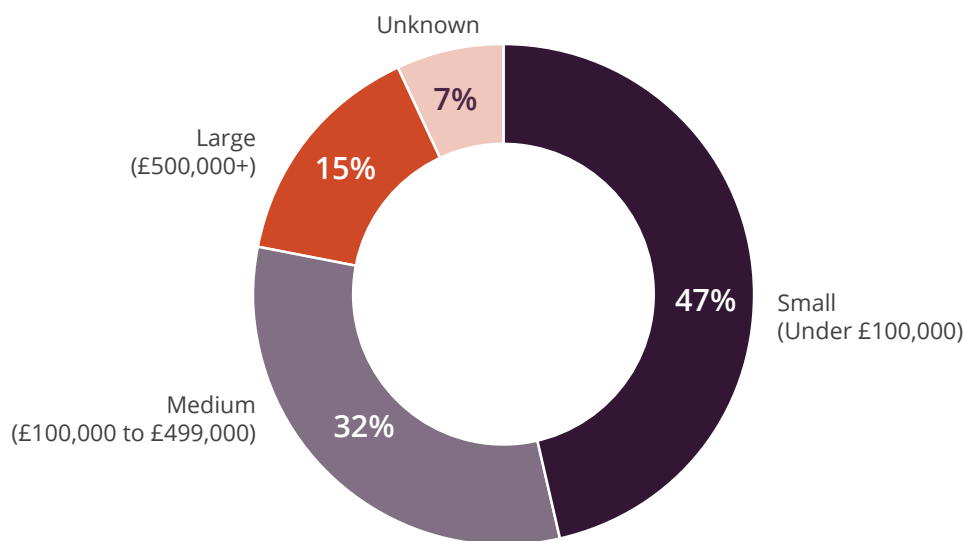
Figure 1: Where are respondent charities operating?



Respondent charities cover a range of cause areas including the arts, animals, care and disability charities, education, conservation, faith, healthcare, overseas aid and poverty relief.

Charities across the income spectrum were included in the research.

Figure 2. Respondent charities by size (annual income)



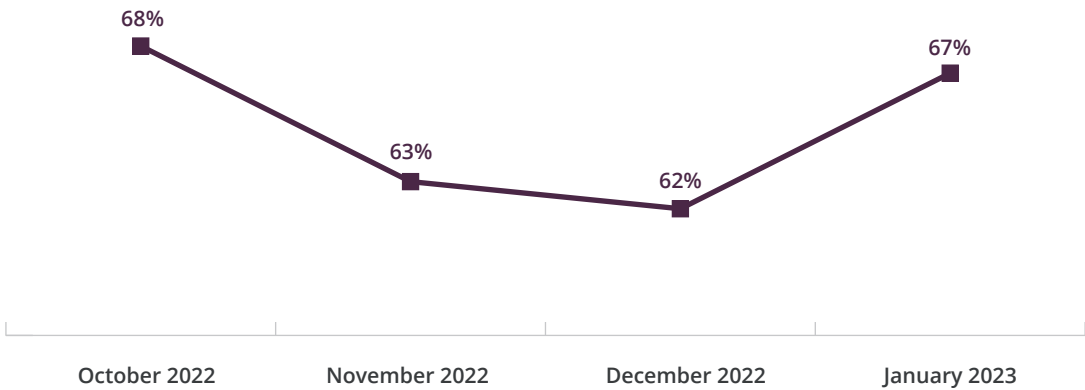
Base: All charities surveyed between October 2022 and January 2023 N=1,323



Charity Resilience Index

The Index has been calculated monthly since October 2022. At that time, the Index stood at 68%, but recorded a steep drop of five percentage points in November to 63%. It fell slightly in December to 62%, highlighting the worsening impact of the cost-of-living and energy crises on the sector throughout late 2022.

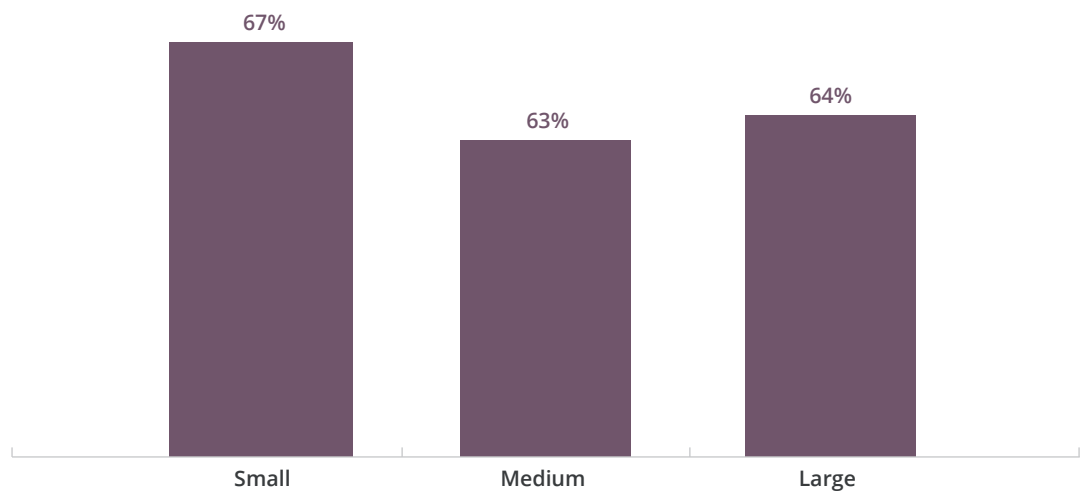
Figure 3: Charity Resilience Index Score



Base: Charities. October, N= 351; November, N=346; December, N=312; January, N=314.

However, in January 2023, the Index increased to 67%, returning almost to the October level. While the current Index level shows that charities across the sector are being stretched, the January increase may suggest more have plans in place for the future.

Figure 4: Charity Resilience Index Score by Charity Size (Income) – October to January rolled data



Base: Charities, Small, N=616; Medium, N=422; Large, N=196.

Combining four months of data from October 2022 to January 2023 allows closer analysis of key sub-groups. Small charities have the highest overall Index score at 67%, followed closely by large- (64%) and medium-sized (63%) organisations.

“We are experiencing less applications for grants than anticipated in the current climate. We have reduced expenses and assets considerably to negate demand on our reserves. We are using digital instead of standard external printing to reduce costs, but this reduces our connections to renal patients and the ability to leave reading material in NHS venues, which increases awareness and membership.”

Small healthcare charity in the North of England

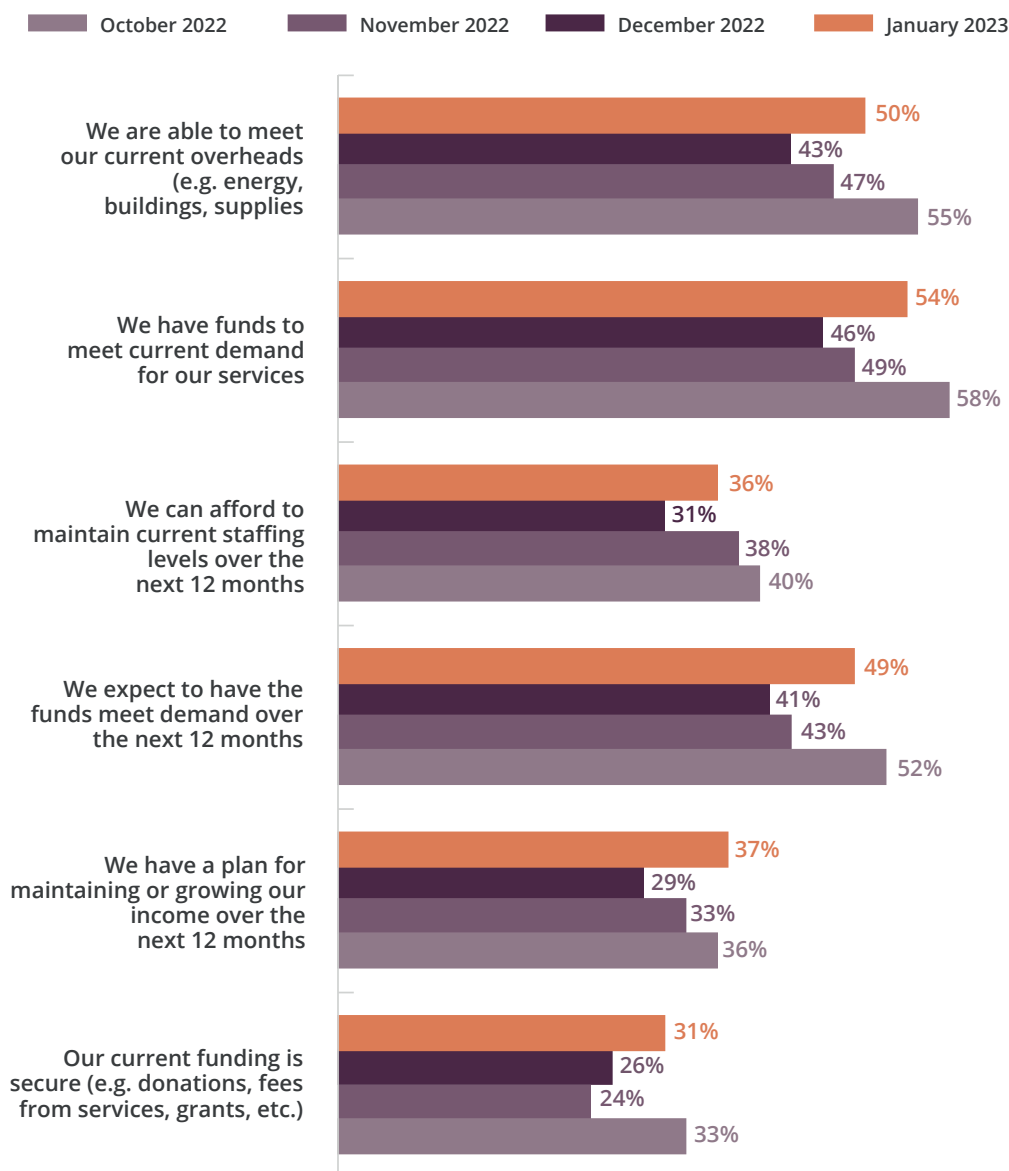
“The cost of living is affecting our staff and volunteers rather than the charity. As a Board of Trustees, we have had to consider this state of affairs and look at ways we can assist. We also ensure we maintain regular contact with the staff and volunteers to ensure we do as much as we can to help with the mental pressures caused by the current crisis.”

Small healthcare charity in the South East of England

Resilience Index measures

The CAF Charity Resilience Index is made up of six separate measures, which are also tracked individually. Figure 5 shows the proportion of charities surveyed who rated their confidence at eight or above on each of these six measures, (our threshold for demonstrating resilience).

Figure 5: Charity Resilience summary of measures (percentage of charities scoring eight or more out of 10)



Base: Charities. October, N=351; November, N=346; December, N=312; January, N=314.

Across the board, there was a clear decline in confidence levels between October and December 2022, with a particularly significant fall in November. This decline was greater for the measures relating to funding capacity, which saw a sharp fall of nine percentage points at that time.

This pattern continued in December with even fewer charities reporting high levels of confidence that they could meet their current overheads, falling slightly to 43% from 47% in November. At that time, less than one in three (31%) said that they were very confident they could afford to maintain their staffing levels over the next 12 months.

Some improvement followed in January 2023, although most of the measures remain slightly lower than the October levels. Around half of the charities surveyed were very confident about having the funds to meet their current overheads (50%), to meet current demand (54%), and to meet demand over the next 12 months (49%). However, only one in three reported high levels of confidence that their funding is secure (31%), or that they can afford to maintain their staffing levels over the next year (36%). A similar proportion (37%) said that they have a plan for securing their income over the next 12 months.

<p>“We (a Music Club that puts on professional classical music events) have been drawing down reserves for the past four years. We’ve now just about hit rock bottom as a result of rising costs (venues, artists’ fees, marketing) and an audience that is too strapped for cash to be as generous as they once were with donations, for obvious reasons.”</p> <p>A small arts, culture and heritage charity in the East of England</p>	<p>“We had to cut back on the amount of animals the charity takes in and cut back on a staff member. We sold our rescue vehicle to save money, and we’re closing tea shop two days a week to save staff wages.”</p> <p>A medium-sized animal charity in the South East</p>
<p>“We have noticed several regular donors reducing the amount they give or cancelling altogether.”</p> <p>A medium-sized faith-based charity in the Midlands</p>	<p>“The biggest increase is on electricity prices. As a free to access resource, we cannot simply put up prices so we will end up just not using any electricity at this rate and closing at dusk. As we rely on donations and grants, we are having to greatly diversify our services to stay afloat - but we need to have paid staff in place to do that - and we cannot afford paid staff. I do fear that one further increase in electricity price will simply close us down.”</p> <p>A small urban farm in the North of England</p>

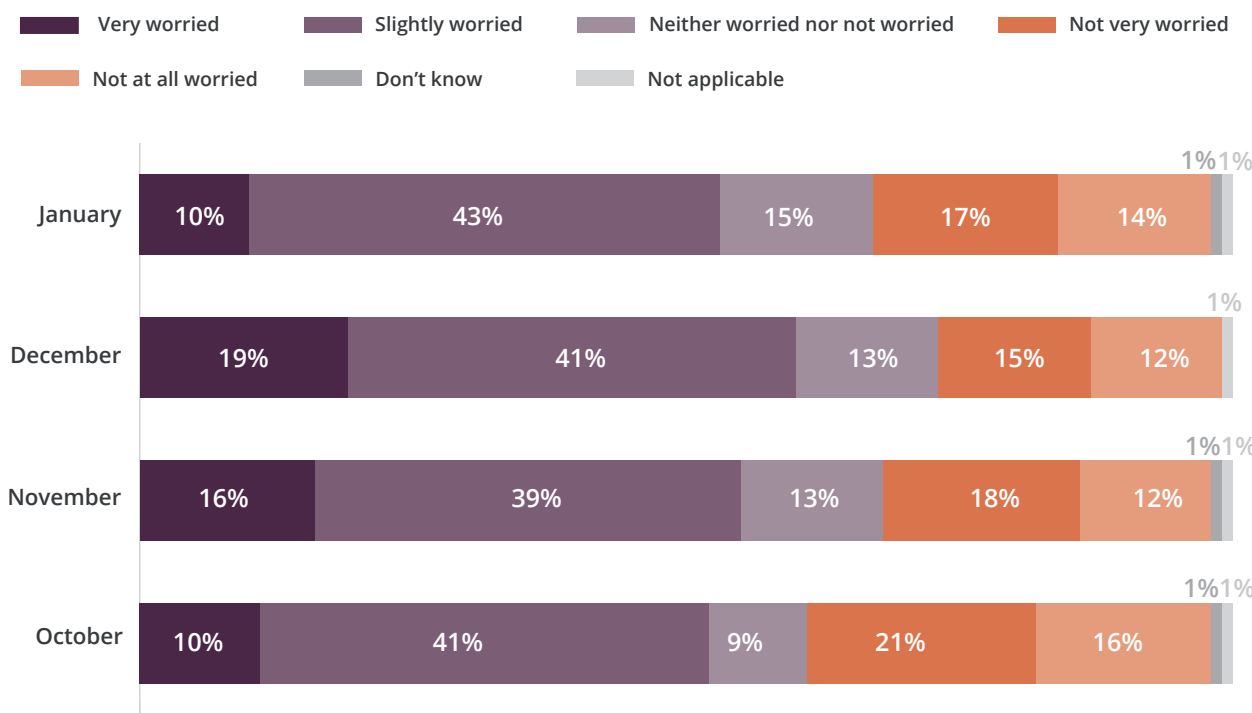


Impact of cost-of-living crisis on charities

Just as the charity sector emerged from the economic and societal disruptions of the Covid-19 pandemic¹ it has had to further adapt to another fast evolving situation. With inflation starting to build from late 2021, by the autumn of 2022 the strain on the sector was evident. This is reflected in our results, particularly from November 2022.

Overall, more than half of the charities surveyed between October 2022 and January 2023 reported that they were ‘very worried’ or ‘slightly worried’ about struggling to survive. There was a significant increase of nine percentage points between October (51%) and December (60%), but by January 2023, the proportion of charities who were worried fell back to 53%, following the pattern seen elsewhere in our results. This was driven by a smaller proportion of charities who reported being ‘very worried’, which declined from 19% in December to 10% in January.

Figure 6: How worried are charities about struggling to survive?



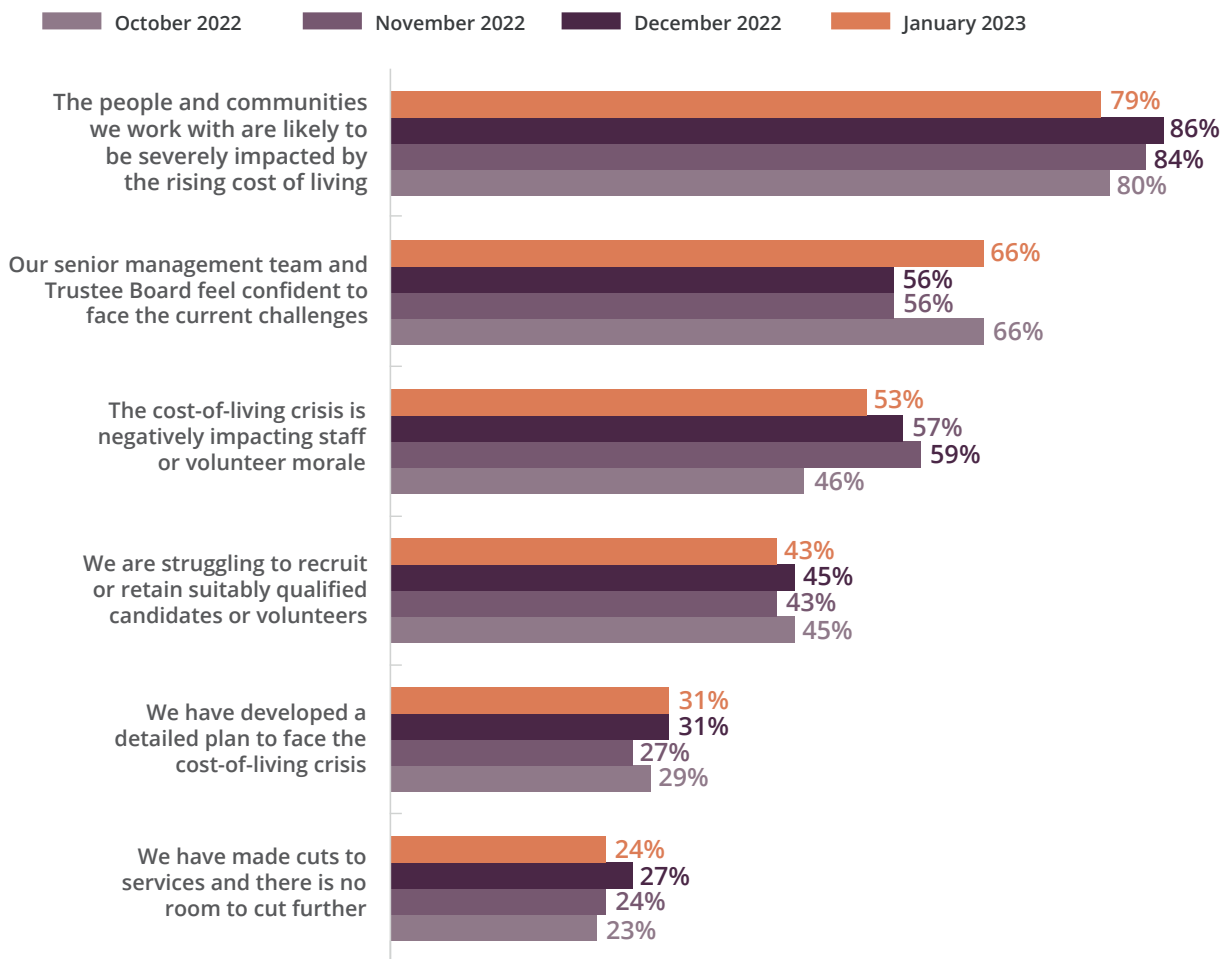
Base: Charities. October, N= 349; November, N=316; December, N=301; January, N=297.

1 For detailed account on the impact of Covid-19 on giving <https://www.cafonline.org/about-us/research/coronavirus-and-charitable-giving>

Between October and January, around four in five of the charities surveyed agreed that the people in their communities are likely to be severely impacted by the rising cost of living, and more than half reported that their staff or volunteer morale is being negatively impacted by the crisis.

Figure 7: The impact of the cost-of-living crisis on charities – summary of results

Percentage strongly agree or agree



Base: Charities. October, N=351; November, N=324; December, N=303; January, N=300

"We are a very small charity operating in Sierra Leone. The cost of living due to high inflation in Sierra Leone means that donations and grants no longer meet needs. Due to fluctuation in the currency market, poor performance of pound sterling and lower return on investments means that we will probably have to fold the charity in four years. Over the past two years we have not initiated any new development or accepted people into a sponsored education scheme."

Small education and training charity based in Scotland

"We cannot continue for long under our present circumstances. There is nothing left to cut. We have not replaced staff and this has had a detrimental effect on current staff who are asked to do more and more with no reward."

A medium-sized charity in the South East, involved in support, care or services (e.g. disabled people, children and young people, elderly people)

"We are finding the cost of food is increasing by the week. A loaf of bread was 60p, now it's 90p – when buying 200 it's a lot of money. We are now only giving families three days worth of food instead of seven."

A medium-sized charity in the North of England involved in the prevention or relief of poverty

"Our funding is being stretched for core costs, but funds still are available for capital expenditure projects. Our users are finding life hard and depressing; more are making use of our bursary scheme so that they can continue to receive the support we offer."

A small charity in the South-East supporting children and adults with physical and learning disabilities

"We are being more cautious about what we take on and the level of risk for new or developing work we want to do. We are struggling to retain staff where agreed income for one year cannot be magically increased or used to provide for salary increases. Our current staff team is frazzled and stretched. We cannot compete with other sectors despite crises there also. Demand is rising, hope is dwindling, but belief in what we do is constant. Funders are still reluctant to pay for the 'whole offer' and not just the 'sexy' part."

Medium-sized women's charity in the North of England

Figure 8: To what extent do you agree or disagree with the following statements?



Base: Charities; October, N= 351; November, N=324; December, N=303; January, N=300

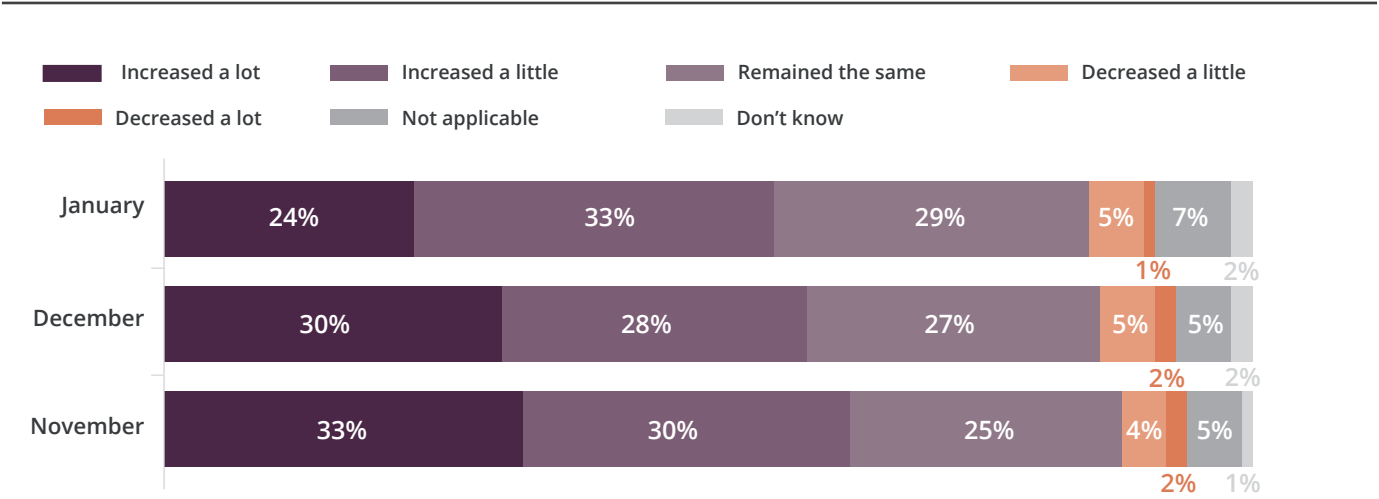
In January, around two in three (66%) said that their senior management team and Trustee board feel confident to face the current challenges, up from a low of 56% in November. However, less than one in three (31%) said that they have developed a detailed plan to face the cost-of-living crisis (ranging from 27% in November to 31% in December and January).

Charities were asked about their agreement with the statement ‘we have made cuts to services and there is no room to cut further’. Despite the strain on the sector, around two-fifths of charities surveyed between October and January disagreed or strongly disagreed with this statement. However, consistently around a quarter of charities surveyed since October 2022 strongly agreed or agreed that there is no room for further cuts.

Taking all four months together, the findings vary by charity size, with larger charities being more likely to struggle to recruit or retain qualified staff. Some 69% of large charities strongly or slightly agreed that they were struggling to recruit or retain suitable qualified candidates. Conversely, one in three (35%) small and 45% of medium-sized charities strongly or slightly agreed that they did so.

This mixed picture is also evident when charities were asked about how demand for their services compares to last year. Overall, 57% of charities in January reported that demand has increased, down slightly from a high of 63% in November when the question was first introduced. Around a quarter of charities report that demand has remained the same, while very few charities report that demand has decreased since this time last year.

Figure 9: Demand for services compared to this time last year



Base: Charities. November, N=312; December, N=297; January, N=297

There is evidence that demand varies depending on where a charity is based. In England, 67% of charities headquartered in the North reported that demand for their services increased compared to this time last year, including 40% saying that demand had increased ‘a lot’. This is significantly higher than the average for the rest of England (55% and 24% respectively).

In December we began to capture the main cause area of the charities in our sample. Although our sample for these results is small, the findings indicate that charities working for the prevention or relief of poverty are particularly likely to report an increase in demand for services (87% compared to a sector average of 58%). Faith-based charities and arts, culture and heritage charities are among the least likely to report an increase.

“There’s a huge impact in terms of the numbers of people asking for help. As an energy advice charity this isn’t surprising. Our biggest concern is the large numbers of clients expressing mental health concerns, and the levels of despair we are meeting.”

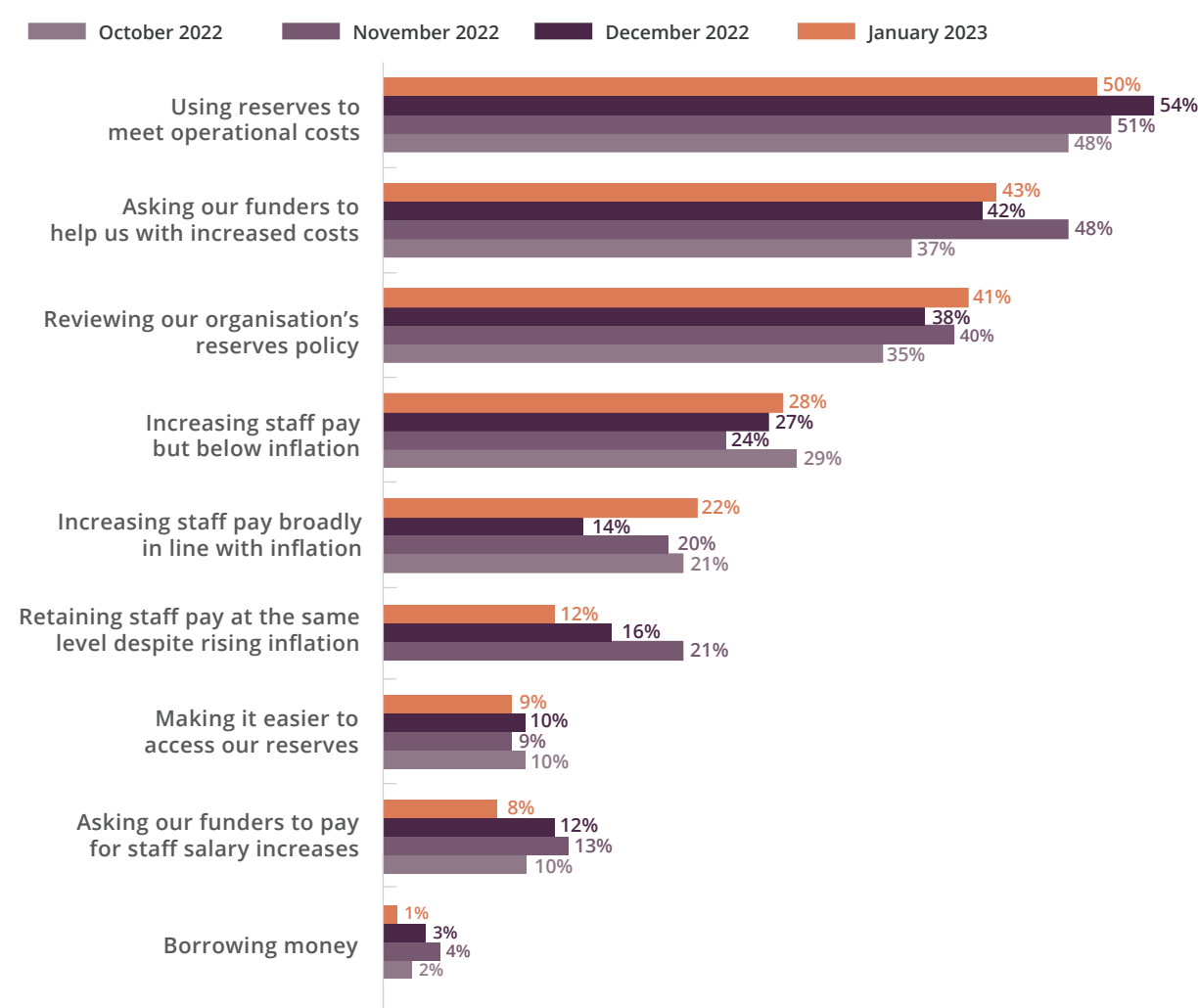
Large charity in the South West, involved in the prevention or relief of poverty



Charity response to the cost-of-living crisis

Charities were asked about actions they had taken or were planning to take to respond to the cost-of-living crisis. Overall, between October and January, around half of charities said that they had used or will use their reserves to meet operational costs, and around two-fifths had asked or planned to ask their funders to help them with increased costs – the latter having peaked at nearly half (48%) of charities in November 2022.

Figure 10: Actions taken/will be taken because of the cost-of-living crisis



Base: Charities. October, N=351; November, N=318; December, N=301; January, N=300
*Not asked in October

Taking all four months together, a breakdown of the results by charity size shows that 50% of medium- and large-sized charities asked or will ask their funders for help with costs, compared to 35% of small organisations. Medium- and large-sized organisations were also more likely to use their reserves to meet operational costs (60% and 58% respectively compared to 41% of small charities).

Overall, large charities were also more likely to increase staff pay but below inflation. Nearly three-fifths (59%) of large charities said that they increased or will increase staff pay but below inflation compared to 37% of medium-sized and 11% of small-sized charities. One in four medium- and large-sized charities said that they increased or will increase staff pay broadly in line with inflation (26% and 25% respectively).

Some responses tended to vary by region. For example, charities based in the North of England were significantly more likely than average to use their reserves to meet operational costs (63% compared to 50% for the rest of England).

"We are fairly resilient to this, mainly because we have well diversified sources of income. I expect costs to be a little higher (not least as we have put salaries up by around 6% which is much higher than in previous years) and I expect individual donations to fall a little bit because many people will have their finances stretched and not be able to afford to donate to us, but these factors will not significantly affect our ability to operate for the time being."

A medium-sized charity in the East of England, involved in support, care or services (e.g. disabled people, children and young people, elderly people)



Recommendations

For Government

- The Government should review the **non-domestic energy support package** to make sure charities receive targeted support after March 2023. Charities are already struggling to cover their energy costs and many will be negatively impacted when Government help decreases in the spring. This will particularly affect charities with higher energy usage, such as care homes.
- The Government should review how the **tax system** could be improved to help charities become more financially resilient. Gift Aid is the key tax incentive for donors to support good causes, but more than £500 million is unclaimed every year – this is money that should be in the charity sector. Speeding up the automation of Gift Aid would help to reduce this, address the £180 million claimed in error, and help over 126,000 charities currently not benefitting from Gift Aid to take advantage of this valuable tax relief.

In addition, there is no general VAT relief for charities. There is a complicated mix of special reliefs, exemptions, zero ratings and concessions. Irrecoverable VAT is a major challenge. The Charity Finance Group reports that charities could lose out on a staggering £1.8 billion annually as a result. The Government should introduce a new special charity VAT rate on purchases. This would ideally be set at 0% but could be adjusted according to economic circumstances.

- If charities are going to survive and thrive, they need more **financial support**. The Government should consider innovative ways to finance charities such as using recycled capital, which means that a relatively small pot of Government money could be used to support many charities over time. The Government should also revisit place-based giving, an initiative it supported before the pandemic. Incentivising local giving initiatives could help some of the regional disparities suggested in this report.

For donors

- Donors should consider **resilience funding** for charities, which includes covering core costs. It is also important to give charities the time and space to identify areas where they need to strengthen their organisation.
- Donors should build their understanding of the **impact of inflation** on charities and consider increasing grants to allow for these pressures.
- **Multi-year funding**, whether from donors or the Government, should be the norm and should be unrestricted. This would help charities to become more resilient and enhance the relationship between grant-makers and the people and communities they want to help.

For charities

- Charities should take advantage of the resources developed to help them manage the cost-of-living crisis, including by the Charity Commission and NCVO. CAF has developed a **resource hub** for charities that provides advice on issues including financial planning, fundraising and staffing.
- Charities should **engage with donors**, especially to make the case for funding core costs to help them manage the rising demand, falling donations and increased costs resulting from the cost-of-living crisis.
- Building and maintaining **financial resilience** should remain a priority, including considering how reserves are harnessed to meet current needs and invest for the future.

Methodology

Data collection and sampling

Data collection started in October 2022 and took place monthly. The methodology used was online short surveys (rapid pulse polling method) of the UK charities audience. The overall sampling strategy was to generate randomly selected samples of CAF Bank, CAF Donate and CAF Beneficiaries organisations.

Data collection for this report was completed in four phases. The first wave ran from 29 September to 14 October; the second wave was launched on 7 November and closed on the 14 November; the third wave ran from 5 until 19 December 2022; and the fourth wave ran from 5 to 13 January 2023.

Questionnaire design

The survey questionnaire covered attitudinal and socio-demographic factors, in order to monitor and understand the impact of the cost-of-living crisis on the charity sector in the UK. It included repeated and flexi/supplementary questions. The demographic questions covered charity income/size, region, and cause areas.

The attitudinal questions were designed to cover a) the impact of the cost-of-living crisis on charities, b) actions that the charities have taken or will take to face the current economic climate, c) topical areas to monitor charity response to particular issues.

The first question provided the basis for the calculation of the Resilience Index score. It consists of six statements, and respondents were asked to rate their confidence level for each using an 11-point scale (from 0 'not at all confident', to 10 'extremely confident').

Resilience Index

The Resilience Index aims to summarise the factors that relate to the 'resilience' of the charity sector. It is built on six key attitudinal indicators grouped into three dimensions: income, demand, and operating costs.

The Resilience Index was tested using the data from the first wave of the pulse poll in October 2022. The Resilience Index has a strong statistical reliability (it has a Cronbach-alpha value of 0.908) and its six individual variables are statistically well grouped.

Data analysis

The final completed sample includes 1,323 responses across all four months. The data was analysed and broken down by charity size, region and cause areas. Direct comparisons across regions and cause areas should be treated with caution due to small base sizes. Due to rounding there are some occasions where a graph or chart appears not to sum to 100%. This is because the underlying data is calculated to two decimal places, rather than the rounded numbers shown.



Registered charity number 268369



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