GMCVO

# Brace for Impact
## Briefing

## Introduction

This briefing is intended to give some background to the cost of living crisis and broader economic policy in the UK right now. We also want to help people within voluntary, community and social enterprise (VCSE) organisations understand the likely operating environment within Greater Manchester (GM) and the UK to help them plan financially.

One caveat we would make is that like the weather, any opinion anyone expresses about the future of the economy is always contingent. Events happen, policy initiatives are introduced and Prime Ministers change with increasing frequency. This briefing is not so much financial advice as an attempt to help people understand some of the forces shaping the economy.

We are also highlighting some sources of business support and advice around energy efficiency at the end of this briefing. If you're not interested in the short essay that's to follow hopefully there'll be something valuable in that list.

**GMCVO works to drive economic and social inclusion in Greater Manchester**

GMCVO is committed to supporting better decision making by increasing the accessibility and diversity of learning and insight

## What is driving price increases?

Inflation occurs when there's more money than stuff. This can happen in a fast-growing economy where workers see wage increases and want to spend that money, or feel more confident in taking out loans. If production is lagging behind that growth, then prices will increase and purchasers compete to buy what's available. Central banks, like the Bank of England, generally respond to this by raising interest rates – this makes borrowing more expensive and saving more attractive and so reduces the money in circulation. [This short video from The Economist explains inflation.]

This isn't the case in the UK at the moment. In our communities we can definitely say that 'too much money' is not the problem. Instead, inflation is being caused by a reduction in the amount of stuff available for purchase. There are two main causes to this:

> Ecological: The Covid pandemic has disrupted the productions of goods across the globe, especially in China, the world's largest exporter. In addition, the general increase in extreme weather events is disrupting agriculture. Many food producing countries have experienced droughts with increasing frequency and this also has an impact on the price of basic staples.
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> Geo-political: It's clear that the war in Ukraine has had a significant impact on gas supplies from Russia, one of the world's largest commodity exporters. Ukraine itself was a major food producer and the loss of provision from both of these has had significant impacts on prices. Energy, produced with Russian gas is particularly important. In many ways energy is the economy – there isn't a service or manufacturing process that doesn't use energy in some way.

These factors are not going to change in the short term and neither are directly affected by the actions of VCSE organisations. They shape the environment we operate in and so we need to plan for them but we can't change them alone.

It's important to recognise that traditional approaches to reducing inflation are designed to cool down an overheating economy – reducing the demand for stuff. With our challenges more an issue of supply then actions such as the raising of interest rates will tip a struggling economy into recession.

It's impossible to predict where inflation is going and I won't offer financial advice but at present will say that GMCVO is setting budgets on the assumption inflation for 22/23 is 10%, for 23/24 is 6% and for 24/25 is 3%. I'm worried that these figures are optimistic and so am keeping an eye on projections.

## The mini-budget: Gambling with the economy

Past finance ministers in the UK have always attempted to show themselves as sensible people. Gordon Brown would talk about the need to be prudent. George Osborne would talk about fixing the roof whilst the sun was shining. Others have done similar and the attempt has always been made to present government policy as being the most reasonable thing to do and in the control of people who might be described as a 'safe pair of hands'.

This government has been making statements about challenging failed orthodoxy and the need to be radical. It launched a number of initiatives that no one expected almost as an exercise in shock and awe. This led to headlines such as "Kwarteng places his bets" and "Kwarteng rolls the dice". Prudent this is not. The reaction has unsurprisingly been one where financial institutions have lost faith and trust in government policy. This has significant implications for the UK.

At this point the UK is on the edge of a currency crisis, seeing significant increases in the cost of borrowing and we're on the way to a much larger economic crisis in general. I'm writing this just after the Bank of England has had to take emergency measures costing £65bn to stop the collapse of pension funds exposed to government borrowing. This isn't just a storm in a teacup but is unprecedented action that is significantly changing how government can raise funds. There is an assumption in financial markets that, unless something changes significantly, the Bank of England will increase interest rates by between 1 to 1.5% in November. Lower than this and the pound will continue to fall further making all imports more expensive and increasing inflation. [This eight minute video, also from The Economist, explores the link between interest rates and inflation in more detail].

The positive news is that there is support for organisations in capping energy costs. We still don't have the detail but where organisations were starting to see increases of 400% in energy costs this is likely to be halved. This will still be challenging for many but may generate some relief. Support is only confirmed for 6 months but government has stated that support will be in place for 'vulnerable' organisations for longer. Early suggestions hinted that small to medium enterprises (SMEs) would be part of this group, which would include most local VCSE organisations. But with all that has happened we would recommend waiting to see the fine print on any formal proposal.

However, this all needs to be understood in the context of other changes in our economic landscape. European funding is now at an end and the replacement, the UK Shared Prosperity Fund, (UKSPF) does not bridge the gap. Whilst the new fund does have more flexibility, it means that the range of activities supported will have to reduce. Also funding for work and skills support won't be available until the financial year 24/25 – meaning a significant gap in funding some organisations will struggle to bridge.

## So what?

There are implications for the VCSE sector here:

- The country will get poorer. Impacts of these changes are uncertain but it is anticipated that inflation costs will be higher for longer, our expected recession will be deeper and longer, mortgage and loan repayments will increase. Charitable donations will reduce as will the resources of some funders.
- Public services will be cut. With inflation and borrowing costs increasing then public spending needs to match those increases. Instead, government is keeping to previous plans and this will erode the resources available to government departments and local councils
- Inequalities will increase as poverty increases and the support available to people decreases. People in low-income communities are more exposed to price and borrowing increases and will see greater impacts than those with wealth who are more insulated.

This last element is particularly concerning. Firstly, those of us working for organisations trying to reduce poverty and inequalities are going to struggle to make an impact. At a local level these structural changes to the economy will overwhelm the interventions we make. We need to recognise that in some cases the best we can do is reduce harm rather than make things better.

Secondly, anyone with a payment by results contract or a grant with ambitious outcomes really needs to speak with their funder or commissioner urgently. The performance we might have viewed as being normal a few years ago will be unachievable tomorrow.

We would discourage any organisation from taking on new payment by results contracts unless they have evidence the commissioner has taken the new operating environment into account.

We also face the reality that the government has reduced its own capacity to act in the future. State capacity is generally seen as dependent on the following factors:

- Finance – the ability to tax, borrow and raise funds by other means
- Legislation – the ability to introduce and enforce new laws
- Civil society (in its broadest sense) – the ability to generate consent and a sense of legitimacy within the public

In each area the government is now weaker. Borrowing costs are higher and tax revenues will reduce. The government is facing opposition from its own MPs, some of whom may refuse to vote for the measures in the recent budget. The government is also facing opposition from its own voters with few, if any, independent organisations backing its actions and giving them some legitimacy.

This isn't just bad for the government, it means that lobbying of the government is now going to be less effective. Even if we could campaign to change hearts and minds within the cabinet, its power is now eroded. In many ways we are going to be left to deal with these problems without national support.

Fortunately, we do have good and strengthening relationships with the public sector within GM following the implementation of the VCSE Accord. Relationships between VCSE leadership organisations are also strengthening alongside this and this should give us some hope. However, we need to recognise that our partners in the public sector face many similar challenges to us and will have to re-prioritise activity and funding to cope with the changes.

Alongside other VCSE leadership organisations we are currently feeding insight and data about the impact on VCSE organisations into public sector policy makers and ensuring leaders understand the impact of change on the sector. We are also hopeful of collectively bringing in more support to local organisations by strengthening local infrastructure. This will ensure that more help is available even if we can't prevent the worst of what's to come.

We are also working with colleagues in the public sector to understand how skills providers might be supported to ensure that they're still there when the UKSPF skills funding is available. We're quickly looking at how we might understand the range of provision and if you are a skills provider affected by the loss of EU funding do contact us to help us understand your situation.

The important issue we have is that there is an economic crisis that is already happening. People need support now and we don't have time to plan a response but need to think about how we mobilise our resources and work with partners to co-ordinate action. We also need to recognise that although these are grim times, fear can paralyse both organisations and the people we need to support. We need to have the confidence we can raise our hands for help and need to encourage others to do the same.

## To conclude

The hardest part of this briefing to write is what follows. After setting out the challenges, this is the point where I should be able to highlight a positive way forward. However, I cannot see a silver lining in this cloud. The support we're able to bring into the sector may help but won't undo the challenges we face.

In the next section we highlight sources of advice and support. In particular we have listed some support and advice linked to energy efficiency. We can all find ways to improve but most VCSE organisations are well run and we don't expect many of you can make your general operations massively more efficient – after the challenges of the last decade you wouldn't be here otherwise – but energy efficiency may not have been a priority in the past.

In many ways there are no solutions to economic problems, only trade-offs. To increase funding in one area we have to deprioritise another. If all areas are under pressure this generates few viable choices. At this point, beyond the work we're doing with local statutory authorities and co-ordinating our activities, the best I think we can do as VCSE organisations is really take a look at our costs and make tough choices on priorities. This isn't a bump in the road but more that we're hurtling towards a brick wall. The best we might be able to do is simply brace for impact.

## Helpful resources

Your local infrastructure organisation will have details of any local support:
www.gmcvo.org.uk/resources/support-organisations

GM Growth Hub offer support to businesses and VCSE organisations:
www.businessgrowthhub.com/services

GM Growth Hub have carbon reduction grants for small and medium sized enterprises in Greater Manchester:
www.businessgrowthhub.com/resource-efficiency/carbon-reduction-grant

Skills for Growth offers fully funded support and advice for VCSE organisations to help up-skill employees and improve productivity:
www.gmcvo.org.uk/SkillsforGrowth

Greater Manchester Combined Authority have advice and support for individuals:
www.greatermanchester-ca.gov.uk/helping-hand/

Ofgem (the energy industry regulator) have advice on energy efficiency:
www.ofgem.gov.uk/information-consumers/energy-advice-businesses/find-business-energy-efficiency-grants-and-schemes

Carbon Trust can provide guidance for identifying energy and cost savings:
www.carbontrust.com/resources/better-business-guide-to-energy-saving

Energy Saving Trust have resources for businesses and VCSE organisations:
energysavingtrust.org.uk/business/

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