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| <b>Committee:</b><br>Grants Committee of the Bridge House Estates Board                                         | <b>Date:</b><br>26 September 2022                                                 |
| <b>Subject:</b> Supporting grant-holders with inflationary pressures and increased demand                       | Public                                                                            |
| <b>Which outcomes in the <i>BHE Bridging London 2020 – 2045</i> Strategy does this proposal aim to support?</b> | 1,3                                                                               |
| <b>Which outcomes in CBT’s funding strategy, <i>Bridging Divides</i>, does this proposal aim to support?</b>    | Reducing inequalities, Progressive, Collaborative,                                |
| <b>Does this proposal require extra revenue and/or capital spending?</b>                                        | <b>No</b> (funding allocation from Bridging Divides designated grant making fund) |
| <b>Report of:</b> David Farnsworth, Managing Director of BHE                                                    | <b>For Decision</b>                                                               |
| <b>Report Authors:</b> Tim Wilson, Funding Director and Social Investment Fund Manager                          |                                                                                   |

### Summary

This report recommends a programme of additional support to help current grantees manage cost pressures from rising demand and high inflation. It has a provisional total value of £3.5m and is recommended as the most cost- and time-efficient way City Bridge Trust (CBT) could support grantees. If agreed, funds would be released as a series of individual awards to existing grantees rather than a single grant and as such the decision rests with this Committee. The proposal is in line with other high-profile funders and with recommendations made to the funding sector by well-regarded advisory bodies. The proposal is presented in context of the pressures UK households face with energy, food, and other living costs. It is structured as additional support for the coming 12 months, given uncertainties of economic forecasts. There is precedent for this approach, and the recommendation is consistent with CBT’s additional support awarded around the first Covid lockdown measures (which was very well regarded).

### Recommendations

It is recommended that the Grants Committee of the Bridge House Estates Board, in the discharge of functions for the City Corporation as Trustee of Bridge House Estates (charity no. 1035628) and solely in the charity’s best interests:

- i) Agree a programme of additional support (with an estimated total value of £3.5m) to selected grant-holders in the form of one-off unrestricted grants, calculated based on 10% of the funding due over the coming 12 months to help them counter general inflationary pressures and increased demand.  
Funding to be reserved for:
  - a. Awards made under the Trust’s open programmes
  - b. Current grant-holders whose awards were made on or before 1<sup>st</sup> May 2022
  - c. Those identified by Funding Managers

*Awards to be pro-rated for those with less than 12 months remaining on their funding agreements with CBT.*

- ii) The total value of the programme to be agreed by the Chair and Deputy Chair under delegated authority.
- iii) Individual awards to be approved by the Managing Director of BHE under delegated authority.
- iv) Authorise officers to work with fuel and food poverty umbrella organisations as well as community credit providers to present proposals to the Grants Committee to support Londoners with the impacts of high inflation.
- v) Authorise officers to work with other grant-makers in the sector to develop a pan-funder response to high inflation.

## **Main Report**

### **Background**

1. UK households are experiencing the sharpest drop in living standards since records began in 1956. Inflation (the rate at which prices rise) has been increasingly steadily through the year. Against a target level of 2%, the inflation rate has risen from 9.1% in May to 10.1% in August. Government intervention in early September is expected to mitigate some inflationary pressures, but inflation is still anticipated to stay around 10% in early 2023.
2. Cost-of-living pressures occur when inflation outpaces income (whether from work, benefits, or a combination of both). The Office for National Statistics reported regular pay growth of 4.7% in June 2022 and whilst in-work poverty is a growing issue, the poorest (those reliant entirely on state support<sup>1</sup>) saw benefits rise by 3.1% in the Spring<sup>2</sup>. This latter group had already taken an income hit in Autumn 2021 when the £20 weekly uplift to the basic rate of Universal Credit introduced at start of pandemic was withdrawn.
3. The most vulnerable will be hit worst by cost pressures. The published inflation rate is an average disguising how rising prices are distributed across items. Inflation in energy and food is especially high, and this exacerbates existing income inequalities since poorer households spend a greater proportionate share of income on these items. The Institute for Fiscal Studies calculated that the May 2022 average inflation rate of 9.1% materialised as an actual rate of 10.9% for the poorest 10% of households but only 7.9% for the richest 10%. In August, the IFS updated its inflation figure for the poorest households to 18%.
4. The impact of rising prices on vulnerable people is already visible and pre-dates the highest inflationary figures. In April 2022, the Money Advice Trust noted that one in eight UK adults reported having gone without heating, water, or electricity in the past three months to manage costs. Increased energy use (and therefore costs) over the colder winter months is likely to increase the numbers of

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<sup>1</sup> Generally due to an inability to work resulting from disability, old age, caring duties, or ill health.

<sup>2</sup> The annual uprating is determined by the inflation rate in the previous September.

households living in fuel poverty<sup>3</sup>. Emerging data indicates a growing number of people in payment arrears to their energy provider even before winter. This is likely to increase the number of households moved onto pre-payment meters (commonly used as a debt management tool) which are generally much more cost-intensive since outgoings cannot be smoothed over the course of the year as they can through direct debit payment.

5. There was a 5.9% increase in grocery prices from April 2021 to April 2022. Food insecurity<sup>4</sup> was reported as 20% higher in January 2022 than in the previous 6 months and to affect 4.7m adults (Food Foundation data). By May 2022 YouGov reported that 7.3m adults had been forced to reduce their food purchases or had missed meals despite being hungry.
6. Rising cost pressures coincide with an increase in the absolute numbers of people living in poverty. The usual UK poverty measure is where household income is less than 60% of median levels after housing costs. Joseph Rowntree Foundation<sup>5</sup> has looked at those living with incomes below 40% of median levels after housing costs and noted that between 2002-03 and 2019-20 this number had increased from 4.7m to 6.5m. JRF highlighted particularly increased poverty risks for disabled people or families with a disabled family member and for lone-parent families.
7. High inflation also comes at time of economic vulnerability for many households. Around 20% of UK adults have less than £100 in savings and in March 2022 StepChange (a debt charity) reported that more than 1 in 5 people expect to be driven into problem debt over the year with 31% expecting to struggle to pay for essentials such as healthy food and weather appropriate clothing.
8. There is evidence of growing reliance on unsecured credit to cover essential living costs. In January 2022, the Office for National Statistics reported that almost 1 in 8 people surveyed said they were using more credit than usual because of rising living costs. Consumer borrowing costs reached a monthly total of £1.5bn in February, the highest since records began in 1993. Low-income households are generally excluded from mainstream credit provision and disproportionately reliant on high interest 'buy now, pay later' providers or illegal credit from loan sharks. Low-income households risk entering debt-traps where further credit is needed to service the costs of existing loans.

## **Impacts on the charitable sector**

9. The sector started this economic downturn in a weak position, with Covid 19 having depleted reserves. A Charity Commission survey from October 2021 found that two thirds of organisations expected a threat to their own viability in 2022. Over the coming months, officers expect that charities will continue to face rapidly rising demand for services and a squeeze on the inputs that enable them to deliver their services.

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<sup>3</sup> Defined as those spending more than 10% of income on energy bills

<sup>4</sup> Defined as going at least one day without eating because food is either not affordable or not accessible

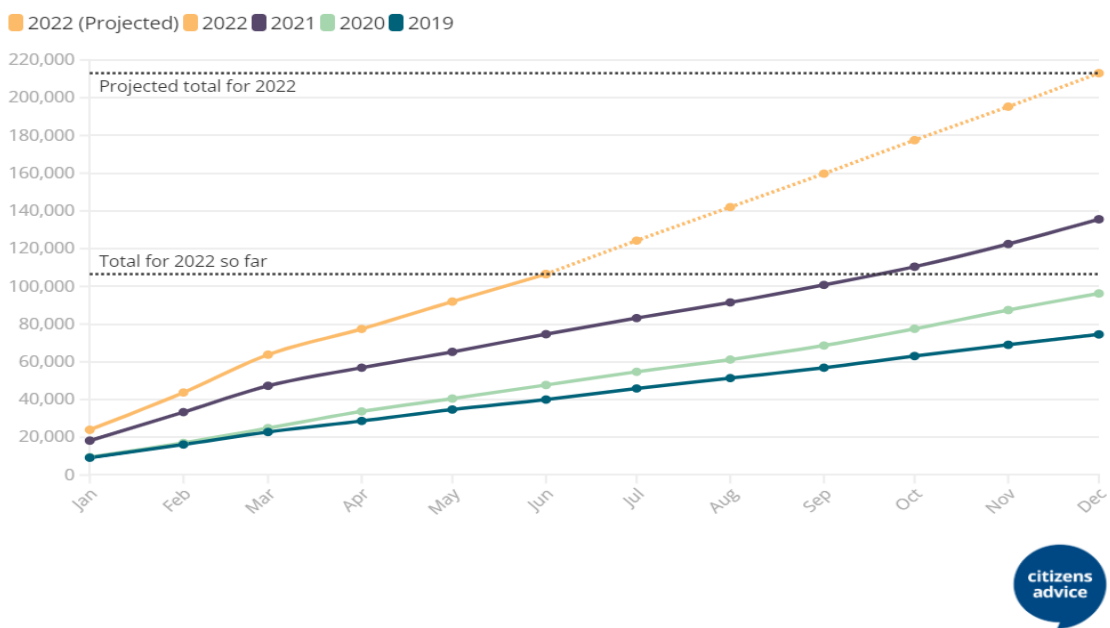
<sup>5</sup> "Going without: deepening poverty in the UK" (July 2022)

10. Higher inflation results in higher cost pressures. Whilst Government's most recent support package will help, winter will bring larger utility bills and (where relevant) travel and transportation costs. This will increase overhead costs at the expense of service delivery and/or reserves. Additionally, inflationary pressures will erode the value of any pre-existing grants and contracts.<sup>6</sup>
11. There is emerging evidence of reduced donation levels. Early 2022 data from Charities Aid Foundation found 60% of people were planning to cut discretionary spending and there were 2m fewer people donating to charity than the long run average. This trend could be accelerating. An August 2022 survey from GOOD Agency and YouGov reported that three times more people planned to reduce their charitable giving, compared to those who intend to give more. The Trussell Trust, a CBT grantee supporting 1,400 food banks, reported an increase in the demand for food parcels whilst public donations of food (itself a product of price pressures) are falling.
12. New Philanthropy Capital (a think tank and consultancy) states *"More people will need the help charities provide, yet charities will find it harder to support them as inflation increases their own costs and erodes the value of reserves and pre-pledged donations"*. Rising service demand means rising costs, but unlike commercial firms, charities cannot generally pass these costs on to their clients.
13. Data shows growing demand for charitable advice services, support with food, and increased need for affordable credit. In late July 2022, Citizens Advice reported that it had supported 120,000 people with access to foodbanks and other charitable support, more than the numbers for 2019 and 2020 combined (see chart below). The charity noted that disabled people are among those most likely to be seeking support for cost-of-living issues.
14. The Citizens Advice network reports more people approaching it in July 2022 than in January because they were unable to afford to top up their prepayment meter. In the year to date, the charity has supported over 47,600 people with energy debts, with the average client more than £650 in arrears to their energy company. Whilst fuel advice could previously look at options to manage increased bills by switching providers, consumer flexibility is constrained by the closure of 28 suppliers in recent months (which in turn has pushed up energy bills to cover losses).

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<sup>6</sup> Pro Bono Economics calculates that (at current rates) a grant of £100,000 awarded in 2021 would only be worth £88,100 in 2024.

**Cumulative number of people Citizens Advice has helped with crisis support each year**



15. Community credit providers deliver flexible and supportive finance to those who are otherwise unable to access commercial provision. Whilst this can be people receiving benefits, there is also growing reliance on credit from those with variable incomes (i.e. 'gig' workers). Typically, users would not have access to overdrafts or credit cards from high street banks. Credit helps support with emergency or unexpected payments beyond budget such as repairs to broken white goods or purchase of school uniforms. This can be especially important where households cannot afford insurance and where people would otherwise need to spread the cost of expensive items over months using high-interest credit from retailers. The 'poverty premium' refers to the higher prices people in poverty must pay for goods and services compared to those on higher incomes. Whilst the total value of loans from community credit providers are at an all-time high, their own lending capacity is constrained by their own capitalisation and is unlikely to be able to meet demand in the months ahead.

16. Advice, food, and credit have been some of the earliest impact indicators in the sector, but CBT expects to see consequences across a wider range of social issues. Officers have spoken to domestic violence charities who anticipate an increase in reported cases, and mental health specialists who expect greater demand for their services. Organisations supporting migrants with no recourse to public funds are seeing increased destitution. There are concerns across our funded caseload of pressures on staff to meet increased demand when organisational income is highly stressed and how this will risk burnout amongst staff already stretched by the impact of the pandemic.

### Options for charitable funders

17. The scale of inflation requires significant statutory action across policy, money, and taxation, but charitable funders such as CBT can also play a vital role in mitigating some of the worst impacts of the economic pressures in the months ahead.

18. To manage charity time and administrative efficiency, funders should ensure grant and social investment opportunities are accessible and applications are considered on a timely basis. Support should be awarded to cover the full costs incurred by organisations in service delivery, and these awards uprated year on year to reflect the impacts both of inflation and increased demand. Where possible, funders should offer the greatest degree possible of in-grant flexibility to help grantees manage budgets.
19. Charities Aid Foundation has advised donors to top up existing donations and New Philanthropy Capital has also called on funders to offer uplifts to new and existing grants (especially if multi-year awards apply) where budgets were agreed before recent inflation data.
20. Sector-focused think tanks have also called for funders to remove grant restrictions wherever possible, to look at how they can speed the assessment process, and to collaborate with each other on a wider response (as the funding community did during the pandemic).

### **Current position**

21. CBT's main funding interventions for household cost pressures remain its "Advice and Support" and "Food Poverty" programmes which were recently expanded to include fuel poverty, wider food provision, and regulated debt advice. Higher inflation has an impact beyond these areas and a wider response is needed.
22. In addition to our open funding programmes, officers are already doing the following to support the sector:
  - a. Funding on a full cost recovery basis so that awards include an appropriate share of organisational overhead.
  - b. Providing guidance for new applicants (since April 2022) acknowledging the high inflation environment and making explicit that officers will consider sympathetically annual cost increases based on expected inflation.
  - c. Discussing budget revisions with current applicants to better reflect the expected costs of delivery (noting that inflation does not apply equally across all cost lines).
  - d. Allowing virements between budget lines within existing grants to cover cost pressures.
  - e. Working to ensure that grant decisions are made within published turnaround times.
  - f. Acting as a Living Wage Funder<sup>7</sup>.
  - g. Offering capacity building to the sector via the Bridge Programme.
  - h. Engaging with other funders, bilaterally and via our membership bodies London Funders and ACF, to share and develop ideas for action.
23. Over the coming weeks officers will be conducting an end-to-end review of our application processes to simplify and streamline these wherever possible and reduce the time-burden on organisations. The website refresh will make information about our funding more accessible, and officers are conducting

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<sup>7</sup> <https://www.livingwage.org.uk/living-wage-funders>

borough speaking engagements to promote our grants. Officers are also exploring options to work with partners on emergency grants during the winter period.

## **Recommendations**

24. Most organisations that CBT supports have paid staff, hold grants (and sometimes statutory contracts) that are not subject to inflation adjustment, do not have excessive reserves, and generally do not hold endowment investments. All CBT grantees undergo thorough due diligence before awards are recommended, with proposed costs proportionate both to the scale of work that will be delivered and the needs of the applicant organisation.
25. Since late April 2022 CBT Funding Managers have had discretion to recommend additional funds to new applicants if (in their view) the organisation had not included sufficient provision for inflation. Applications received up to this date were generally based and awarded on a 2% annual inflation rate.
26. Officers expect most organisations funded through our open programmes to experience increased demand and increased cost pressures during 2022-23 so officers recommend additional support to existing grant-holders who did not benefit from the flexibility offered to applicants from late April onwards.
27. There is precedent here of a general award scheme for changing circumstances. At the March 2020 meeting City Bridge Trust Committee agreed a programme of one-off unrestricted grants to ensure the resilience of grantees managing the impact of Covid and lockdown restrictions. CBT received very positive feedback from the sector on this additional funding.
28. Officers recommend an approach which is as cost and time efficient as possible both to Bridge House Estates as a charity and to recipient organisations by awarding one-off unrestricted grants for to selected grant holders, based on 10% of the funding due over the coming 12 months. Awards would be for:
  - a. Organisations funded under the Trust's open programmes.
  - b. Current grant-holders whose awards were made on or before 1<sup>st</sup> May 2022.

Officers would prepare a list from the grants' database, and names would be checked by the Funding Managers in case there were exceptional reasons *not* to award the proposed sum (for example, active compliance concerns or notable underspends). Awards would be pro-rated for those organisations with less than 12 months remaining on their funding agreements.

29. Officers acknowledge that different grant-holders will experience different inflation rates over the coming months but recommend a common approach rather than something fine-tuned to each grantee. Tailoring would require considerable staff time in analysis of hundreds of individual awards and potentially only result in minimal adjustments. Officers believe there are few charities in the portfolio which will not require additional support in the months ahead, and the proposed amount for each grantee is relatively low. As such the risk, on a per grant basis, is also low.

Officers have developed this proposal in consultation with the Charities Finance Team who are supportive.

30. The total cost of the programme on the basis above could be £3.5m. This figure is based on the best available data when preparing the 2021-22 draft accounts, but with the caveat that this would need to be tallied against the grant-making database to confirm the final amount. Given the level of inflation and the scale of need, officers do not think a contribution from CBT would overlap with what other funders might provide nor negate the need for their support. Subject to the approval of the overall proposal, officers could liaise with the Chair and Deputy Chair of the Grants Committee on the final figure.
31. In addition to the programme of one-off grants, officers propose to explore work with relevant bodies to address food and fuel poverty across London and look at ways to support the work of London-focused responsible low-cost community lenders (Community Development Finance Institutions) to examine how CBT might boost flexible credit facilities for the most vulnerable. These proposals would come back to the Grants Committee for approval.

## **Conclusion**

32. The proposed work is to help portfolio grantees manage cost pressures and to provide 'equality of treatment' between those currently under assessment (who would be expected to include high provision for inflation) with those current grantees (who based their applications on a 2% rate). Officers expect there will be further statutory and charity sector announcements about support packages and, where relevant, CBT officers will engage. In the meanwhile, officers will explore scope to develop specific interventions addressing food, fuel and credit poverty in London for submission to a future Grants Committee.

## **Appendix**

- Appendix 1 - Disproportionate impact of rising costs of living on CBT grant-holders

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