

Third sector funding and spending

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Background

This is the first in a series of research briefings which outline the headline findings of SCVO's 2014 panel survey, and gives an overview of how the third sector funds its work and where it spends its money. The figures are based on detailed analysis of annual accounts from charities, housing associations and credit unions covering the 2012-13 financial year.

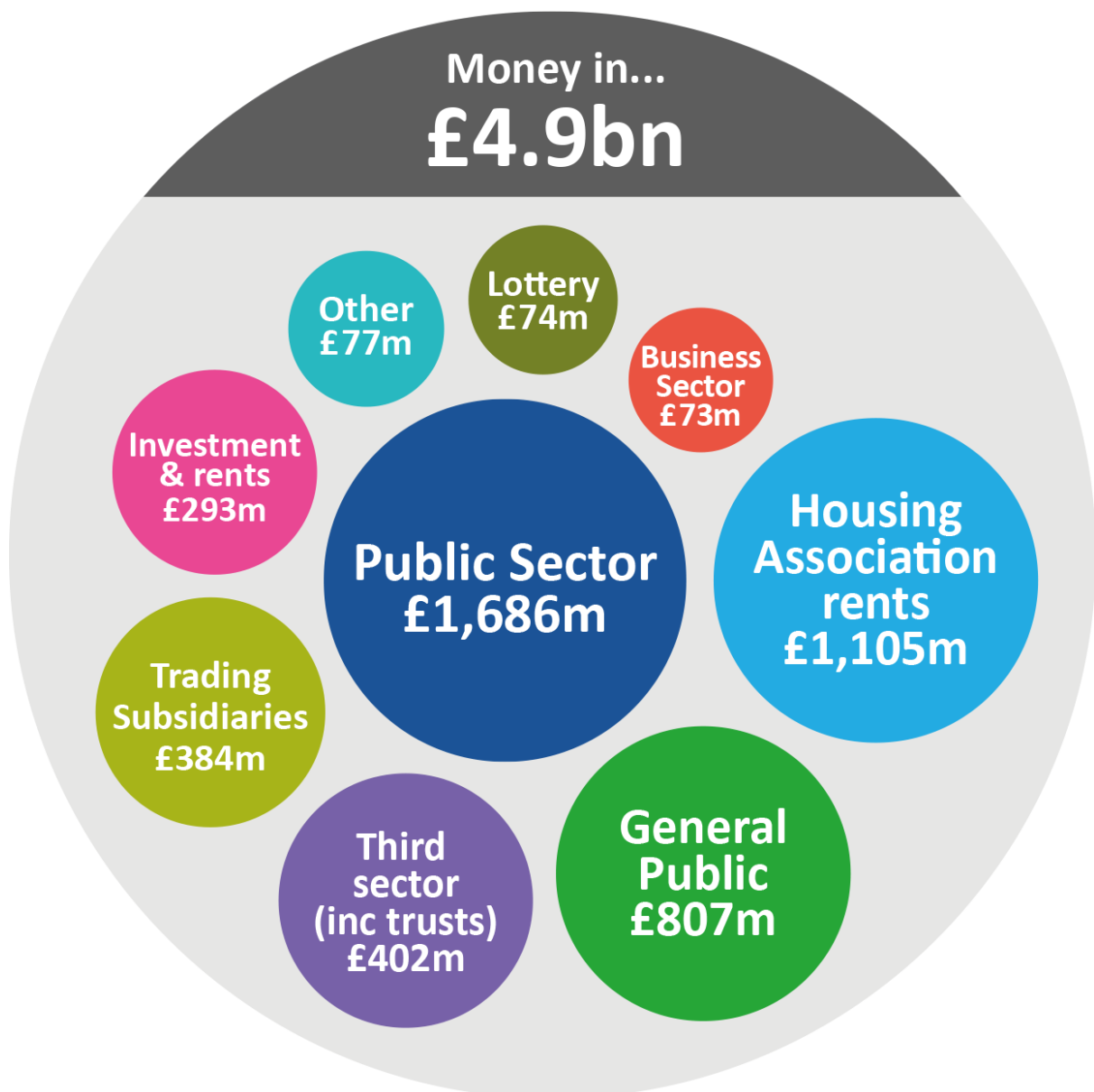
It contains new data on the Scottish third sector's income and spend patterns, including for the first time ever detailed breakdowns of key statutory income streams, trends in voluntary and self-generated income such as trading, and key expenditure areas.

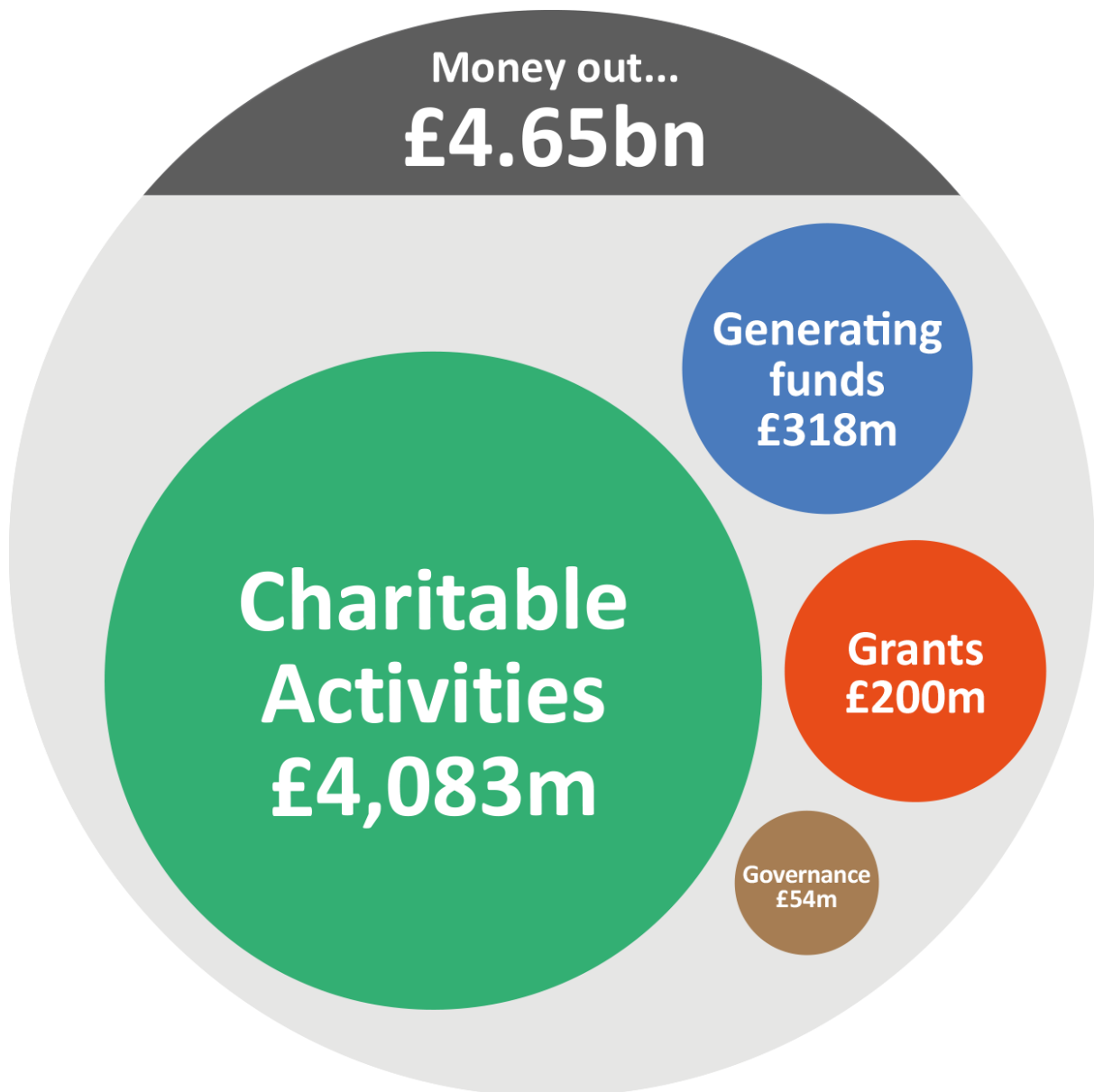
Income and spending snapshot

The third sector's main income sources in 2013 included the public sector, the general public (donations and sales), rental income (including housing association rents), grant making trusts, trading income and investments.

Over 90% of the sector's spend was on direct charitable activities and grant-making, including associated staffing costs. The remainder is spent on publicity and fundraising, trading costs and governance.

A small amount of surplus (5% in 2013) was retained for future use – to be spent on ongoing and new projects, and to be saved up for purchasing equipment and facilities. New grant-making charitable trusts also influence the picture, with substantial initial investments being made that will gradually be released as grants over future years.





Key trends

➔ Income has plateaued for most organisations, with an average growth of only 0.8%, well behind inflation

⬇ Public sector funding cuts have started to make themselves felt

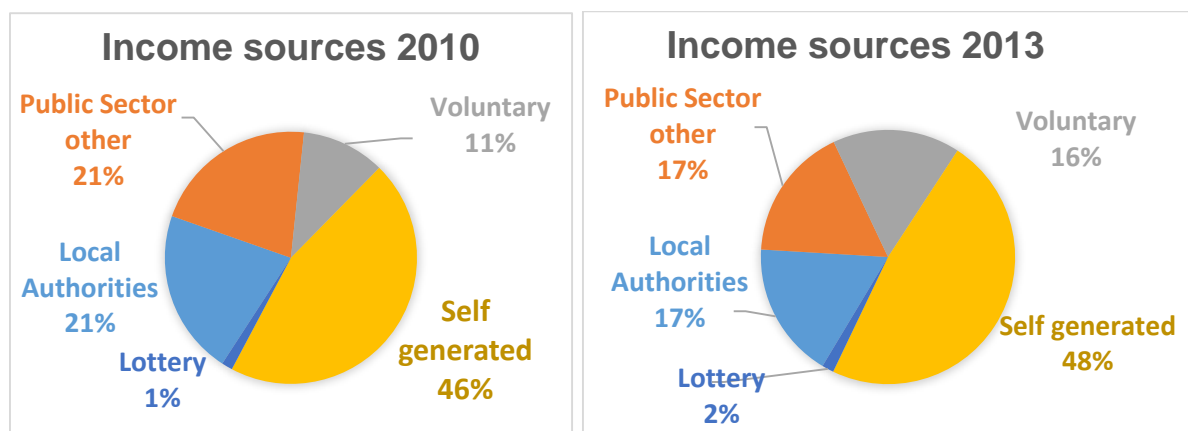
⬆ Increased donations and self-generated income have helped shield many organisations from government funding cuts, but not all organisations are coping so well.

↑ The sector is adopting increasingly complex funding models and chasing multiple income streams in order to stay afloat.

Income trends

Necessity and innovation have been the two key drivers for changing funding patterns. Organisations are developing new projects and funding sources to meet funding cuts but they are also at the forefront of new developments such as reshaping care, piloting innovative solutions to urban and rural regeneration and creating local attractions, jobs and opportunities.

Between 2010 and 2013 there has been a shift from public sector funding to voluntary and self-generated income. As the following graphs show, public sector income dropped from 42% to 34%, while voluntary income increased from 11% to 16% and self-generated income increased from 46% to 48%.



↓ Government funding to the third sector has been slashed

- The squeeze on public finances and predicted spending cuts are now starting to show, with more cuts expected to follow
- Funding from government has dropped by £185m in cash terms
- Government funding plunged from £1.87billion in 2010 to £1.68billion in 2013 – a 10% cut in cash terms
- Taking inflation into account, this is a reduction in real terms of £376m and a cut of 18%
- The sector now receives only 34% of its funding from the public sector, down from 42% in 2010
- The sector is becoming less reliant on public sector funding

↑ Donations are now significantly up, reversing the trend of recent years

- The sector now gets 11% of its income from general public donations and fundraised income.
- Donations totalled £537m in 2013. This is an increase of £66m on the previous year

- Donations showed a huge 106% increase on 2010 levels when donations totalled only £261m.
- The increase is due to:
 - Increased funding drives by organisations
 - Increased sympathy and support for the sector's activities leading to a general rise in donations across the population, locally and nationally
 - Increase in philanthropy, including large donations from wealthy individuals to set up grant-making trusts

↑ Self-generated income sources such as trading, sales, rents and investments have also increased by over £150m in the last year

- Many organisations have invested in developing their trading income, including setting up trading subsidiaries and exploring options around enterprise and rental incomes
- Historically low returns on cash held in the bank and investments are now seeing a slight recovery

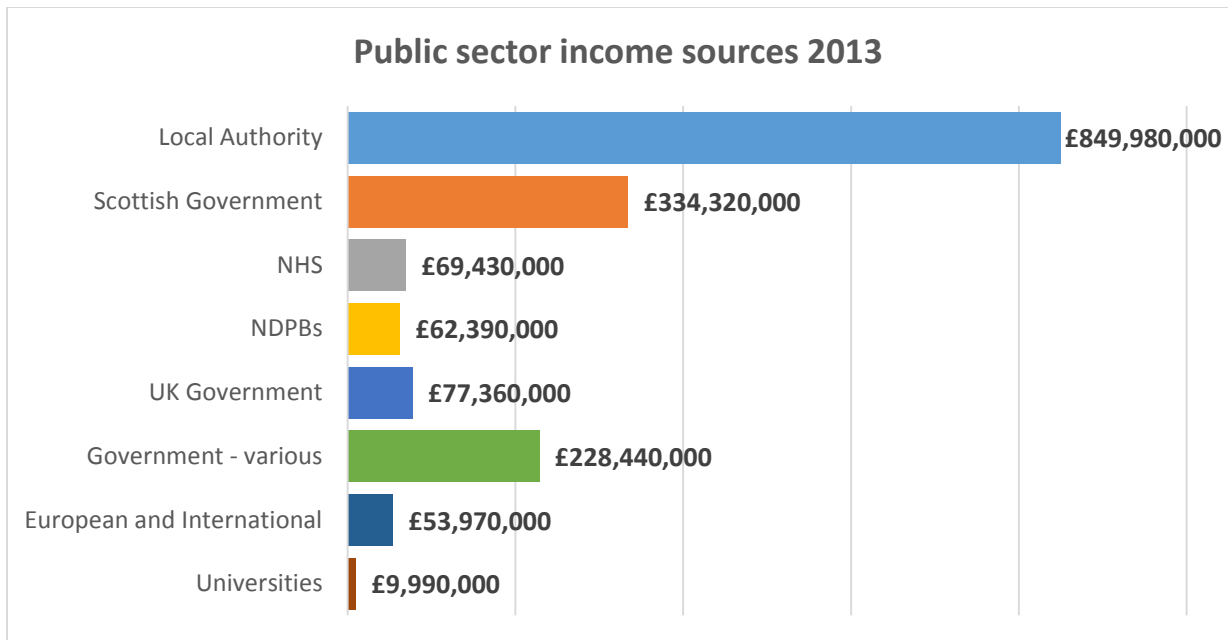
Spending trends

Stretched third sector organisations are spending most of their cash on direct charity activities (such as staff costs, equipment, materials and utilities etc.):

- 90% of spending is now on charitable activities, including grant-making (£4.3bn in 2013)
- Increased spending on day-to-day running costs has been a necessity but this reduces money available for longer-term planning and new developments. This is building up problems for the sector's sustainability, capacity, staff development and its ability to meet rising demand

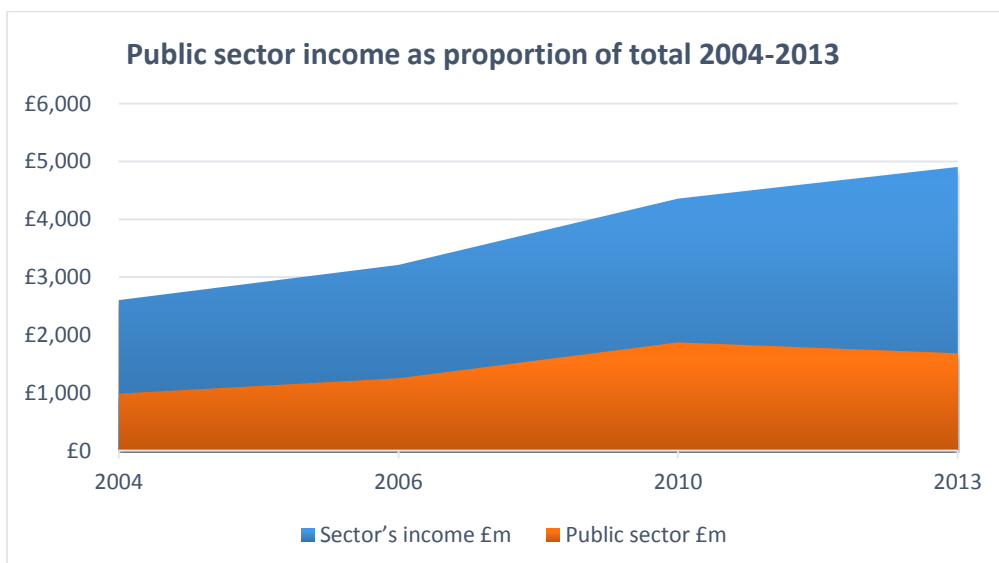
Public sector income breakdown

Local authorities account for half of the sector's statutory income. The Scottish Government is the second largest funder, accounting for 20%. The rest is made up from Non-Departmental Public Bodies, NHS and UK Government. Multi-agency partnerships and unspecified statutory funders make up the other 14%.



Public sector funding now makes up around 34% of the sector's overall sector budget. This is a significant drop from previous years, with the sector losing over £376m in real terms between 2010 and 2013.

- Half of this reduction is attributable to local authority funding cuts, with the other half due to cutbacks by other statutory funders
- We are seeing a continuing move from small, no-strings-attached grants to large contracts and service level agreements
- Cuts to small grants programmes are mainly negatively impacting on small and medium sized organisations, but we are also seeing cuts to larger contracts

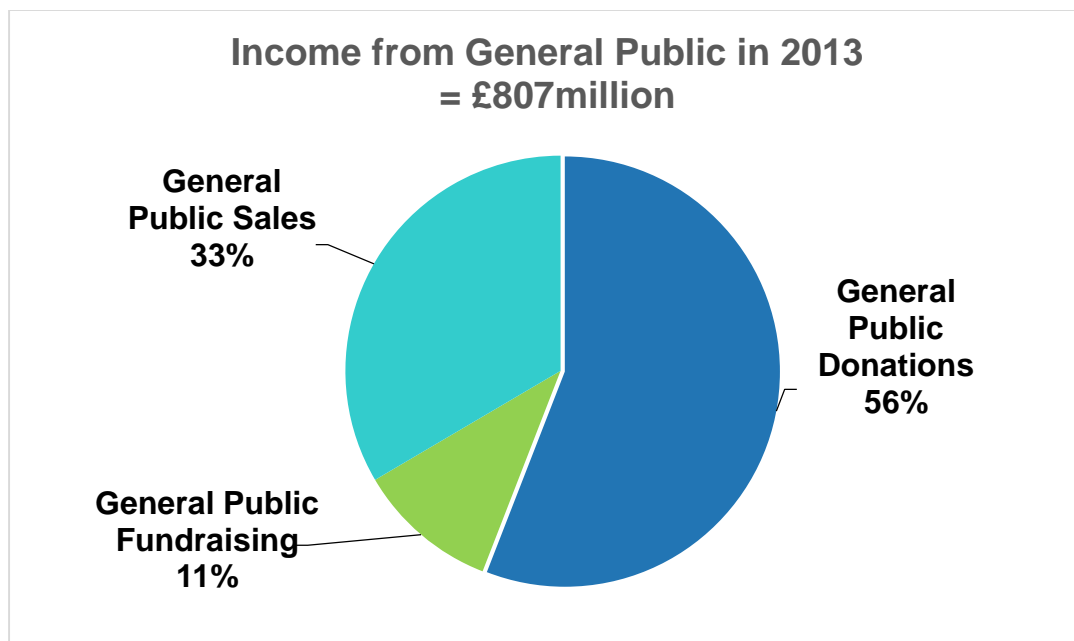


General public

Despite the recession, income from the general public has increased across all types of income, including donated income, fundraised income and sales.

- Donations from individuals have increased by 40% in the last three years, up by over £100m
- There has been a shift from straightforward voluntary donations to more income from fundraising activities, events and sales
- Sales and fundraised income now make up almost half of the income from the general public, and are one of the main way in which individuals fund the third sector. Sales income includes items such as: charges for services, entrance fees, ticket sales, and sales of publications and goods.

Note: a further £384m comes to the third sector via charities' trading subsidiaries, most of which is income derived from sales to the general public.

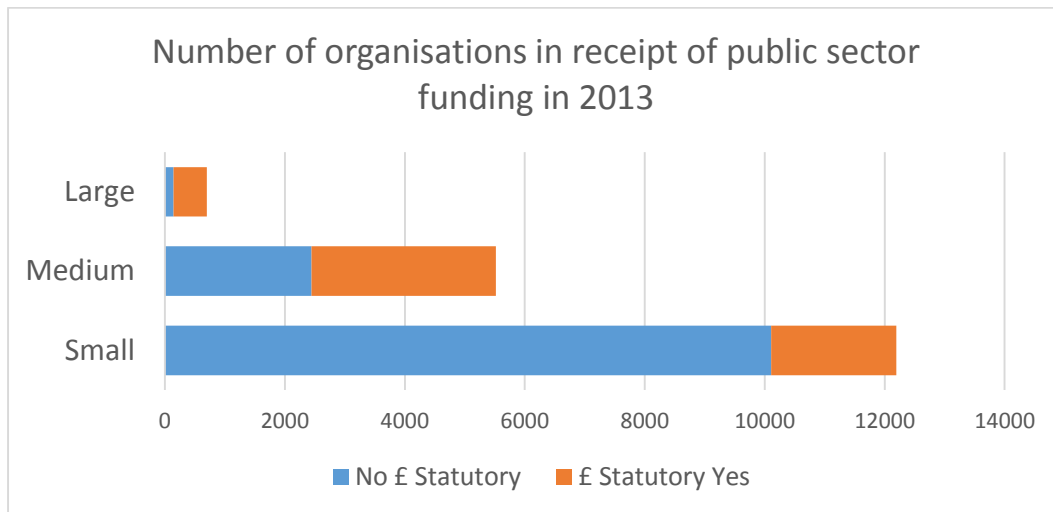


Income sources by organisation size

The income mix for every organisation is unique, but trends have developed depending on income size:

- 69% of third sector organisations in Scotland receive no statutory funding at all
- The larger the organisation, the more likely it is to receive some money from the public sector
- 4 in 5 of Scotland's smallest organisations (83%) currently receive no money from statutory sources

- 1 in 5 of Scotland's largest organisations receive no money from statutory sources (21%)

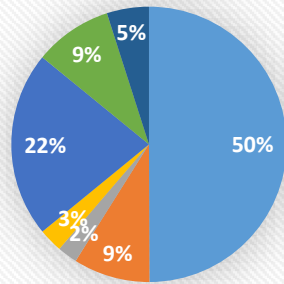


Small organisations

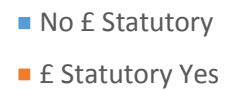
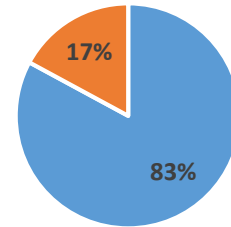
Two-thirds of regulated third sector organisations have annual budgets under £25k. In financial terms, they account for less than 1% of the sector (£83m), but these 12,000+ organisations make significant contributions to local communities and well-being.

- Small organisations rely heavily on income from individuals – half of their funds come from donations, membership fees, sales of goods, fees for activities and fundraising events
- Investment and rents account
- Many small organisations have seen their incomes decrease, and this group saw an overall loss last year of £23m, a drop of 20%

Income sources of small organisations



% of small organisations in receipt of public sector funding



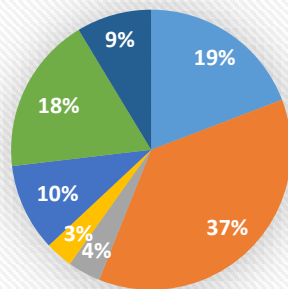
Medium-sized organisations

Around 5,500 organisations have annual turnover of between £25k and £1m. Just over half receive some money from the public sector, usually in the form of core grants and project income. Many receive income from grant-making trusts.

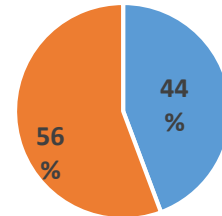
These organisations are often the 'squeezed middle' – too large to run on donations and volunteers alone, too small to bid for contracts. This group often sees the largest fluctuations in income.

In 2013 many organisations in this group made a loss, and the rest barely broke even.

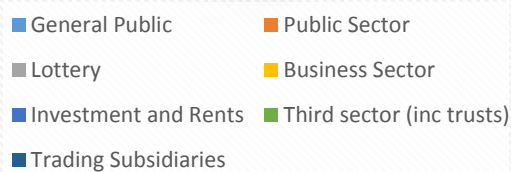
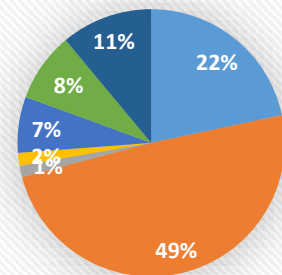
Income sources of medium-sized organisations



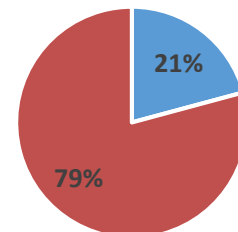
% of medium-sized organisations in receipt of public sector funding



Income sources of Large organisations



% of large organisations in receipt of public sector funding



Large organisations

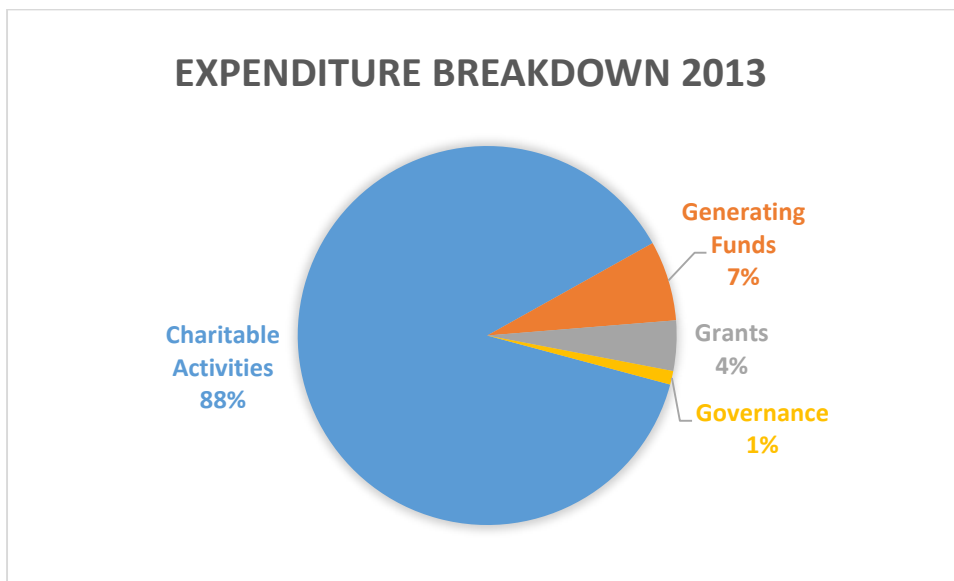
The 800 or so organisations with turnovers over £1m account for around 80% of the sector's financial activities.

- Taken together, public sector income makes up around 50% of this group's budget, but there is huge variation within this group
- Some large visitor attractions, museums, theatres etc. rely almost entirely on income from the general public

- Housing associations rely primarily on rental income, with some public sector grants
- The large social care providers which make up the rest of this group receive between 70% - 98% of their income from government, primarily from contracts with local authorities

Expenditure

The sector is continuing to meet high demand, and annually spends almost all income it receives on carrying out charitable activities. Very little is kept back as reserves, for investment or for the development of future projects.



- 88% of the sector's expenditure is spent on carrying out its charitable activities. This includes most staff costs, equipment, materials and utilities needed to carry out organisational activities
- A further 4% of the sector's expenditure is given in grants to other charities and small grants to individuals
- Only 7% of funds are spent on generating funds. This includes publicity, fundraising, the costs of trading subsidiaries, any related staff costs and the investment management fees of large trusts
- Only 1% of the sector's expenditure goes on governance. This includes trustee and meeting expenses, and any related staff support time, with the bulk of costs going on accountancy and audit fees.

Conclusion

In 2013 a third of SCVO's members anticipated their funding would decrease, despite 78% expecting demand for their services to increase.

To tackle this squeeze on resources, 71% planned to develop new projects and 71% planned to look at new funding sources (see graph from SCVO's 2013 Sector Forecast survey below).

This briefing finds that the third sector has risen to the challenges of a harsh economic climate, public sector cuts and big changes in our policy and political landscape. It has invested huge amounts of energy and resources into developing new and innovative projects, and into developing and sustaining new income sources to continue to fund its work. However, if funding cuts continue to bite at this level, there will be limits on what the sector can do to compensate.

Q4 Is your organisation planning to do any of the following over the next 12 months?

Answered: 228 Skipped: 40

