Lights Out

An analysis of the VCSE Sector Barometer, in partnership with Nottingham Trent University VCSE Data and Insights Observatory

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Pro Bono Economics uses economics to empower the social sector and to increase wellbeing across the UK. We combine project work for individual charities and social enterprises with policy research that can drive systemic change. Working with 400 volunteer economists, we have supported over 500 charities since our inception in 2009.

Summary

Charities are a critical part of our nation's infrastructure. There can be no stronger demonstration of that than the role they played in the recent pandemic, and now the role that they are playing in responding to the current economic crisis. From providing food aid to delivering training that helps low-paid workers into better paying jobs, and from advice on managing debt to counselling for those with mental illness – charities tackle both economic and social needs.

Yet the charity sector itself is struggling to adapt to the rise in energy bills. Over the last year, over four in ten charities which pay for their energy bills directly have experienced a rise in energy costs. And of those, over half report that their energy bills have increased by 50% or more.

Some of the charities which are most critical to the response to the current economic crisis are those which are struggling the most with energy costs. Nearly one in ten charities spend more than a fifth of their overall annual budget on energy. Energy intensive charities, like care homes, leisure centres, day centres for the elderly and disabled, and poorly-insulated community centres, are likely to find it particularly difficult to manage energy costs.

The charity sector's ability to manage these costs is also diminished because financial resilience has taken a hit in the wake of the pandemic. This has left 55% of charities having to resort to their reserves to meet their operating costs.

Charities have been working to reduce their energy consumption, but some of the steps that they are taking to do so are debilitating. One in five charities report that they have reduced their use of premises as a result of energy costs, and just under one in ten have reduced their hours of operation. One charity has even reported that its staff are working with the lights turned off. Such conditions will clearly lead to reductions in service levels and performance.

The support government has been providing to charities to help them manage their energy costs is due to come to an end in April,

with a review into any continuation scheduled to be published early next year.

There is a strong argument that charities wrestling with energy bills should continue to receive some support to manage elevated energy costs beyond April – given the essential function they are fulfilling. And while the drivers behind elevated demand for charities' services may change as temperatures rise in the spring, the current recession is expected to last until 2024. As a result, increased levels of demand in the sector are highly likely to persist, and its financial position is likely to struggle to recover.

Many charities back the temporary continuation of the Energy Bill Relief Scheme for registered charities. One way of achieving something equivalent to the scheme, while lessening the burden on the taxpayer, would be to create a non-domestic social energy tariff. Such a tariff could be applied by energy providers to registered charities, to ensure that organisations achieving social good are on the lowest feasible payment scheme, with a discount made possible by income from other commercial customers. Ministers should convene charity representatives and energy suppliers to discuss how to make such a tariff possible.

But government should also consider targeted grants – particularly if there is an opportunity for match-funded grants which support charities with retro-fitting insulation or installing micro-generation facilities like solar panels. There is a strong appetite for such energy saving and green energy measures in the charity sector should the resources be made available. Not only would such a scheme help make charities more resilient, it would also benefit the planet in the long-term.

Methodology

The new analysis in this paper describes selected results from the VCSE Sector Barometer, which was conducted by Pro Bono Economics and Nottingham Trent University's VCSE Data and Insights Observatory, and backed by over 50 major social sector membership organisations and networks.

The survey was undertaken between 7 and 21 November 2022, and is the first in a quarterly barometer series. In total, there were 783 social sector organisation respondents after a process of data cleaning and de-duplication. The figures in this report reflect the responses of the 643 registered charities which completed 90% or more of the survey.

The results have been broken down into sub-sectors (where there were a sufficient number of responses), and into organisation sizes. Small organisations are those with an income of less than £100,000 a year; medium organisations are those with an income of between £100,000 and £1 million a year; and large organisations are those with an income over £1 million a year.

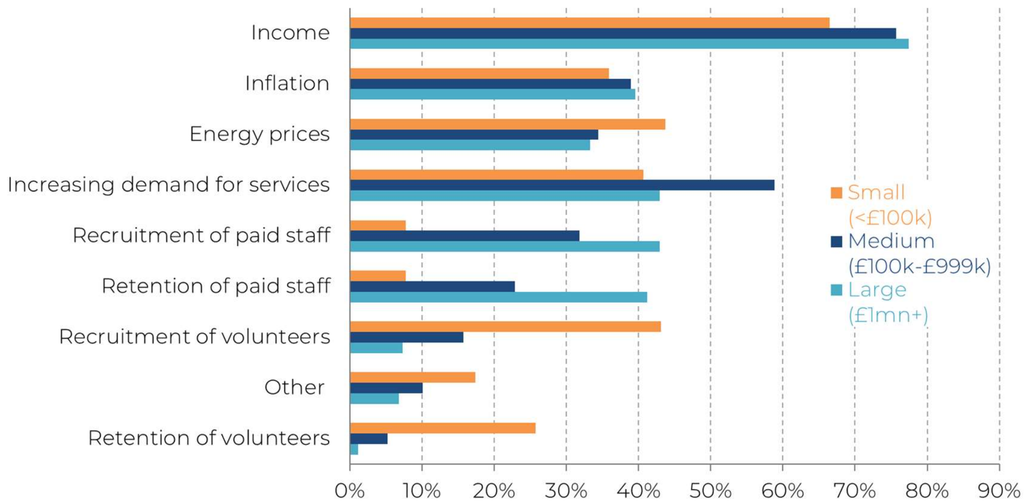
Data tables from the survey are available upon request.

How is the energy crisis impacting charities?

With the UK now firmly in winter's grip, and the price of heating homes and buildings at record levels, it is no surprise that energy costs are a major concern for charities. Indeed, according to the survey which informs this report, energy costs are the third most pressing concern for the charity sector overall, after income and inflation levels – though they are the second most pressing concern for small charities.

Figure 1. The price of energy is one of the charity sector's biggest worries

Most important concerns currently affecting small, medium and large charities



Note: Size is based on reported annual income in the last financial year. Small n=167, Medium n=267, Large n=176

Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

The dramatic rise in the price of oil and gas that the world has been grappling with over the last year has had three major impacts on the ability of charities to play their vital role in society.

First, it has driven up demand. Over half of charities in the UK provide social services in some form.[1] Many of these social services focus on supporting people who are particularly vulnerable to the current economic crisis, for example because they have low incomes and are therefore more acutely exposed to rising prices, or because they have additional needs arising from health or disabilities. Rising energy costs have therefore meant that more people are turning to charities for support, and that the people those charities were already supporting often need more intensive aid.

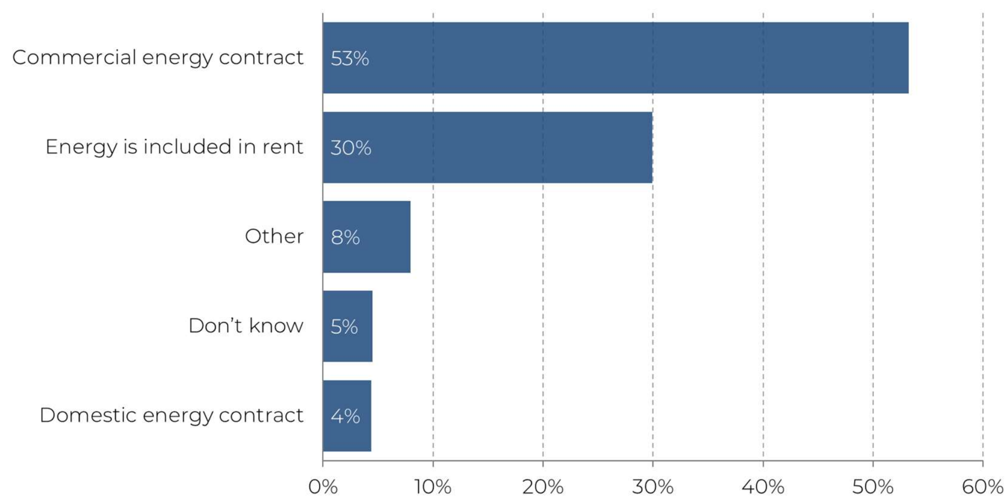
[1] UK Civil Society Almanac 2022, NCVO, October 2022

Second, the pressures of energy costs – and indeed inflation more broadly – has squeezed charities' income, as donors have less money available to give.

Finally, like businesses and public sector organisations, many charities have energy bills they have to meet themselves. They do so predominantly in two ways, as Figure 2 shows. Half (53%) of charities stated that they pay energy bills directly to their supplier through commercial energy contracts, and almost a third (30%) said they do so through their rent. This rent may be paid to commercial landlords in traditional leasing arrangements for office, warehousing or co-working spaces, but many charities have no permanent base and so hire spaces like community centres on a more ad hoc basis. A very small proportion (4%) have domestic, rather than commercial, energy contracts.

Figure 2. Commercial contracts and rent are the most common ways that charities pay for their energy

'How does your organisation currently purchase energy?'



Note: n=642

Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

This variation in the methods of energy payment matters, because it means that different parts of the charity sector have different levels of exposure to rising energy costs, and have different levels of ability to control, negotiate or respond to rising energy costs. A charity which owns a building can improve its insulation, switch suppliers, and reduce its own energy consumption. However, a charity which is based in a shared community hub may not be able to take any of those actions. This variation also has implications for any kind of support schemes which might be designed.

Some charities are experiencing dramatic jumps in their energy bills

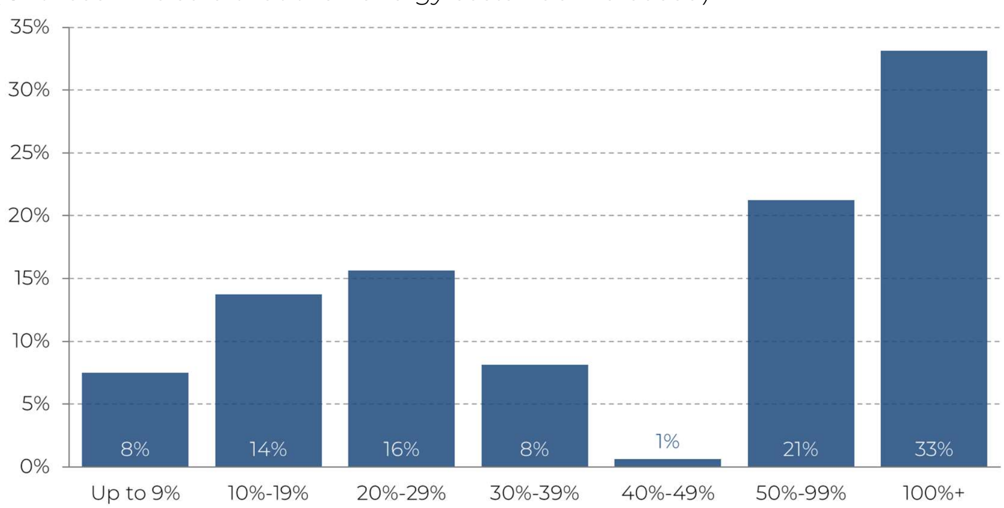
Not only are some charities more exposed to rising energy bills because of the type of bills they pay, some are more exposed because of the services they provide. This survey suggests that energy bills make up an average of 3-5% of the overall annual expenditure of charities which pay for energy - either directly or through their rent. But for some charities, this is much higher. Nearly one in ten (9%) charities reported that they spend more than 20% of their overall annual budget on energy.

Charities providing recreation and community spaces or facilities have a particularly high energy spend. This is likely to be reflecting the cost of heating energy-intensive swimming pools and trying to make poorly-insulated community spaces habitable, particularly when accommodating older people. Indeed, for this group of charities, energy costs is the number one concern.

Charities' energy costs have already increased. Over the last year, four in ten (41%) charities which pay for their energy bills directly have experienced a rise in energy costs. And of those, more than half (54%) reported that their energy bills had increased by 50% or more, as shown in Figure 3.

Figure 3. Many charities have experienced significant increases in the price of their energy

'Since September 2021, by what percentage have your energy costs increased?' (Of those who said that their energy costs had increased)



Note: n=160.
Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

In addition, three in ten (30%) of the charities which pay for their energy through their rent reported that their rent has been increased as a consequence, with increases typically in the region of around 10%.

There is not currently data available that would allow for a comparison of the increases in charities' bills to those being experienced by other sectors of the economy. However, government figures suggest that electricity prices for the average non-domestic consumer increased 50% between Q1 2019 and Q2 2022, while gas prices increased 95%.[2] As energy prices have continued to accelerate through the latter part of the year, rises of over 50% for a significant chunk of the charity sector are entirely plausible.

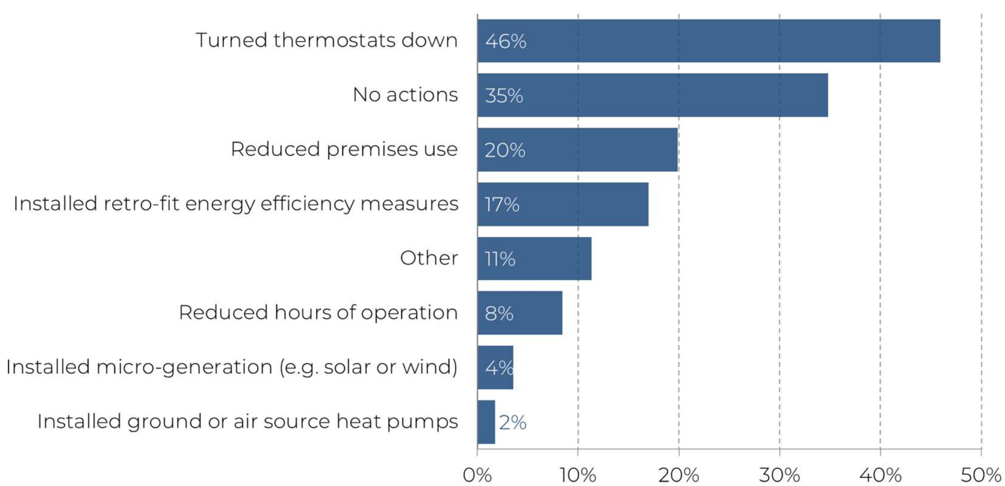
Charities are taking steps to manage their energy costs

To date, one of the charity sector's responses to the spiralling costs of energy has been to reduce energy consumption. The actions taken range from the practical – such as consistently making sure appliances and water heaters are turned off – to the debilitating, with one charity stating that their staff are now working in the office without the lights on.

As Figure 4 shows, the most common activity charities report *en masse* is turning the thermostats down, which 46% of charities state that they have done.

Figure 4. Charities are acting to reduce their energy consumption

'Which of the following actions has your organisation taken to reduce energy consumption?'



Note: n=618
Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

[2] Gas and electricity prices in the non-domestic sector, Department for Business, Energy and Industrial Strategy, September 2022

A number of charities also report having taken energy efficiency measures, such as retro-fitting insulation (17%), while a small fraction have hastened the move to carbon-reduction by investing in micro-generation, such as solar panels. There is a clear appetite in the sector to undertake further action on energy efficiency, if resources can be found to do so.

"[We] fitted a second-hand array of solar panels and have started to change the lighting. We need grants for the rest and would gladly do so."

"We're reviewing whether it is cost effective to retrofit any energy efficiency measures into our old buildings. Looking after elderly people means we cannot reduce our energy usage in the normal ways."

"We are seeking grants for 100kw storage battery, air source heat pump, and change to LED lighting. So far zero success as funders concentrate on direct delivery projects. We feel that we want to futureproof our charity, not rely on temporary energy price cash help. It is a lose-lose situation."

"We wish to do more but haven't the capacity or financial resource."

- Quotes from charities who completed the survey

But there are also some concerning signs that energy costs are affecting the operations of some charities more fundamentally. One in five (20%) report that they have reduced their use of premises as a result of energy costs, and just under one in ten have reduced their hours of operation (8%). One charity reported that it had reduced how far its staff would drive in their minibus as a result of diesel prices, while many more stated they were only heating their premises for a very limited period – such as an hour a day, or only when accommodating members of the public.

The ability of the charity sector to take additional measures to deal with rising energy costs, including greater energy efficiency, without further damaging service delivery will be hampered by its precarious finances. The restrictions in operation during the pandemic had a dramatic effect on charity fundraising; so much so that a quarter of charities experienced a drop in income of 40% or more.[3] While there has evidently been a recovery in fundraising activity since the height of the pandemic, much of the sector's resilience has been spent. Indeed, a substantial proportion of charities report that they are now making unplanned use of their reserves to meet rising costs, with this survey showing 55% of charities using their reserves to fund current operating costs.

[3] J. Mohan et al, 'Financial vulnerability in UK charities under Covid-19: an overview', Third Sector Research Centre, 2022

This has implications for the kind of support that is appropriate to help charities dealing with rising energy costs, and it is unsustainable given that energy costs are expected to remain elevated well into next year. Indeed, nearly a quarter (23%) of charities which pay for energy directly are on fixed electricity and/or gas rates that will expire by the end of March 2023 and will therefore soon be experiencing additional costs. One in five charities (20%) are on variable rates for their gas, electricity or both.

Energy costs will take another jump for many charities in the Spring

Currently, the 53% of charities on commercial energy contracts are receiving some support from the government with their energy bills through the Energy Bill Relief Scheme, which has provided non-domestic consumers of energy with a discount on the unit price of gas and electricity. The 30% of charities which pay for their energy through their rent have also likely benefited from the scheme's protection, though indirectly.

However, this scheme comes to an end in April 2023. A review into which sectors will continue to receive some support from government after that date is due to be published early next year.

There is a strong argument that charities wrestling with energy bills should continue to receive some support to manage elevated energy costs beyond April. Many charitable organisations are currently playing a critical role helping vulnerable people through the winter, whether by providing resources to help people cope through this period, or by functioning as warm spaces that people can go to instead of heating their own homes. The very recreational and community facilities with energy bills that make up an exceptionally high proportion of their expenditure are essential to this effort.

And while the reason for the elevated demand for charities' services might change as temperatures rise in the spring, the current recession is expected to last until 2024. As a result, increased levels of demand in the sector are highly likely to persist, and its financial position is likely to struggle to recover.

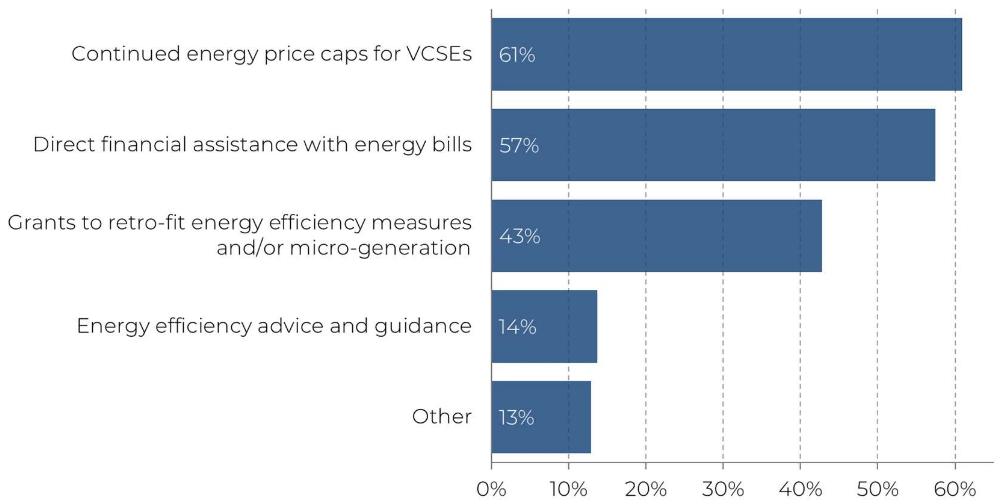
Supporting charities to overcome the energy crisis could go hand in hand with satisfying their green ambitions

As this analysis has revealed, not all charities pay energy bills, and those which do may make those payments indirectly. And some charities – such as community and recreational facilities and those involved in caring for the elderly and disabled – find it particularly difficult to lower expenditure, and thus are at the sharp end of this crisis and more in need of help than others. Blanket financial support for the charity sector would therefore be excessive, whereas appropriately targeted support is critical.

Charitable organisations have mixed views on what form any support might take. The continued application of the current Energy Bill Relief Scheme and direct financial assistance both garner almost equal backing from charities. However, as Figure 5 demonstrates, there is also substantial appetite for grants to help charities retrofit energy efficiency measures and/or micro-generation, such as solar panels.

Figure 5. Charities have a range of views as to what support might be best

'What support would enable you to better cope with rising energy costs? (Select all that apply)'



Note: n=402. Residual did not answer the question.
Source: Pro Bono Economics and Nottingham Trent University VCSE Data and National Insights Observatory, State of the Social Sector Survey (7 - 21 November 2022)

Nevertheless, it is clear that the current financial resilience of the charity sector means that a government-backed loan scheme, even if interest free, would be profoundly unsuitable.

Targeted grants might be an appropriate form for this support, as it would allow resources to be allocated to charities most in need of the additional help. This might allow support to be channelled more directly to the charities which pay for their energy through their rent than the current Energy Bill Relief Scheme allows - if those charities can demonstrate substantial rental increases as a result of rising energy bills. Grants also have the benefit of being potentially match-fundable, which can be a powerful incentive for driving donations.

There is a particularly strong case to be made for match-funded targeted grants to enable charities to undertake energy efficiency measures and renewable energy installations on properties they own, or on buildings that are used frequently for social purposes. This survey has demonstrated that there is a clear appetite in the charity sector to undertake such measures if resources are available to do so. And these grants would not only help charitable organisations to survive in the short-term, but help the planet in the long-term.

The government should also convene ministerial-level discussions between the charity sector and energy suppliers to explore how the sectors can work together on the introduction of a market-wide non-domestic social tariff for charitable and community organisations. As domestic social tariffs do in telecoms for people in receipt of certain benefits, a social energy tariff for the charitable and community sector would ensure that these organisations receive discounts on their energy bills, spreading the subsidy costs across other commercial billpayers.

Whatever the form, government and the charity sector should work constructively together to ensure that this important part of the economy can play its critical role as effectively as possible.

Conclusion

Charities are playing a critical role helping people through the energy crisis. Yet, for many charities, the burden of their own energy costs is a serious financial threat – including for some of the very charities which are crucial to helping the vulnerable at present.

With the current government support with charities' energy bills currently under review, the evidence in this report should bolster the case for continued help in some form.

Interest-free loans would be a profoundly inappropriate form of support for the charity sector. The continuation in some form of the current discount is backed by many charities. Targeted grants, particularly those that would help meet charities' appetite for becoming greener, could enable charities not only to overcome this difficult period, but also help them play their part in the move to net zero.

In addition to financial aid, ministers should convene discussions between energy suppliers and charity sector representatives to explore how to implement a non-domestic social energy tariff for charities and community groups in order to lower costs at source. This is particularly important for energy-intensive charities like those in the recreation and community sector.

Acknowledgements

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