Community Foundation

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The cost-of-living crisis in North East England

How philanthropy can help now, and build long-term resilience

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Executive summary

This report was written in August-September 2022, just as the UK emerged from the Covid-19 pandemic and into the cost-of-living crisis. With a change of both government and Head of State quickly following, the author often felt at risk of being overtaken by events. If nothing else, this experience suggested the advisability of taking a long view.

The causes of the cost-of-living crisis are a case in point. There is no doubt that Russia's weaponization of fuel supplies to influence the outcome of the Ukraine war has been a major factor driving inflation. But there are other less immediate causes, most notably the disruption to trade following Brexit, underlying weaknesses in the UK economy and the long-term impact of the Covid-19 pandemic. These suggest that even if the Ukraine war were to end in the near future there would be no guarantee of a quick end to the crisis or promise that it might not reoccur. It would be a brave pundit that would discount the possibility of post-Brexit trade disputes, a prolonged slowdown in the UK or global economy, conflict over Ukraine or Taiwan, or even a new pandemic creating further problems for global supply chains. And beyond that – as China swelters in its worst ever heatwave – there is the prospect of future climate change-related disruption. For this reason we have considered the issue of long-term resilience alongside the question of how to respond to the immediate impact of the crisis.

A long-term view is also helpful in considering how the cost-of-living crisis will impact on England's North East region. Post-Brexit disruption and the Covid-19 pandemic have exacerbated long-standing problems arising from a regional economy characterised by low productivity, high unemployment, low rates of economic activity and poorly paid work. We find ourselves with a large number of people in the region – both on benefits or in work – who are either in poverty already or lack the financial resilience to escape its margins. And hardship on this scale fuels the very problems that inhibit our economic recovery, for example poor physical and mental health and low levels of education and skills, alongside a raft of social problems that impact on our quality of life.

To a great extent these are problems for government to solve. We recognise in this report the work that is being done to develop the local economy, and the measures that have been introduced to control inflation. But we also note that progress in turning around the regional economy has been faltering and steps to control the cost-of-living crisis may bring only a temporary or limited reprieve.

Philanthropic funding is limited in scale, but we believe that used wisely it can do much to help communities affected by the cost-of-living crisis. On the basis of our analysis, we have identified three main areas where charitable support can have maximum impact:

- The first is **helping people, families and communities in crisis** for example by supporting work to ensure that people are fed and warm, that families and carers under pressure get support and that communities stick together despite the problems they face.

- The second is **supporting community organisations** as they face rising demand and pressure on their core budgets. This is all about ensuring that organisations have the capacity and resources they need to help local communities whilst remaining financially sustainable.

- The third is **building long-term resilience** by thinking now about what can be done to ensure that people, families and communities are better prepared to face future crises than they are today.

We hope that you will read this report and find it informative. As ever we welcome your views on the issues it addresses.

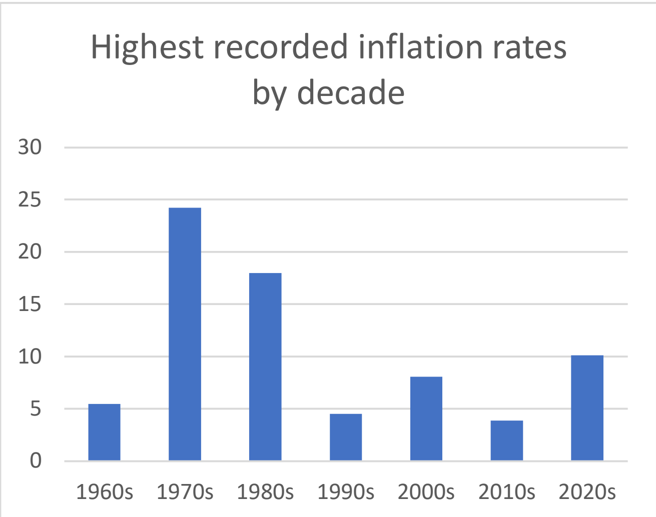
What is the cost-of-living crisis and who is worst affected by it?

Inflation is a term used to describe a situation where a general increase in prices reduces the purchasing power of money. As the price of the goods and services increases, and we become aware of the need to spend more to maintain our quality of life, so it appears that the 'cost-of-living' has increased.

High inflation is not a new thing. Older readers of this report will remember the 1970s and early 1980s when – driven by rising oil prices due to war and revolution in the Middle East – inflation frequently reached double figures and peaked at 24%. But in the decades that followed we have become used to a far lower rate, which makes recent developments feel alarming.

At the time of writing (September 2022) inflation is at its highest since 1982. It has entered double figures, and we are already beginning to notice its effects on our household budgets. In June 2022, 88% of adults surveyed by the Office for National Statistics reported that their cost of living had risen over the past month – up from 62% in November 2021.

As in the past, the root causes of inflation are international. There is a global shortage of the materials and energy on which the production of everything from



fizzy water to double-glazed windows depends. Access to them has to be secured by paying more. The increase in production costs is passed on to the consumer.

> ***"If the Pandemic crippled the global supply chain, the war in Ukraine knocked it to its knees."***
>
> **Forbes**

The Covid-19 pandemic is largely responsible, having had a hugely disruptive effect on supply chains. For example, factories in Asia produced fewer semi-conductors during lockdown, which are essential components of everything from washing machines to cars. Lost production from coal mines in the far east has led to a scrabble for alternative energy sources, resulting in higher prices for liquid natural gas. Cutbacks in freight capacity made during the time when the world economy was in the doldrums have yet to be made good, leading to higher shipping costs.

Since early 2022, the war between Russia and Ukraine – and associated sanctions – has further disrupted the supply of a range of essential commodities such as oil, gas, wheat, corn, sunflower seed and semi-finished iron products. It is estimated that more than 600,000 businesses rely on these worldwide. And it has also had a major disruptive effect on east-west trade routes.

And for Europe and the UK there are further drivers of inflation. The extent of the national disruption to supply chains arising from factors such as labour shortages and increased border controls due to Brexit is the subject of some debate, particularly in the post-Covid-19 context. There is some evidence that they are easing, although the vexed question of trade with the island of Ireland has the potential to create fresh problems. Less arguable is the detrimental effect of an increase in natural gas prices particularly as Russia chokes supplies to deter the West from supporting Ukraine. Inflationary pressure from energy prices was a factor even before Putin's tanks rolled in: the result of a cold winter in 2021, disrupted production of gas and other fuels during the Covid-19 pandemic and calm weather affecting wind power generation. Although the UK imports relatively little gas from Russia compared to the rest of Europe, it is particularly vulnerable to an increase in wholesale prices as nations compete for a limited supply.

Finally, our problems may be exacerbated by concern about the underlying health of the UK economy leading to a fall in the value of the pound which pushes up the cost of vital imports.

Around 85% of UK households are heated by gas, and gas generates a third of our electricity. The main protection for consumers against the rise in wholesale prices being passed onto them is a price cap introduced in 2019 to limit the maximum that can be charged for household energy. But there is now massive pressure for this to substantially increase, meaning that without a freeze on the increase a typical user's bill is likely to rise from £1,277 a year in March 2022 to £4,266 in March 2023. Unpublished figures from the University of York (reported in the Guardian on August 18, 2022) suggest this would push two-thirds of households into fuel poverty with the North East among the worst affected regions.

> ***"Inflation has increased so rapidly in the past few months, more of people's money has been diverted to food, utilities, petrol and other non-discretionary spending…"***
>
> **Price Waterhouse Cooper**

Awareness of rising inflation is already beginning to affect consumer confidence. Research by YouGov and the Centre for Economic and Business Research suggests that many of us are now taking a hard look at our personal finances and expecting them to get a lot worse in the coming year.

It is likely that the better off will be able to weather this period of high inflation without too much pain. They can respond to the rising cost-of-living by simply working a few more hours, cutting back on luxuries or delaying larger purchases. If things get tough, then dipping into savings and other assets is an option. In all likelihood it is only the worst-case scenario of a period of hyperinflation – such as in Germany in the inter-war years when the annual rate topped 29,000% in 1923 – that could truly overwhelm those in the higher income groups.

But for a substantial proportion of the population, financial ruin is already a more realistic prospect. Around 4 in 10 people surveyed by the government in 2022 were beginning to struggle with paying their bills, and a similar proportion had savings of under £1,500 to fall back on. Many are already leaning on credit rather than savings, with marked increases in consumer borrowing reported despite increasing interest rates.

Poverty levels in the UK have been increasing since the turn of the century. Between 2003 and 2020 the number of those in deep poverty (i.e. living on below 40% of median income after housing costs) rose from 4.7m to 6.5m. For people in poverty, or at its margins, the cost-of-living crisis has come at the worst possible time. Covid-19 has already stretched their financial resilience towards breaking point. The economic disruption it created affected this group particularly severely. Many low-paid workers in industries ranging from hospitality to food services and construction lost their jobs or had their hours reduced and some struggled to take advantage of the benefits available.

Substantial extra help was provided through the benefits system to existing claimants, but some of it did not always get through to those in need. Despite the introduction of supermarket vouchers as a substitute for free school meals in 2020, research by the University of Essex in that year suggested that nearly half of eligible children had missed out. And disruption to fragile household budgeting combined with an increase in expenditure on essentials particularly for those unable to access services and families with children.

Low-income families were managing on tight budgets long before inflation added to the pressure on them. The necessity of choosing between 'heating and eating' is often referred to. Such a stark choice is rarely made in practice because most people have to cut back substantially on both. In March 2022 YouGov conducted research for the Trussell Trust which found that a third of Universal Credit recipients had eaten once or not at all on one day in the previous month, and a third had not been able to afford to heat their homes for more than four days during the same period. Research with UK parents paid less than the Living Wage by Survation for the Living Wage Foundation in late 2020 found that 27% regularly skipped meals to save money and 20% had been unable to heat their homes for financial reasons.

As inflation rises, it will become increasingly harder for people to find a way to muddle through. Some may already be working as many low-paid hours as they can but with small, if any, pay rises and the ever-present spectre of job insecurity. Others will find their benefits paid at rates that are likely to lag substantially behind rising prices. The extra costs if someone is disabled in the household will mount. Informal sources of financial support – family and friends – may have already been exhausted. Once credit from legitimate lenders dries up 'loan-sharks' may be seen as the only option, leading to severe and long-term financial hardship.

And belts can only be tightened so far. Low-income families spend a greater proportion of their household budget on essentials that can't easily be cut back like fuel for heating and food. These are the very items where there is currently the greatest increase in prices. Above we talked about the prospect of double-digit inflation for all goods and services, but in relation to the items that matter most to poorer people we are already there.

Steering a course through the current crisis is, of course, a task for government. A freeze of the cap on fuel prices, alongside cuts in taxes, and measures to stimulate economic recovery appear to be the favoured option. But this is not a guaranteed way out of the cost-of-living crisis. Early analysis suggests the measures will support better-off households more than the poorest (who may also be subject to benefit cuts) – and then only for a limited period. With the economy weak, and business and consumers perhaps losing confidence in a quick recovery, there is a risk that it could simply raise concerns about government finances whilst driving a further increase in inflation by weakening the pound and raising interest rates. A prolonged cost-of-living crisis might result.

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Regional economic challenges, the long-term implications of Covid-19 and the cost-of-living crisis in North East England

Rising inflation and the cost-of-living crisis will seriously affect households across the UK. But to understand why North East England is likely to be particularly badly hit, we need to look at how its effects will be amplified by our region's economic challenges and the long-term impact of the Covid-19 pandemic here.

Regional economic challenges

As part of its Economy 2030 enquiry, the Resolution Foundation and the Centre for Economic Performance at the LSE recently published two papers on the UK economy's prospects for the coming decade and the long-term impact of Brexit.

The enquiry team concludes that the cost-of-living crisis is symptomatic of a longer-term problem arising from low productivity since the early 2000s which led to stagnating household incomes and consequently low levels of financial resilience (i.e. lack of savings to act as a cushion against inflation). They argue that once the cost-of-living crisis ends, the priority should be to encourage growth, raise living standards and build the financial resilience of the population.

> *"Slow growth is always a problem, but even more so when lower-income households lack financial resilience…"*
>
> Resolution Foundation

Brexit is seen as making this task more difficult. Its short-term impact on the value of sterling (and thus the cost of imports) and business confidence is seen as making our inflationary problems worse. And in the longer-term it is feared that disruption to trade with the EU will lead to a greater focus on production for our domestic market. This could inhibit competition and productivity, limiting the scope for wage growth and increased financial resilience.

Of course, our economy's underperformance when we were members of the European Union suggests retaining membership would not have been a panacea. And some economists have argued that Brexit was essential to reinvigorate the economy – an opportunity to shake free the burdens of regulation and be more exposed to the stimulus of international competition. The Conservative Government that delivered Brexit certainly rejects the notion that it will lead us into the doldrums. They argue that we are now free to act in the national interest in areas such as mergers and acquisitions, the support and regulation of investment financial services, business and innovation, tariffs and income /export controls and overseas trade. They see the opportunity to create a globally competitive economy delivering high productivity and lucrative jobs for both British citizens and overseas workers with essential skills.

Whether one is optimistic or pessimistic about our future, the laws of economic gravity perhaps suggest that the key to future prosperity will be to re-establish settled trading relationships with the European Union, as well as opening up new markets further afield, using whatever freedoms are available to us post-Brexit to improve our productivity and competitiveness. That is a big long-term task and, in the meantime, it is hard not to agree with the 2016 assessment by global management consultants McKinsey which suggested that we are likely to face a period where the challenge of helping underperforming regions of the UK will be considerably harder.

Which brings us to North East England. Here there is no lack of vision or energy when it comes to confronting the challenge of building the high-productivity, high-wage regional economy that would ensure people had more of a cushion against spiralling inflation. The region's Local Enterprise Partnership (LEP) – a public, private and education sector body driving economic development across most of the region with the exception of Teesside –

has a comprehensive strategic plan. Its focus is on nurturing businesses in areas like advanced manufacturing, digital, energy, and health and life sciences that have the potential for high productivity and success in world markets whilst skilling up the regional population to take up the opportunities these will create for high value jobs.

> *"Improving skills in the North East workforce is fundamental to our economic future, underpinning our aim of creating 100,000 jobs by 2024, and ensuring that the majority are 'better' jobs."*
>
> Michelle Rainbow, North East Local Enterprise Partnership

But it is clear that the challenge is a significant one. In 2021 the LEP's 'Our Economy' report flagged up that, despite some progress, the region was still struggling to increase its overall productivity compared to the rest of the country, reflecting the limitations of the regional labour force and a relatively low (though increasing) proportion of jobs in innovative, high productivity businesses. And the additional challenge presented by Brexit nationally will be keenly felt here, requiring businesses to overcome barriers to trade with Europe – to which half of their exports by value are destined – while looking to open-up alternative global markets. And if the rate at which good jobs are increasing in the region needs a considerable boost, so too does the development of a local workforce that can take advantage of the opportunities they represent. The legacy of high unemployment and health inequalities is a major barrier to progress, and the skills deficit is remarkable with overall qualification levels low, particularly in key areas like digital.

A struggling regional economy means both a lower employment rate, and a prevalence of unstable, low-paid work. Benefit dependency, combined with an average gross weekly wage of just £528 compared to £606 in England as a whole, leaves little scope for many North East households to build a cushion against increased living costs. The number of low-income households in the region has increased over recent years to around 657,000 and it is therefore unsurprising that research by Oxford Economics found that North East England has the lowest level of financial resilience in the UK: the average value of household savings here, in particular, is just £21,165 compared with £41,469 in the South East. So the problem of low financial resilience is a long-term one and it is likely that the cost-of-living crisis is going to present a harder, more protracted challenge for North East England.

The long-term implications of Covid-19

Until recently most of us were used to seeing infectious disease as a manageable threat to our health and way of life. The highly lethal and hugely disruptive Spanish Influenza pandemic of 1918 was little more than an historical footnote at the time of its centenary. But amongst those with a knowledge of the science, there was less complacency, particularly in relation to influenza. The potential for a lethal new variant to emerge – perhaps in response to changes associated with climate change – and rapidly spread in our interconnected world made it the focus of growing concern even after the apparent false-alarm of Swine Flu in 2009. The consensus was – and remains – that a 1918-style influenza pandemic is coming, we just don't know when.

But in the event it was Covid-19 rather than pandemic influenza that presented the world with the first great public health challenge of the 21st century. Its cause was a new coronavirus originally identified in China in late 2019 that often induced only mild symptoms amongst sufferers, making it well-adapted to spreading along fast and far-reaching travel and trade routes. The major threat it posed arose from the combination of high transmissibility with the capacity to induce serious or long-term illness in a minority of those infected.

The UK has had the 6th highest number of Covid-19 cases in the world. At the time of writing there have been nearly 24m, with around 2m leading to long-term health complications ('Long-Covid'). In 2020 and 2021 the rate of infection was such that the disease accounted for 12% of deaths, making it the leading cause in England and Wales mentioned in the death certificates of just over 200,000 people. Long-Covid has been most prevalent in people aged 35-69, females, people in deprived areas, people with long-term health issues and disabilities, teachers and health and social-care workers. Deaths are highest amongst older people, people with pre-existing health conditions, those with physical or learning disabilities, residents of deprived areas, obese people, men and some ethnic minorities. The causes underpinning these vulnerabilities have yet to be fully identified. It is likely that disparate groups are sometimes affected by the same underlying factors such as pre-existing health issues which are more common amongst poorer people, ethnic minorities, disabled people and the elderly. The degree of vulnerability of these groups has also varied as the pandemic progressed, shaped by changes in the virus, public health interventions, better treatments and, above all, the availability of safe and effective vaccines.

The response of modern medicine to the challenge of Covid-19 has been extraordinary with tests, treatments and vaccinations developed within very short timescales. Nevertheless, until these were developed and rolled out, the only viable means of infection control was the imposition of physical barriers between people. The most powerful measure was the series of lockdowns in 2020-2021, which worked well to reduce rates of infection. The merits of these will be long debated, there being an obvious trade-off between the need to curb the pandemic and the social, health and economic impact of shutting down large parts of society and the economy.

The impact of UK lockdowns in 2020-2021 cannot be easily separated out from those of the pandemic as a whole, but they certainly underpinned a significant economic downturn. This hurt some sectors more than others. Retail, hospitality and tourism took a significant hit of course, but manufacturing was also hit by lower demand and supply-chain issues such as those affecting microchips. The blow to business was, however, cushioned by the furloughing scheme for employees and other Government financial grants and loans. This helped the economy to bounce back relatively quickly as the disease abated, albeit hampered by the requirement to self-isolate, supply problems and labour shortages in key areas such as haulage. However this recovery is now slowing. This is partly due to the impact of rising inflation, driven largely by increasing energy prices following the invasion of Ukraine in February 2022, along with the persistence of labour and trade issues arising from Brexit. But it also reflects the 'long tail' of the supply problems caused by lockdowns in China and elsewhere and labour shortages created by older people opting to leave the labour force during the pandemic.

If North East England were a country it would have the 12th highest death rate per 100,000 people in the world – slightly worse than Romania.

Having arrived in North East England early in 2020, the virus has infected at least 925,578 people (one third of the region's population) of whom over 50,000 were ill enough to be admitted to hospital and 9,285 sadly did not survive. This gives us the highest case rate, and second highest mortality rate, in England. To put this in context, if North East England were a country it would have the 12th highest death rate per 100,000 people in the world – slightly worse than Romania. The regional economy took a similar hit to that of the country as a whole, albeit that the reversal of fortunes was less marked as growth was already sluggish. As for the UK as a whole, the difference in impact between different sectors was remarkable: accommodation and food services were particularly badly affected for example, but information and communication did fairly well. And recovery from the pandemic was relatively fast, albeit from a very different baseline, with business confidence boosted by news of major investments in the region. In early 2022, the expectation was of a return to growth, albeit at a rate behind much of the UK. However, as for the UK as a whole, optimism has since been dampened by supply chain issues, recruitment problems, skills shortages, the additional burden associated with trading as a non-member of the EU and the growth of inflation fuelled by high energy costs.

As we emerge from the Covid-19 pandemic, there are some indications of the longer-term challenges it has left in its wake. In the long-term the pandemic may deepen the productivity gap by reducing levels of economic activity – particularly if the long-term health impacts of the disease are significant in communities where levels of long-term life limiting conditions are already high.

And there are more immediate concerns about further difficulties getting in the way of building a more qualified workforce. Improvements in educational attainment have had a setback. A recent Sutton Trust report, for example, highlighted that two years' disruption to schooling is likely to result in long-term damage to the prospects of disadvantaged pupils, of whom there are many in our region. For young people just coming into the workforce Covid-19 has, of course, often disrupted their progress. Unemployment due to Covid-19 was more likely for younger members of the labour force, and progress within work was set back by long periods of inactivity or underinvestment in training. And there appears to have been a particular issue with disruption of apprenticeships.

None of this is helpful to the challenge of skilling people up to take advantage of the opportunities created by post-Brexit labour shortages in areas like agriculture, food processing, hospitality, tourism, logistics, construction and healthcare or making progress in areas where there is a local shortage of skilled workers. And local people's ability to access jobs could increasingly be affected by wider competition. Greater awareness of remote working's potential has opened up the possibility that more firms located here could look to people living beyond the region for the skills they require, such that expansion in sectors conducive to remote working might not benefit the region as much as anticipated.

The claim that the pandemic might force some fundamental change in where or how we work may be overstated, but it highlights the importance of addressing a regional skills (and infrastructure) deficit in relation to digital which could put-off inward investors interested in hybrid working. And partial shift away from full-time office working as the norm does seem to be underway with significant implications for service sectors such as hospitality and retail, areas of the economy that have traditionally provided employment suited to the nature of the regional workforce. To these potential difficulties may be added the significant negative impact of an expansion of digital retail on traditional shopping venues.

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How the cost-of-living crisis will play out in North East England

We have suggested above that North East England is likely to experience a longer, deeper cost-of-living crisis than many other parts of the UK. In this section we look at how this will affect individuals, communities and community organisations

Earlier on in this report we looked in some detail at why the cost-of-living crisis is likely to be deep and protracted in our region. We identified a lack of financial resilience born of the long-term weaknesses of the regional economy which have resulted in high unemployment, a prevalence of low-paid work and consequently a lack of adequate household savings.

As inflation escalates we can expect to see **more adults and children living in, or on the margins of, poverty** as benefit income and wages fail to keep pace with the cost of everyday essentials. This will affect those on benefits and an increasing number of those in work. Those already at a disadvantage in the labour market will be disproportionately affected. Joseph Rowntree Foundation research in May 2022 noted 'the number of people in Black, Asian and minority ethnicity groups in very deep poverty is growing' and this trend could accelerate.

Children are amongst those most likely to live in poverty. Between 2015 and 2021 the percentage of children in poverty in the North East rose by 12%, even as rates fell for the UK as a whole. There is evidence that this included a rapid growth in those in families where a parent/carer was in work. Loughborough University estimates that North East England is now the region with the highest child poverty rate in the UK (38%), meaning that in a classroom of 30, around 11 children will be living in poverty. In 2021, one third of Parliamentary constituencies here had even higher rates, including Newcastle Central (48%); Gateshead (42%); South Shields (42%); Washington and Sunderland West (41%) and Sunderland Central (40%).

Alongside this we will also see **an increase in problem debt** as limited savings are consumed by the gap between income and rising expenditure. And, as with poverty, the region enters the crisis in a weak position. In 2018 – before Covid-19 added to the pressures on family budgets – the Money Advice Service reported that the North East had England's highest proportion of people unable to meet bills or credit repayments, with insufficient services to meet demand particularly in Sunderland and Newcastle. And there has been a consistent year-on-year increase in the number of people in the region requiring support with problem debt in since 2019. About 10% of people here urgently need debt advice and, as cost-of-living crisis hits, it is likely they may be joined by a further 20% currently at risk of serious debt problems.

> *"Doctors reported…a patient being unable to afford transport to hospital…a woman whose ulcers…were made worse by her house being cold…"*
>
> Andrew Goddard, Royal College of Physicians

As individuals, families and communities come under increased pressure we will unfortunately see a range of problems emerge. There is likely to be **a further deterioration in physical and mental health** in the region as a result of the lack of money for food or heating and increased financial worries. A study commissioned by the Royal College of Physicians suggested that more than half of British people feel that their physical health is being affected by the crisis, with around 25% able to confirm this with a medical diagnosis. The national charity Mental Health Concern has reported that a third of those accessing its crisis services are now doing so for financial reasons. The situation is likely to be worse in North East England where health is generally poorer than elsewhere.

Older people and the disabled people may be particularly at risk due to a combination of pre-existing health conditions, benefit dependency and being more confined to their homes. A survey for Age UK in January 2022 suggested that the majority of pensioners have concerns about the cost-of-living crisis, with around a quarter expecting they will have to cut back on food to heat their homes as fuel prices increase. More recently, over half of 14,000 people surveyed by the organisation identified the cost-of-living crisis as one of their major concerns – twice as many as prioritised social care. The University of Bristol found that 29% of disabled households were in serious financial difficulties, with 48% having struggled to keep their home warm in the past year. The combination of age and disability was particularly disadvantageous: 60–69-year-olds were four times more likely to be in serious financial difficulty than the general population.

People in poverty and severe financial difficulties are likely to be stressed, and so we may also see **an increase in problems associated with pressure on family relationships** which may already have become strained during the Covid-19 pandemic.

> *"What struck me the most was a fostering community struggling for its very existence and children, many of whom have been taken out of poverty and scarcity being plunged back into it."*
>
> Sarah Anderson, FosterWiki

The most obvious of these problems is the breakdown of couple relationships. Evidence gathered by relationship support charity Relate after the 2008-9 recession suggested that couples severely affected by that crisis were eight times more likely to suffer relationship breakdown. The scale of this is less measurable by consulting divorce data than it once was because there are greater levels of cohabitation. But of course not all breakdowns result in separation. When times are hard it may be more daunting to leave a partner, since relationship breakdown is a major reason why people fall into poverty.

Where there is domestic violence, victims may be trapped in abusive relationships by the fear of destitution. A recent report from domestic violence charity Women's Aid found that 73% of women living with and having financial links to an abusive man had been inhibited from leaving by the cost-of-living crisis. Essentially the crisis has provided an opportunity for abusers to tighten their coercive control. Small wonder that 83% of domestic abuse survivors consulted by Women's Aid reported a decline in their physical and mental health since the crisis began.

Poverty, financial hardship and strained family relationships can undermine the level of care provided to those who need it. In a Carers UK survey of 3,000 carers, 45% reported being unable to meet their household expenses, with 75% stressed about their finances and around 40% accruing debt. A major concern is the increasing cost of care essentials like incontinence pads. This level of difficulty will place greater numbers of dependent disabled and elderly people at greater risk of harm, neglect or even abuse. Community Care – a magazine for the people working in the care sector – recently surveyed its readers on this issue. They reported mounting concern over safeguarding and that people were already cutting back on medication and essential adult care services to save money. Private residential care home providers are also in a difficult spot. They faced additional costs during the Covid-19 pandemic, and now may have to meet higher wage costs due to staff shortages on top of general increases in fuel and running costs. Only so much of this can be passed on to residents and carers before care-home owners may decide their businesses are no longer viable.

Children in stressed families facing financial hardship are also at greater risk. A recent survey from the British Association of Social Workers found that 75% of professionals expected an increase in the number of children in care as a result of the cost-of-living crisis. And as it struggles to recover from the demands of the Covid-19 pandemic, the care system itself may be in serious trouble. The same survey found 55% of social workers concerned that their caseloads would become unmanageable. And they aren't the only part of the system facing potential difficulties. Of over 1000 foster carers questioned by FosterWiki it emerged that over half were considering quitting due to financial pressures.

A final area of risk for children is the possibility of homelessness. There has been a general increase in the number of people at risk due to arrears. The number of eviction notices received by individuals and families in Winter 2021 was up by 168% compared to the previous year. With family relationships and household budgets strained, it is likely that more children may leave home voluntarily or be asked to leave. It is hard to quantify the level of youth homelessness in North East England, but evidence suggests that services are generally good at containing a problem that could be far worse. Recently the housing charity Crisis and Herriot-Watt University welcomed increased Government funding for prevention but forecast a significant increase in youth homelessness nationally. It remains to be seen how this will play out in the region. What is clear however is the heightened risks that young people from groups at risk of social exclusion face if they do become homeless (e.g. care-leavers, lesbian, gay, bisexual and transgender people, those with mental health issues or disabilities and ethnic minorities) and the very real threat of sexual exploitation.

And even in the majority of families experiencing hardship where children are not at risk of abuse, neglect or homelessness, there can be long-term harmful effects. The Royal College of Paediatrics and Child Health has flagged up the link between deprivation and a range of adverse developmental, health, educational outcomes. These, as we have seen, are likely to limit individuals' ability to both contribute to, and benefit from, the future prosperity of our region.

A final potential problem may be **an upsurge in anti-social behaviour and crime.** Press reports suggest that police are preparing for a rise in acquisitive crime, the possibility of an upsurge in drug-dealing and sex-work, online fraud, public order problems and even an increase in corruption within their ranks. It may be sensible to do so, but in reality the relationship between hard times and levels of crime is rarely as straightforward as one might think. And currently the situation is complicated by the end of the pandemic: a rise in crime may be experienced as the criminal fraternity make up for lost time.

Nevertheless one may agree with Kim McGuinness, the Northumbria Police and Crime Commissioner, that we should now worry both for those in hardship who may become so desperate they would consider choosing a path of crime and their victims if they do. And it is not hard to see how going hungry, being cold and living in a household where relationships are increasingly stressful could fuel an increase in anti-social behaviour.

There is a particular risk that resentment about a decline in living standards, and perhaps a tightening of access to public services, could be taken out on those socially marginalised groups that are easy and visible targets from disabled people to rough sleepers and asylum-seekers.

The result of this increase in social problems and tensions is likely to be greater demand for public services. But, of course, public service providers are also affected by increases in inflation which erode the spending power of the money they have for services. Cuts designed to control spiralling costs are very much on the cards, and so it is likely that there will be both unmet need and additional pressure on charities to fill the gaps.

Consequently it is inevitable that **charities will face increased demand alongside the emergence of major financial challenges.** Some organisations are facing this situation in reasonable shape, but others are already struggling. The impact of Covid-19 on the region's charities, as elsewhere, varied. Some saw income slashed by losses from sources like events and room-hire during lockdown, while others received an unexpected boost through securing funding for new services related to the pandemic. Smaller charities – often dependent on one or two sources of income – were perhaps more prone to ‘bust or boom’ as a result.

Now as inflation spirals, increased running costs and demands for wages to keep pace with increased household budgets will need to be covered somehow. The latter isn’t only a priority because nobody wants their staff to become part of the cost-of-living crisis problem. Charities are finding it increasingly hard to recruit the right people: losing staff and being unable to replace them would be a false economy.

Whilst the impact of inflation is a problem for charities across the UK, the situation is likely to be worse in North East England. In a generally less well-off region, where financial resilience is low, there is likely to be a fall in revenue from general donations and greater demand for the limited pot of grant funding available. Even if a grant is secured for a year or two, its real value will decrease with each day of high inflation that passes.

> *“The value of donations, reserves, and pre-planned income from contracts are being eroded, making many existing services increasingly unviable at a time when demand for support is soaring…”*
>
> Naomi Chapman, New Philanthropy Capital

Well-managed organisations may be able to weather the storm through careful financial management and a strategic approach to filling the funding gap. But many more will struggle unless they receive additional support, and there may be a narrow margin for error. The Community Foundation’s own Third Sector Trends research tells us that charities in our region had relatively low levels of reserves before the demands of adapting to Covid-19. And even organisations that showed financial competence by ‘doing the right thing’ and seeking to diversify income streams will face challenges. Finance from contracts may erode if their terms cannot be renegotiated or disappear altogether if emergency cuts have to be made by financially challenged local government or NHS contractors. Lower disposable incomes will also hit revenue from sources such as charged activities, venue hire for events and trading in goods and services.

It may be that the sector will receive a funding boost if Government decide one is needed – although this seems less likely than during Covid-19. And we know that our sector is resilient, having weathered several crises where the future looked bleak. But from our experience following the financial crisis of 2008, we also know that timely and targeted philanthropic support is essential to tide the best organisations over as they adjust to a harsher operating and funding environment.

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Views from the front-line

Here we discuss the cost-of-living crisis with the chief officer of a community organisation dealing with its immediate effects, and a philanthropist working to ensure the region is more resilient in the future.

"How can you make nothing go further?": helping those in need whilst trying to balance the books

Shiney Advice and Resource Project – known to all as ShARP – is based in Shiney Row, Sunderland. Sylvia Copley is Chief Officer of the charity. We discussed with her the history of the organisation, its work during the Covid-19 pandemic, and the challenges now presented by the cost-of-living crisis.

By way of introduction, can you tell us a little about ShARP and the community where it is based?

ShARP was established by a group of local people as a membership organisation in 1981. The project started out providing advice as a tool for community development as local industries declined and levels of unemployment rose. The project worked tirelessly throughout the Miner's Strike and beyond as pit closures and unemployment impacted on local families.

Since then ShARP has developed a range of community activities and volunteering and training to meet local need. The advice service remains at the core of what we do, our experienced Advice Workers are all qualified and we are proud to hold the Advice Quality Standard (AQS) accreditation. We have several advice projects. Advice on Prescription uses social prescribing to deliver advice into 6 GP surgeries in the Coalfields area. Washington Individual Support Project (WISP) provides advice and support through foodbanks in the town. Shiney Housing Advice Project helps with housing benefit and council tax so people can manage housing costs. We also make grant applications to improve people's living conditions, negotiate with landlords about repairs and rent arrears to avoid eviction and homelessness.

Currently demand for our advice service is high. I worry that it will increase significantly over the next months and possibly years due to the cost-of-living crisis.

Like many ex-mining areas there is still a strong sense of community here. People are proud of the area and its history and look out for each other as best they can. This was evident during Covid-19 when local voluntary sector organisations worked in partnership and with the city council to provide practical support to vulnerable people who were shielding, ill, or unable to access online shopping slots etc. The ShARP team worked within restrictions throughout national and local lockdowns. We ran a telephone advice service, and our local staff maintained a service in foodbanks and at our centre for residents in crisis. For many people, this was the first time that they had used the welfare benefit system and it was a shock for them. We helped people who lost their businesses due to lockdown, lost their jobs because they were working zero-hour contracts or weren't eligible for furlough and others who experienced sudden bereavement. We also carried out wellbeing check ins, garden gate visits and deliveries for housebound or older members of the community. The commitment of staff, volunteers and Trustees to our community meant that somehow we kept going.

Local housing here is a mix of private rented and social housing alongside new build houses that are mainly owner-occupied. There are significant pockets of deprivation. Before the pandemic 12,500 people a year visited our centre – and we are building back up to that figure now. We see a lot of people who are unemployed, in low-paid work or on zero-hours contracts. Many miss out on mainstream training opportunities due to transport costs, so we offer training and volunteering opportunities. And we help those who struggle to access online services, for example in relation to making or managing Universal Credit benefit claims, applying for housing or for making job applications.

We see a lot of people with chronic illness – partly the legacy of the old industries – and now long covid too. A lot of our service users have mental health issues like low-mood and depression and may have drug or alcohol dependencies. There has been a significant increase in issues relating to domestic abuse. Many people are socially isolated, and part of what we do in the centre is try to help them overcome the ill-effects of that by providing a range of activities and opportunities to meet other people and make friends. We also see ourselves as providing a bridge to other services like Crisis Mental Health team, Gentoo Together4Children, Adult Services, Wearside Women in Need, Veterans in Crisis, Recovery and Treatment services.

We own our building which is great because that gives us a community base and control over how we use the space to meet community need. At the moment we have a range of activities taking place Monday to Friday plus evening and weekend work when needed. In the centre there is an IT Suite providing free wi-fi and access to computers, the Shiney Community Library and Shiney Things Charity Shop which are both run by a small group of committed volunteers.

We provide space and support to a number of groups including a Knit and Natter craft group and the Shiney Marras – a group of men who meet weekly to socialise, cook and share meals together, chat and also go on outings with support from the ShARP team

How is the cost-of-living crisis affecting the people you work with in Shiney Row?

The pandemic highlighted the gap between poorer people and the rest of society. One of our particular concerns was the experience of children from less well-off households. The pandemic really disrupted their education. Those who needed extra support during the time when learning was happening remotely – the ones that got less help at home, had fewer resources or with limited access to the internet – have suffered despite the best efforts of our local schools. And imagine how it would feel being a child being stuck in lockdown without even a garden to play in. I admire the resilience and tenacity of those young people who persevered, returned to school, and then went through with their exams – an incredible achievement for them and their parents and teachers.

Covid-19 put a lot of people into financial difficulties and adding the cost-of-living crisis to that makes for a perfect storm. Real hardship is going to be unavoidable – there is very little spare money available in the budgets of people with low incomes. I'm particularly concerned about the worst off and those with relatively fixed incomes from pensions, low wages or benefits. People with long-term illness may be particularly vulnerable because of the impact of rising energy costs, for example those who need electricity to operate essential medical equipment or those who are elderly or housebound. I am really concerned that they will cut back on their use of essentials to save money or end up in debt.

In recent weeks there has been a real change in the range of people seeking advice. We are seeing more people in work who are getting into difficulties with repayments on credit agreements, rent and mortgage repayments. Some are working long hours just to make ends meet, and that is taking its toll. Sometimes people find it hard to develop good money management skills and with prices rising as fast as they are it might not take much for people to get into serious difficulties, once their savings are gone - if they have any. Anything from the costs of fixing a broken-down car or washing machine could tip things over the edge.

And actually, I get a bit annoyed when people say that people will be OK if they can just economise. There is only so far you can do that. I mean, how can you make nothing go further?

Do you think you will start to see people in absolute poverty as a result of the cost-of-living crisis?

We are not there yet – but this feels different to other times when things have been hard for our community. We may not be too far off that point. At the moment there is a range of support available to some people through the Household Support Fund, we are helping people with slow-cookers so they can cook cheaply at home – but we are planning things like supplying food directly and providing somewhere warm to go. In a place like Sunderland – where preventable winter deaths due to cold are relatively high – I fear what effect a particularly hard winter would have.

A lot of voluntary organisations are reporting that their own budgets are being strained by increased costs – is that an issue for ShARP?

We kept going right through Covid – that was hard though – I mean, some staff caught covid and some of us lost family and friends. Our funders were really helpful, and we were able to adapt delivery and just carry on.

Like many others in the sector my role had to change during the pandemic to provide immediate support to service delivery. One of the things this meant was that I spent less time on strategy, funding applications and so our plans for growth and sustainability were set back. You know, we actually did see this cost-of-living crisis coming. When I sat down with the Chair and Treasurer and we set a budget, we doubled the amount for utilities. But as it turns out that was too little. So now there is the possibility of a gap in our finances emerging, particularly for core running costs.

Are you expecting to face an increase in your wage bill, alongside other running costs?

It is possible as we have 11 staff. We are a Living Wage Employer and when we reviewed salaries about 18 months ago, we moved pay above that level. But we think there is likely to be pressure on salaries as things like travel costs rise. Our advisers will experience financial pressure along with everyone else, and whilst we can help with things like extra hours, they can't help other people if they themselves don't get any downtime.

How do you think the cost-of-living crisis will affect the community you work in?

I think the range of people under pressure will widen – including pensioners, people in work and homeowners. Some of them may feel upset and ashamed that they have to use emergency support from services like foodbanks.

"I worry that we will get so used to seeing people in hardship that we'll become used to it. And after that we might become blind to it." Sylvia Copley

And alongside that I think it is sad that people will experience a loss of independence. One of the things that gets overlooked sometimes is the effect of financial hardship on individual well-being and development. If you are spending your life struggling to survive – what does that leave you?

I don't know if we'll witness any loss of community cohesion. It's a place where people look after each other. But I worry that we will get so used to seeing people in hardship, we'll no longer be shocked or upset about it.

And after that we might become blind to it.

"I feel strongly that someone has to do something": building future resilience

It is too late to prevent considerable hardship as a result of the current economic crisis. But we can act now to create a region that will be more resilient in future. A key task is getting people into the kind of better-paid jobs that enable them to build up savings for when times are hard.

Tony Platten had a successful business career building up the Blyth-based electronic engineering company Tynetec and, after selling it, he set up the Platten Family Fund at the Community Foundation. Here he discusses with us the thinking behind his support for projects providing education and training in STEM, digital and physical engineering and for work to promote the North East's engineering heritage

***"I have been doing this for a long time, even when I was in business, because I feel strongly that someone has to do something."* Tony Platten**

What do you think are the biggest challenges we face in relation to building a more productive regional economy and, in particular, one where local people have opportunities for well-paid employment?

There is no shortage of innovative products in the region, and I don't believe there are major barriers to selling them abroad. The real problem is a lack of people with the skills that businesses need to produce them. There will be thousands of job opportunities opening up in South East Northumberland as a result of developments like the Dogger Bank Wind Farm and the Britvolt car battery plant, but I am not sure who is going to be able to take them up! Unfortunately, I think our school system doesn't motivate young people to develop a passion for STEM subjects [science, technology, engineering and mathematics] and vocational training and qualifications are generally undervalued.

What do you hope to achieve then through your philanthropy?

I know I can't solve the whole problem – that is a task for government which needs to invest much more in STEM subjects as well as ensure that more people with the right experience and qualifications are attracted into teaching them.

But there is a group of us older, retired engineers who are committed to getting more young people interested, and actually using their hands to make things again. Part of that is about raising awareness of the fact that our region was once the place to be for engineering innovation. The railways, the national grid and the turbine engine originated in the North East. It's also about teaching them about engineering's importance – about what makes the lights work or how drinking water gets from the reservoir to their house. I'd like young people to see a mobile phone as something they could help make, rather than just something to press the buttons on!

The Platten Fund's Community Foundation grants have supported these aims. For example they've funded the Great North Engineering Experience event designed to attract a new generation into engineering; paid for specialist teacher training, additional activities and equipment in schools and supported activities that connect young people to cutting-edge local companies like Nissan.

Tackling the skills shortage in the North East is a huge challenge. What keeps you motivated?

I have been doing this for a long time, even when I was in business, because I feel strongly that someone has to do something. And I know I've changed people's lives. The other day I was at an event, and someone recognised me and came over to say hello. As a child he'd taken part in one of the electronic clubs that I helped organise at a local high school. After winning a regional electronics competition the school ended up at St James Place for the national final where they met Prince Philip. It turned out that experience had inspired him to go into engineering. Now he's in a senior engineer at a multi-national engineering company. Things like that make the work I do feel worthwhile!

How could your giving make a difference?

The scale of the cost-of-living crisis is huge. Even the massive level of financial support now being provided by Government may not protect us from all its ill-effects. Philanthropic funding is relatively limited; but that doesn't mean it can't make a huge difference. The Community Foundation believes your giving can provide vital support to individuals, families and communities in three key areas.

Helping people, families and communities in crisis

The cost-of-living crisis is driving an increase in poverty, financial hardship and debt. This will have a huge impact on the mental and physical health of those affected. It will increase pressure on vulnerable families, with possible implications for the level of care given to vulnerable children and adults. In some communities there is a risk that it could also fuel a rise in anti-social behaviour and crime, including hate crime towards visible minorities. Charitable giving can support the services that will help individuals, families and communities to weather the storm. There is a huge amount of activity already underway ranging from the provision of welfare rights and money advice to support for children, dependent adults and carers and the provision of activities for young people at risk of being drawn into crime and anti-social behaviour. Supporting such work directly is a good way to make an immediate difference to those in most need.

Vital grant: beds and mattresses for children

A grant of £2,000 from the Reeds Grassroots Fund at the Community Foundation enabled 17 children in Tyne & Wear to be referred to Foundations Furniture and Gardening Project for new beds and mattresses. Some had previously not had a bed at all or were using one that was damaged or unsafe.

Supporting community organisations

Local charities, community organisations and social enterprises are in the frontline of the battle to protect those most at risk from the worst effects of the cost-of-living crisis. But as the demand for their help goes up, so do their costs.

Earlier in this report, we heard how even a well-run organisation like ShARP can struggle with securing increased funding to cover core costs. This is one obvious area where charitable support can make a huge difference, freeing up time to spend on ensuring that frontline organisations can focus on the job in hand.

Vital grant: leasing an electric van

A grant of £18,000 from the Community Foundation's Guy Readman Endowment Fund enabled Cedarwood Trust in North Tyneside to lease an electric van for 3 years. The Trust uses food destined for landfill to help ensure local elderly and vulnerable people don't go hungry. But they were concerned at both the environmental impact and cost of their delivery vehicles. The new van reduces the service's environmental impact and saves the charity money by being cheaper to run.

There are other ways to help too. If charities are to survive then their staff need to have the skills required to take on more difficult areas of work like benefit or debt advice; to ensure that people using services are kept safe or even to use the modern technology that can help organisations work more efficiently. Charitable support can help pay for this, but there are other ways to give too by getting involved with charities as a trustee, mentor or volunteer.

Efforts to become more sustainable financially can also contribute to addressing the climate agenda. Providing funding for things like solar panels and electric vehicles can help charities cut costs now while – in a modest way – helping to avert future problems for the region.

Building long-term resilience

North East England is not simply facing a short-term crisis. It has long-term problems that mean recent national crises – Brexit upheaval, Covid-19 and now high inflation – have a more negative impact. At the root of this is a struggling regional economy, and a local workforce that has yet to fully develop its potential to help turn the situation around. Recent events are laying bare our vulnerabilities, which range from deep health inequalities to marked absence of financial resilience.

Central and local government, together with a range of regional agencies, have sought for decades to invigorate the economy in North East England's. It is to be hoped that the latest iteration of this drive – the levelling-up agenda – does not get lost as we struggle with a national economic crisis.

Philanthropy can sometimes seem unequal to the magnitude of the problem. And yet it can have a very significant impact on the lives of individuals. We have seen, for example, how the Platten Family Fund at the Community Foundation is supporting projects to enable young people to acquire the skills they will need for jobs in the high-technology industries of the future.

Vital grant: English and Maths qualifications

A grant of £2,500 from the Newcastle Building Society Community Fund at the Community Foundation is enabling Blyth Resource and Initiative Centre to provide tuition to 12 vulnerable unemployed people. This will provide them with the basic English and Maths qualifications they will need to find work.

There are many other ways in which local charities supported by philanthropic funding can help individuals overcome the challenges that lock them out of a better future. They can, for example, support people to look after their health and wellbeing, help families that may be struggling to support their children to achieve their potential at school or provide help to those at risk of being excluded from work, education or training opportunities.

Let's talk

We hope that this report will inspire more of you to give to causes that address the cost-of-living crisis and build long-term resilience.

One way to do so is through the Community Foundation's cost-of-living fund:

www.communityfoundation.org.uk/cost-of-living-fund

If you would like to discuss this report and what you could do to help, please contact us:

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Registered Charity No. 700510
Limited Company No. 227308

Author: Mark Pierce

Date of publication: 17 October 2022

Cover image: Cedarwood Trust