



Scottish Third Sector Tracker

Wave five findings

Winter 2022

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Introduction

This paper presents the key findings from the fifth wave of the Scottish Third Sector Tracker, data for which was collected in November-December 2022. The Tracker collects quarterly panel data from Scottish third sector organisations to give current insights into the state of the sector, key trends, and developments. More information about the Tracker is available on the [SCVO website](#). The Tracker asks organisations questions relating to their current organisational challenges; demand for their services; costs; staff and volunteers; financial health; and funding. Questions in Wave five also explored the impact of the cost-of-living crisis on third sector organisations, what more support they'd like, and how they've adapted to meet the growing financial challenges of their beneficiaries and communities.

About the data

The Wave five findings draw on responses from 368 third sector organisations. Surveys were conducted online in November-December 2022. Quotas and weighting have been used to ensure the final dataset represents the Scottish third sector in terms of the organisations' location, activity, and turnover.

The dataset contains a mix of quantitative and qualitative responses. Quantitative data were used to generate a series of summary figures and tables that present key insights into the sector over the last three months. A thematic analysis was conducted on qualitative responses to questions on the impacts of rising costs on organisations, what more support organisations would like with rising costs, how organisations have responded to the growing financial hardship of their beneficiaries and communities, and to explore changing patterns of fundraising and donations. In each case, the most frequently reported themes have been highlighted. Supporting quotes for these and other noteworthy themes have been provided.

All the data for this report have been taken from the Scottish Third Sector Tracker. All the data for Wave five are available on the [SCVO website](#).

Findings

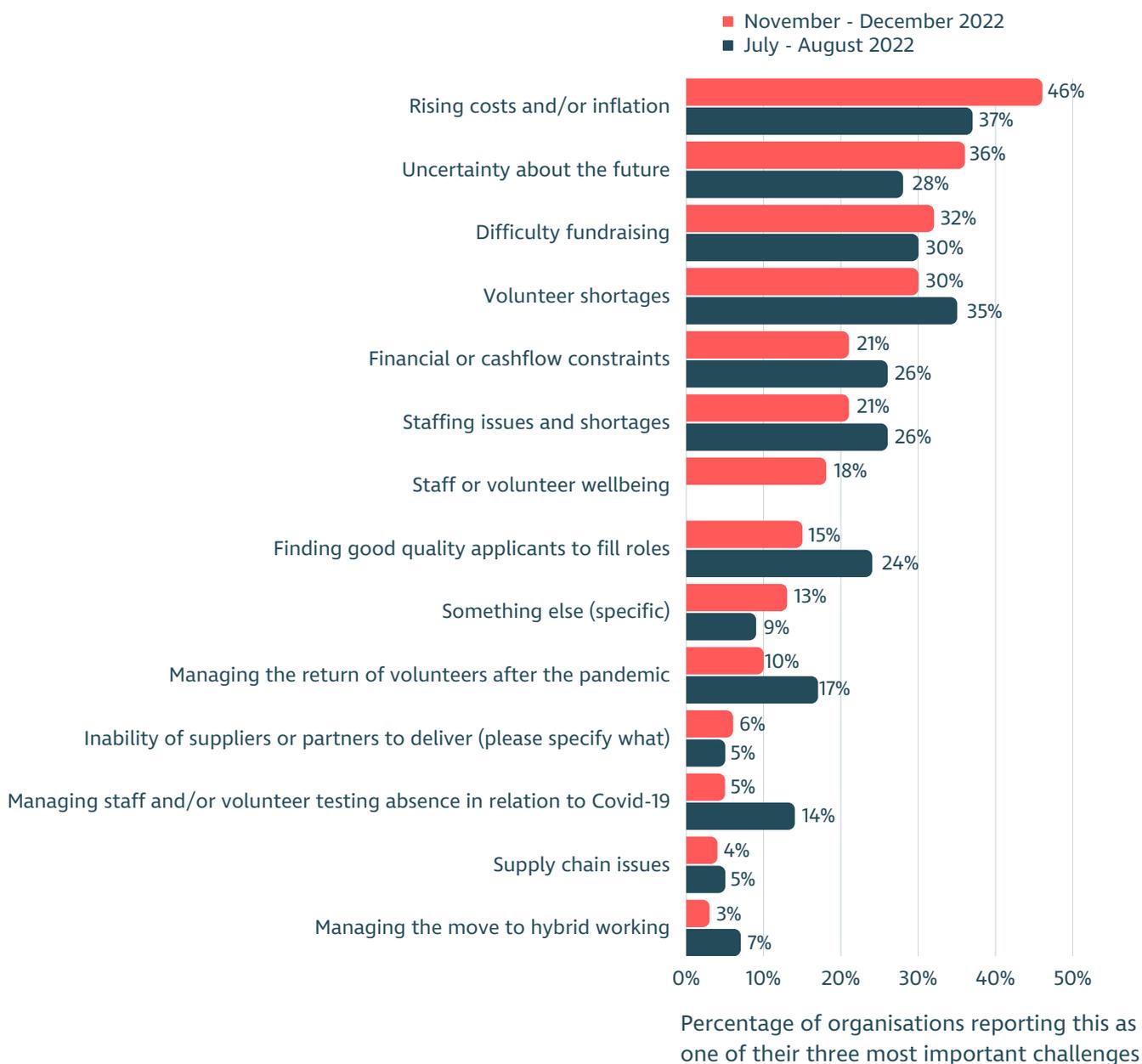
Key current challenges for third sector organisations

Organisations were asked about the number one challenge they had faced since August 2022. The most frequently reported challenge was rising costs/inflation (17%), volunteer shortages (13%), followed by staffing issues and shortages (11%) and uncertainty about the future (10%).

When considering organisations' top three challenges, the most frequently reported were rising costs and/or inflation (46%), uncertainty about the future (36%), and difficulty fundraising (32%). The largest differences in reported challenges since Wave four were in rising costs and/or inflation, which increased from 37%, and finding good quality applications to fill roles which decreased from 24% to 15%. Staff and/or volunteer wellbeing was a new response option added in wave 5, 18% of respondents placed it in their top three challenges.

Overall, 67% of organisations reported shortages and issues with staffing and volunteers, 67% of organisations reported financial challenges, and 39% of organisations reported difficulty planning for the future.

Figure 1. Top three challenges for third sector organisations

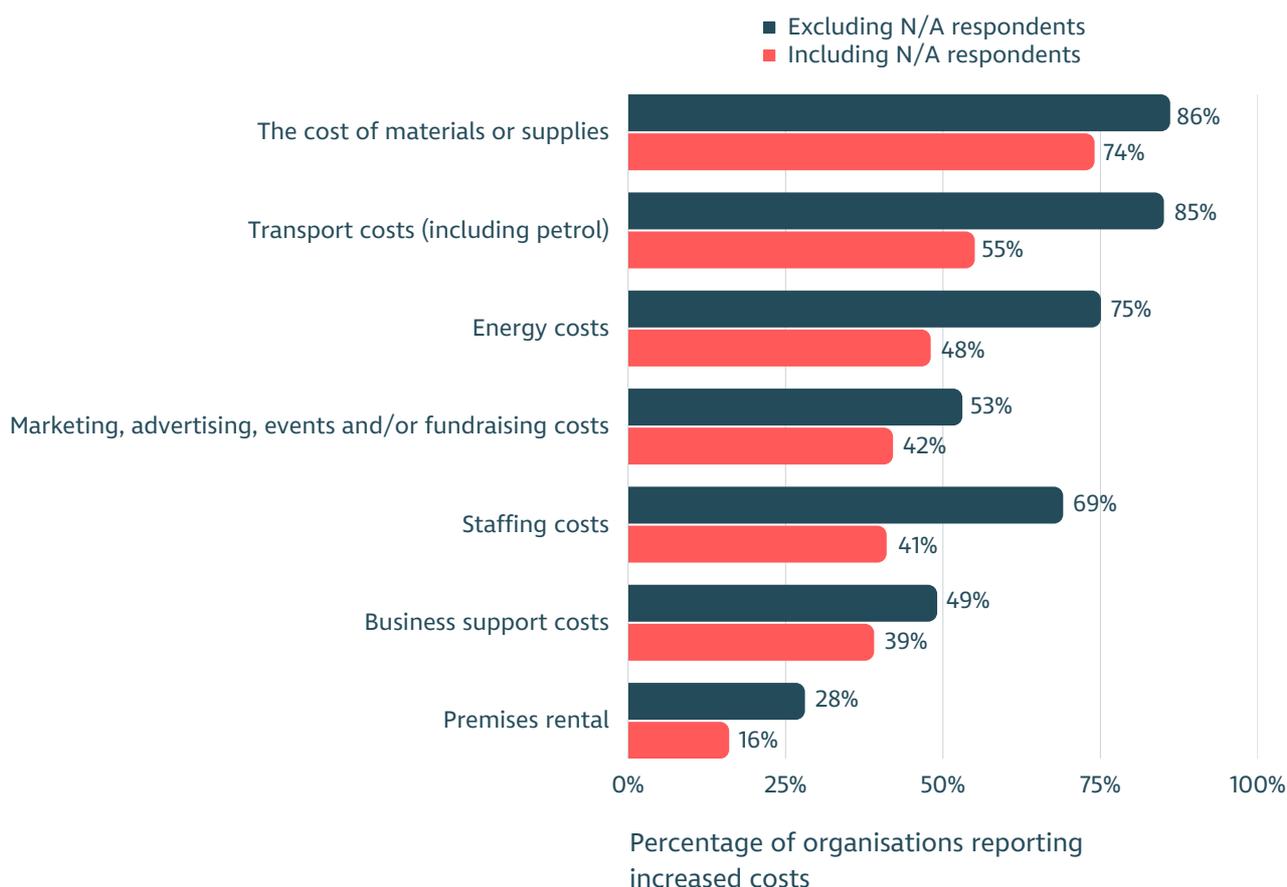


Rising costs and Scotland's third sector

Overview of rising costs

The survey asked how organisations' costs had changed over the previous 3 months. Overall, 93% of organisations reported increased costs in at least one area of their business, the same as August 2022. The most widely reported cost increase was to materials or supplies (86% of organisations for which these costs were relevant). The second most frequently reported cost increase was to transport (85%), followed by energy (76%), and staffing (69%). Very few organisations reported decreases to their costs. In Figure 2 we present the results for all cost areas, presenting the findings for just the organisations that said a specific cost area was relevant for them alongside the results for the whole set of respondents, which gives an indication of the sector-wide picture.

Figure 2. Increased costs for third sector organisations



Overall, organisations reporting an increase in business support costs increased from 43% to 49% between waves four and five. The other costs are broadly in line with the findings from wave 4.

Impacts of rising costs on organisations

The survey explored the extent to which rising costs were negatively impacting organisations' ability to deliver their core services or activities. Of the organisations that reported a cost increase in at least one area of business, 46% reported that negative impacts were either moderate or significant, an increase from 43% in wave four and comparable to wave three (46%).

For those organisations seeing rising costs in at least one business area, we then asked respondents to tell us how the cost crisis is affecting their organisation and how they expect this to develop over the next six to 12 months. There were 297 responses to this question.

Forty percent (40%) of respondents mentioned rising costs having a negative impact on one or more aspects of their paid workforce. Respondents are concerned about their ability to provide staff with an adequate increase in salary. Many mentioned losing staff to better paid positions in the public sector and a smaller proportion were not filling vacancies to save money. Looking ahead, many respondents anticipate that conditions will continue to deteriorate with staff wellbeing and burnout a concern.



“It is not only our members/volunteers that are in crisis - staff are struggling to cover their own cost of living - we need to be able to pay a decent salary to not only reduce this pressure but also to make sure we keep our experienced and skilled staff with us.”

Medium-sized organisation, Charitable trust



“We have had 4 members of staff leave our small team this year. Some have been replaced but now a key member is leaving, and we have to use this as a money saving opportunity... we are expecting to have to make redundancies and reduce the services we can provide.”

Medium-sized organisation, Education, or research



“...we need to look at cost of living increases in salaries, which make up over 90% of our outgoings, there will be increasing pressure on financial resources, and I expect retaining staff in this organisation, and the sector more broadly will become a challenge.”

Large organisation, Families, children and/or social care

For around one in three respondents (32%), they believe the financial health and sustainability of their organisations is put in jeopardy by continued rising costs. Many organisations are having to fundraise, use their reserves or face an increased budget deficit to continue to operate. There's also a recognition that traditional fundraising is likely to be less effective as people struggle with the cost-of-living crisis.



“Threatening closure of our charity...through lack of financial support.”
Micro-sized organisation, Culture and sport



“We anticipate core costs (energy, materials, external costs) to rise and stretch budgets, which are set in advance for fundraising purposes. The amount raised to deliver individual projects is no longer sufficient to fully cover costs, meaning we will need to use reserves to meet the shortfall.”
Medium-sized organisation, Families, children and/or social care



“It hasn't required us to reduce our services yet as we have reasonable reserves. However, we are expecting to use £8k of reserves to balance the books. This cannot continue every year. Also, fundraising is becoming more difficult as people locally have less money to spend, so our deficit may be more than anticipated.”
Medium-sized organisation, registered charity

Around one in five respondents report seeing and predict demand for their services and activities to grow. For some respondents, they are, or will soon be, unable to meet this increased demand. Rising costs are making it more expensive to run services and some organisations are, or predict that they will need to, reduce services, increase charges, or temporarily stop providing some services.



“We're having to consider quite dramatic price increases for leisure services for the next year as costs have dramatically increased - mainly related to national living wage, cost of living and rising energy costs...we are having to consider what venues/services are at risk of closure.”
Large organisation, Culture, and sport



“We cannot afford to heat our old print workshop this winter any more than necessary to prevent frost damage. Therefore, it is likely to be closed until spring.”
Medium-sized organisation, Community, economic and/or social development



“Our services are all full and we have waiting lists. We aren't able to put on more sessions as we can't afford to rent the space for more time.”
Medium-sized organisation, Health

Organisations were asked how demand for their core services and activities has changed since August 2022. For most organisations, demand has increased. Over half (58%) of respondents reported an increase in demand, this figure is down from 64% in August 2022. There is a statistically significant difference between large (annual turnover >£100,000) and small organisations. For large organisations, 75% reported an increase in demand for their services, while for smaller organisations this figure is 50%.

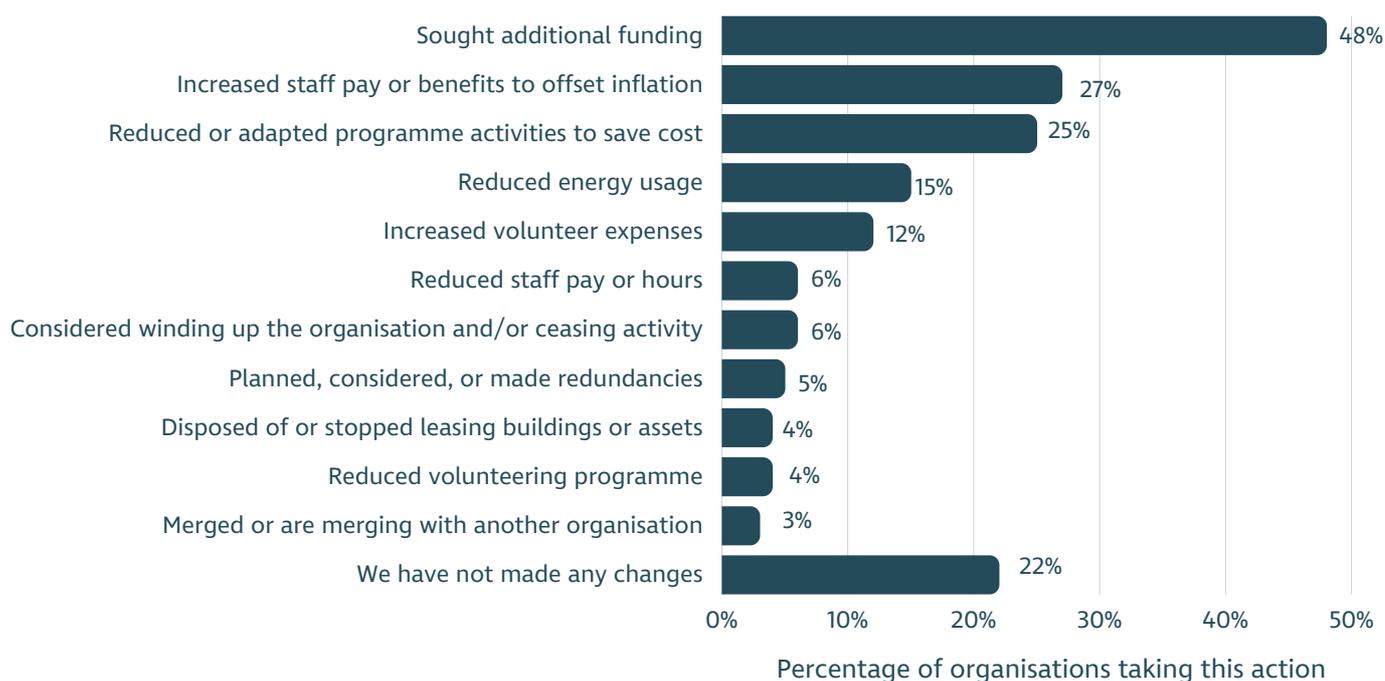
Of these organisations reporting an increased demand for their services, 81% had the capacity to meet most or all this increased demand (in line with 80% in August 2022).

Table 1. Change in demand for organisations' core services and activities

Change in demand	July-August 2022	November-December 2022
Slightly increased	25%	24%
Moderately increased	40%	34%
Stayed the same	23%	30%
Moderately decreased	11%	8%
Significantly decreased	2%	5%

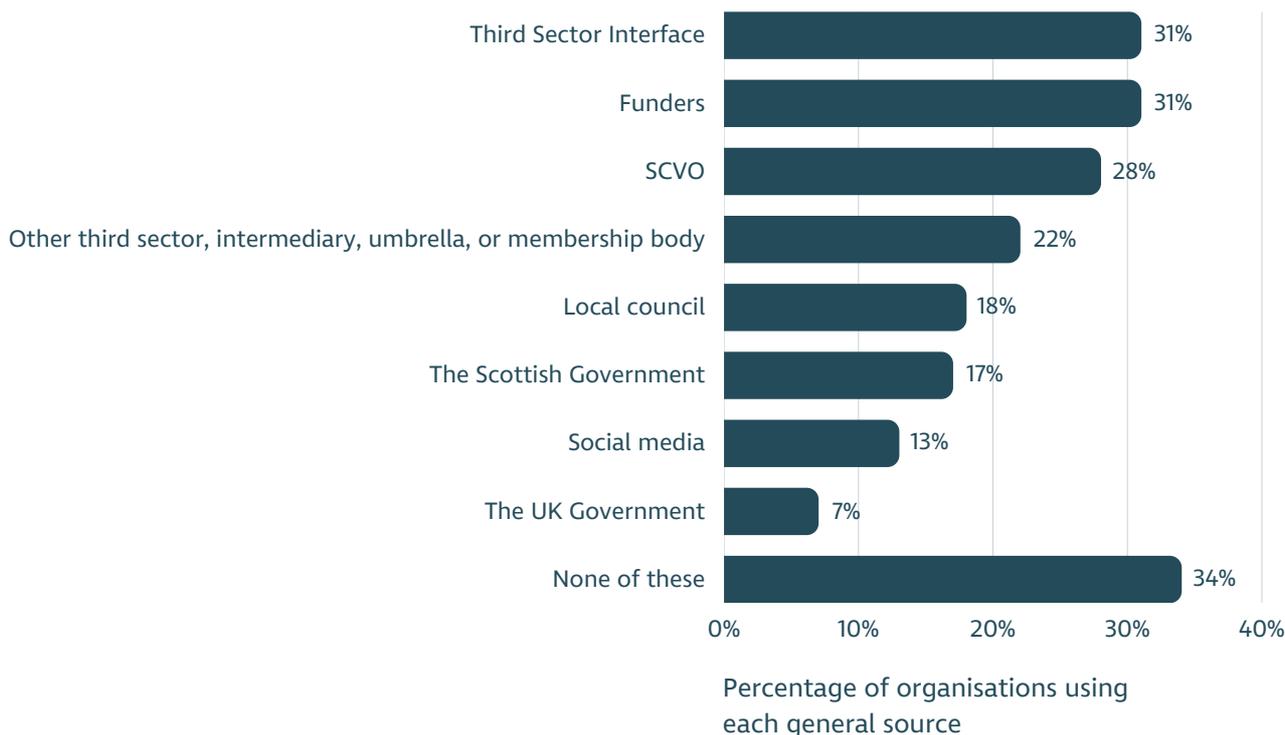
In wave five we asked respondents to tell us what changes their organisation made in reaction to recent rising costs. Of those organisations reporting rising costs, 48% had sought additional funding, 27% had increased staff pay or benefits to offset inflation, and 25% had reduced or adapted programme activities to save cost. Just over one in five respondents reported not having made any changes.

Figure 3. Actions taken by third sector organisations in response to rising costs



We also asked respondents to tell us what sources of general and specific advice, information, and support in relation to managing rising costs their organisation had used. For general advice, information and support respondents most frequently selected none of the options presented, 34%. Following that, 31% of respondents said that they'd used general sources of advice, information and support from their local Third Sector Interface and their funders. Respondents were least likely to say that they had used general advice, information and support from the UK Government.

Figure 4. Sources of general advice, information and support used by third sector organisations



When it came to more specific sources of advice, information, and support in relation to managing rising costs for third sector organisations. Most respondents (71%) had again used none of the options presented. Only 8% had used SCVO's #Runningcostscrisis resources and the Scottish Government's Cost of living Scotland campaign. No respondents reported having used NPC's cost of living crisis resource hub.

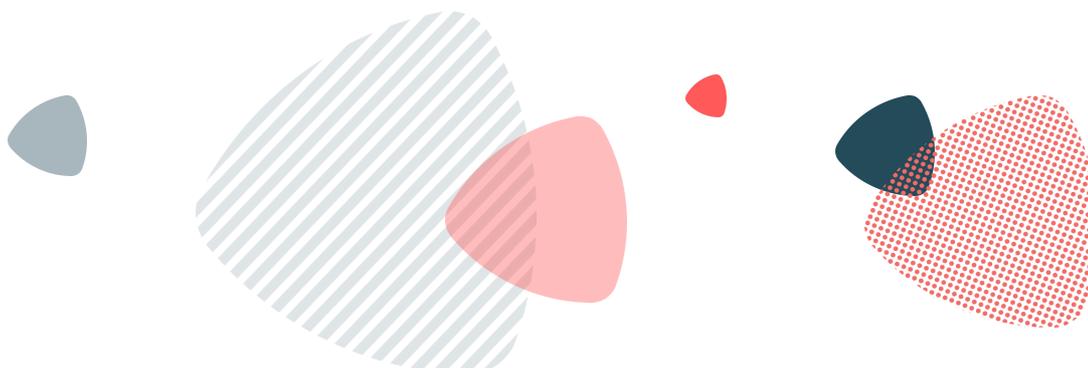
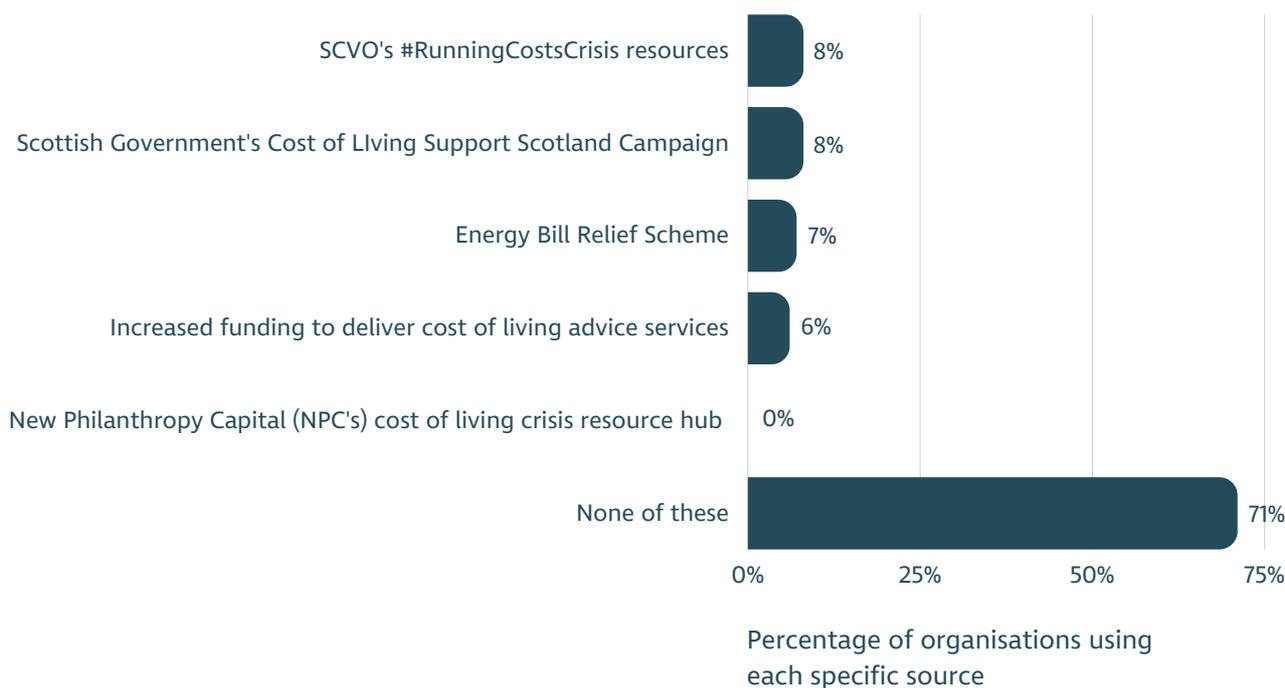


Figure 5. Sources of specific advice, information and support used by third sector organisations



We then asked respondents to tell us, in their own words, what additional advice, information and support they would like to see made available to third sector organisations to help with managing rising costs. There were 179 responses and the most common themes to emerge included, additional funding (41%), one comprehensive advice, information, and support portal (21%) and specific funding to help with rising energy costs (14%).

“The main support required is funding especially as there are planned cuts in the cultural sector budget when the sector is fragile enough with the shutdown during the height of the Covid pandemic. Also, uncertainty about the level of funding is meaning the main NDPB funder is now delaying expected funding programme changes until 2024/25 which may too far away for some project funded organisations to survive.”

Medium-sized organisation, Culture and sport

“Would prefer emergency funding akin to pandemic emergency funding. There is lots of advice out there, but it doesn't pay for things.”

Medium-sized organisation, Health

“Extra funding for smaller organisations to cope with increased demand for services.”

Small organisation, Community, economic and/or social development



“At a time where we have rising costs and are expected to take on provision of additional services, we need support to manage these, recent funding applications, in particular to the local authority, who have the expectation of us providing community services due to the cost of living crises have seen staffing costs not being considered in applications.”

Medium-sized organisation, Community, economic and/or social development

For those respondents that mentioned additional funding, around a quarter said that they would like to see inflation-based uplifts included in grants and contracts. Many respondents stressed the negative impacts (particularly on staff) that lack of inflation-based uplifts have for organisations.



“We cannot pay our staff decent wages as public sector grants are either reduced year on year, or we are expected to deliver on the same funding each year with no increases in the grants to reflect rising costs. We were only able to provide a 2% pay rise this year which goes no way to meeting the cost of living increases our staff are facing. The lack of ability to secure funding to provide decent salaries for staff has also had a detrimental impact on our recruitment.”

Medium-sized organisation, Health



“Organisations who have a fixed non-negotiable income stream, as with local authority contracts, which are not linked to inflation and therefore have no inflationary uplift, leave the provider organisation with no options to increase pay or benefits leading to significant hardship for staff or significant losses of staff that cannot be replaced and subsequent loss of the contracts.”

Large organisation, Law, advocacy and/or civic

Respondents whose organisations own, or lease buildings wanted support and advice on cost effective ways to improve the energy efficiency of their premises and to know more about the benefits of hybrid working.



“One of our biggest costs is premises. It would be helpful to have more information about cost effectiveness of the hybrid working model and types of office accommodation that are working for people.”

Large organisation, Families, children and/or social care



“More support (information, peer support etc) is needed for organisations running multi-use buildings.”

Large organisation, Umbrella body

One in five respondents said that they would like to see one central, comprehensive advice, information, and support portal developed.



“The advice and support available is a bit overwhelming (from so many sources); it would be great to have a central cost-of-living portal through which all of the advice could be coordinated.”

Medium-sized organisation, Families, children and/or social care



“It would be hugely beneficial to have a dedicated central network which all organisations can access required information and advice in one location.”

Micro-sized organisation, Families, children and/or social care



“It would be helpful if there was a one stop shop as I worry that we miss advice/opportunities. Everyone is working so hard that it is difficult to find enough time to ensure that we are asking for/getting the right advice and support.”

Small organisation, Community, economic and/or social development

A percentage of those that mentioned that they would like to see one comprehensive place to go for advice, information and support also thought that tailored, specific or more proactive advice would be helpful.



“I'd like to see a proactive approach to making sure organisations know about advice and funding sources. In the previous question regarding who we had approached for help, we didn't recognise any of those specific initiatives. It's almost like "It's there if you can find it.””

Micro-sized organisation, Education and/or research



“There needs to be specific information about how 3rd sector orgs can access the supports available through both UK and Scottish governments.”

Medium-sized organisation, Community, economic and/or social development



“Information on resources or funding resources that are specific for cost-of-living support.”

Small organisation, Health

Around one in ten respondents also wanted support with human resources, including how best to support staff.



"We're concerned about the continuing rise in inflation, what this means for our staff, and the implications for recruiting new staff. We can't afford to increase salaries in line with inflation, so guidance on ways of managing this would be very helpful: what are other organisations doing? Is there another way of support our staff without risking the longer-term future of our organisation?"

Large organisation, Families, children and/or social care



"How to support staff members with rising cost of living at a time when the charity is also struggling to manage rising costs."

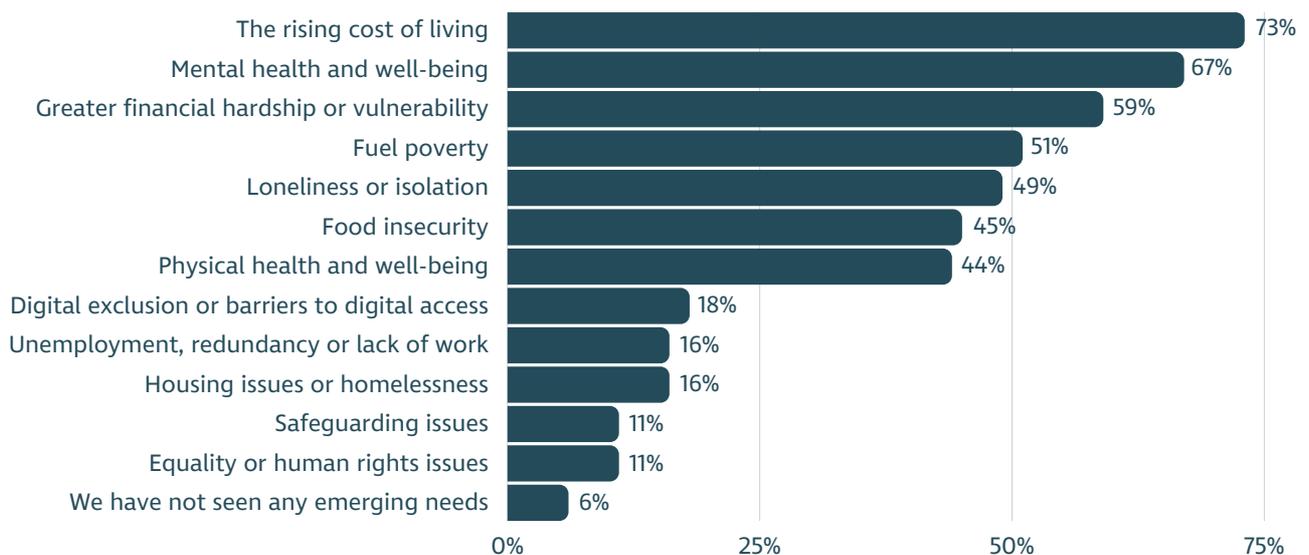
Small organisation, Community, economic and/or social development

Impact of rising costs on needs within communities

Organisations that work directly with the public were asked which needs or concerns have worsened among the communities and groups they serve. Overall, 89% of these organisations highlighted emerging needs that were worsening in the communities they serve (in line with 88% in August 2022). Seventy-three percent (73%, up from 66% in August) of organisations said that the rising cost of living was getting worse, 67% highlighted mental health and wellbeing and 59% reported greater financial hardship or vulnerability. Overall, a startling 81% of organisation reported worsening financial hardship among the communities and groups they serve.

Organisations reporting worsening fuel poverty and food insecurity had also increased since August, 51% (up from 43%) and 45% (up from 39%) respectively.

Figure 6. Third sector views on increasing needs within communities and target groups, since August 2022



Percentage of organisations reporting increasing needs since August 2022

For those organisations that reported working with individuals facing financial pressures, we asked them to tell us what impact these financial challenges are having on their beneficiaries' lives. There were 212 responses to this question.

The themes in this section are largely interrelated. The most common theme was a marked deterioration in peoples' health and wellbeing, including references to both physical and mental health. Most common were references to increased stress, anxiety and worry.

This was followed by people having to choose between heating and lighting their homes and eating. A reduction in disposable income was linked with rising cases of isolation as people can no longer afford to travel or take part in activities, having a detrimental impact on peoples' mental and physical wellbeing.



“Financial challenges are making it tough for people and families on low incomes and they are having to make drastic cuts to how they spend their money. This is having a significant impact on their physical and mental health.”

Large organisation, Culture and sport



“Small treats, such as take away or attending an event (such as the cinema or football) are less affordable for families. People are more isolated as costs of public transport means they cannot spend time with family members and friends that are outside their immediate communities.”

Large organisation, Families, children and/or social care

Several respondents noted that people were falling into debt, increasing the risk of homelessness, and that they believed that some people were resorting to crime to pay for essentials. A smaller number of respondents mentioned that they had seen an increase in violence, including domestic violence in their community.



“Many won't/aren't able to pay bills and are willing to take the consequences of this. Crime is increasing in the area also.”

Medium-sized organisation, Community, economic and/or social development



“People are needing to make impossible decisions as to whether they can afford to eat or heat their homes. Household finances cannot meet budgets, people are not paying their essential bills like mortgage, rent and council tax and choosing to eat or heat their homes, this will result in many more people falling into debt and facing potential enforcement orders.”

Large organisation, Law, advocacy and/or civic

Organisations were then asked how they were responding to the financial challenges that the individuals and/or communities they serve are facing. There were 226 responses. The most common themes included, increasing and/or adapting services (30%), providing food (25%), signposting to information and support (25%), reducing the cost of their services (22%), providing warm spaces and direct financial support (20%).



“Increased support with a wider range of practical needs such as food, clothing, toys, and books. We are also signposting to a wide range of partners to access specialist support such as debt and money advice. Increased capacity of our counselling service in line with the additional demand for it.”

Medium-sized organisation, Families, children and/or social care



“[we are] Looking at increasing our capacity, supporting members to access the groups & organisations for more days per week so that they are having access to safe, warm spaces & food.”

Micro-organisation, Registered charity



“We have a crisis fund, which aims to provide immediate, one-off support to families faced with an unexpected expense or additional pressures such as domestic violence, poor health, or broken household appliances. We are seeing requests to this fund now for the basics like heat, fuel and food and warm clothes.”

Large organisation, Health

Other themes include, providing non-food items, such as clothing, providing direct advice and guidance, fundraising to offer more or different services and advocacy work.



“We are seeking funding to provide support and information including safe, warm places for our client groups. We are seeking funding to be able to enhance the community building and peer support aspects of our services.”

Medium-sized organisation, Health



“We are exploring other ways we can support them. We are submitting funding applications which would enable us to issue crisis grants and supermarket vouchers.”

Medium-sized organisation, voluntary organisation



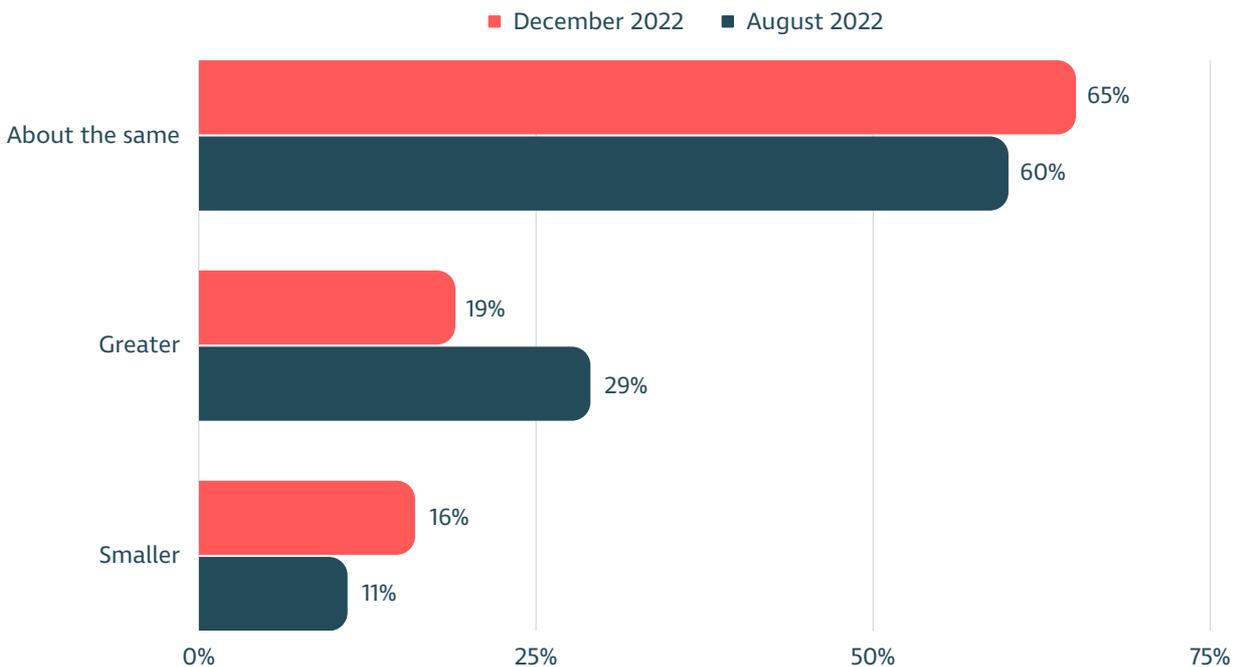
“Advocacy and influencing government policy and decision making as much as possible.”

Medium-sized organisation, Health

Staffing and volunteering

Organisations were asked the extent to which they had increased or decreased staff numbers since August 2022. Of the organisations that employed paid staff, 65% said that staffing numbers had remained stable, while 19% had more paid staff and 16% had less paid staff. Ten percent fewer organisations reported having more staff in the three months to December (19%) than did in the three months to August, 29%.

Figure 7. Changes in number of staff employed by third sector organisations



Organisations were asked about the key actions they had taken in relation to paid staff over the last 3 months. Of the organisations that employed paid staff, 30% had increased staff wages (excluding promotions), 28% had hired one or more new paid staff members, while 11% had cancelled or postponed plans to recruit staff and 4% had made one or more paid members of staff redundant.

Figure 8. Key actions taken by third sector organisations in relation to paid staff



Of the organisations that had awarded pay increases to staff in the last 3 months, 47% reported that on average this had increased by 3-5%, 32% reported pay increases of 6-10%, 15% reported an increase of 1-2% and 6% reported pay increases of over 10%. There has been a significant increase in the number of organisations awarding staff an pay increase of between 6-10% in the months between August and December 2022.

Table 2. Average percentage staff wage increase reported by third sector organisations

Percentage pay increase	Wave 4	Wave 5
1-2%	26%	15%
3-5%	62%	47%
6-10%	9%	32%
More than 10%	3%	6%

With relation to **volunteer numbers**, 14% of organisations reported an increase in their number of active volunteers (down from 18% in August), while 22% reported a decrease – in line with August. Sixty four percent (64%) of organisations reported that the number of volunteers actively volunteering for their organisations was about the same as in the preceding three months.

Financial health of third sector organisations

In exploring the overall financial health of organisations, we asked about their turnover, sources of income, financial reserves, cash flow, and confidence in their ability to continue operating.

More organisations reported a decrease in their average monthly turnover over the last three months (26%) than in the three months to August 2022 (19%). Additionally, fewer organisations reported increased turnover during this period (21%) compared with the previous three months (30%).

Of the respondents that reported decreased turnover in the last 3 months, 3% perceived this to be a short-term issue, 44% believed it a medium-term issue (3 months to a year), and 42% perceived it to be a long-term issue (over a year). This is a significant increase on the 25% that thought this reduction in turnover would be a long-term issue in the three months to August 2022.

For those organisations that reported a decrease in revenue from public fundraising and/or donations in the last three months, we asked them to tell us more about the changes they'd observed in public engagement with fundraising and donations over that period. There were 90 responses to this question.

For almost half (45%) of respondents, donations from the public have dropped – most often attributed to lower levels of disposable income as the cost-of-living crisis intensifies. The second most common theme reported was that organisations are struggling to find the time and resources to fundraise as demand for their services increases. Thirdly, respondents believe that the funding available through trusts and foundations has reduced and/or become more competitive.



"Trusts are overwhelmed with applications and so we have had a couple of applications where we have not been awarded the full amount, we asked for so that the trust has more to go round to other organisations."

Large organisation, Health



"People are generally less likely to donate money to charities as the uncertainty around their own income is a higher priority."

Micro-organisation, Culture, and sport

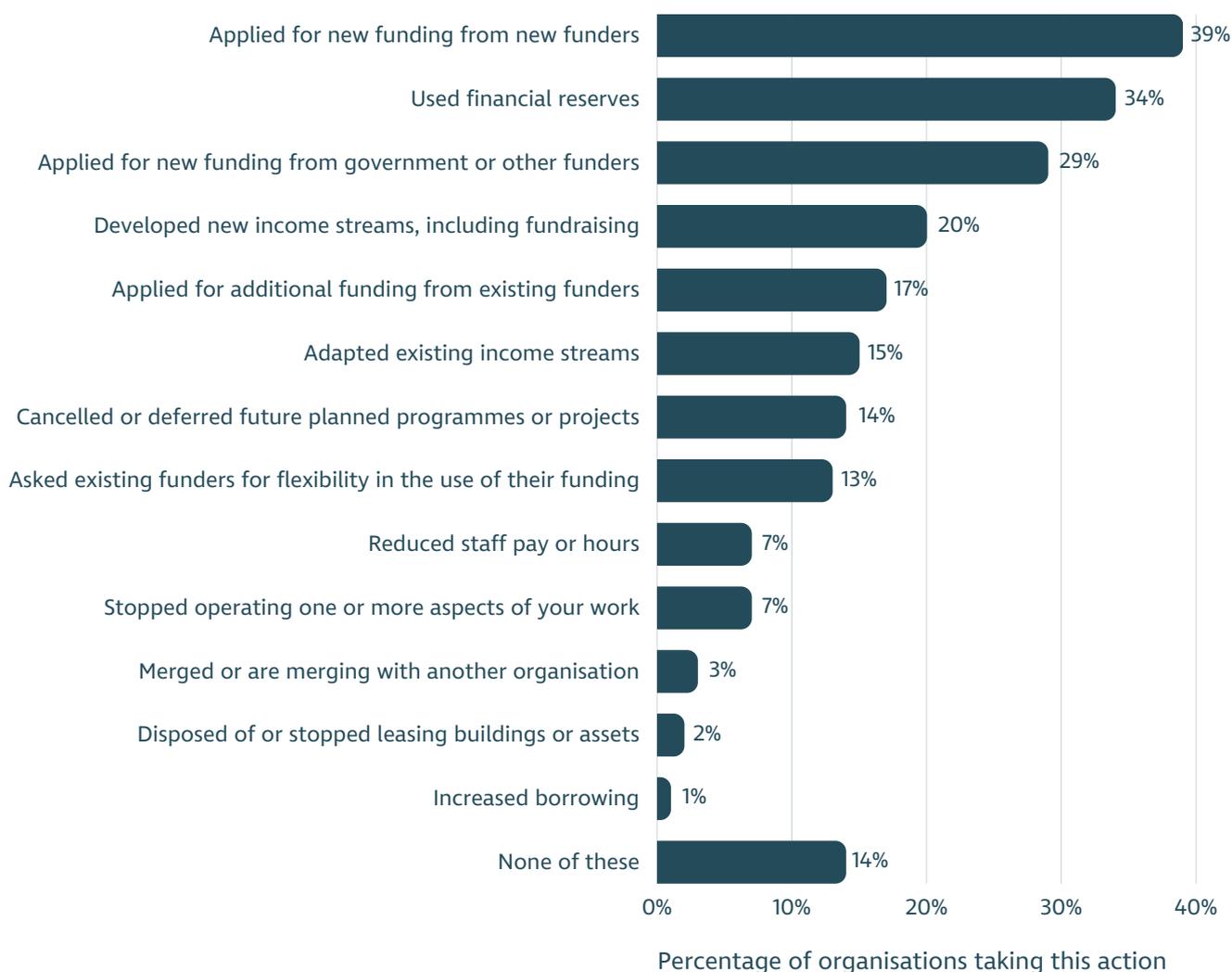


"We normally have no issue in fundraising and asking for donations, but this has decreased significantly. A recent fundraiser which we would have expected to climb to 4 figures at least is currently in the low hundreds."

Medium-sized organisation, Community, economic and/or social development

Ninety-two (92%) of organisations reported taking actions to mitigate financial challenges that they had experienced since August 2022. The most frequently reported actions taken by these organisations were applying for funding from new funders (39%), used financial reserves (34%) and applied for new funding from government or another funder (29%). The results are broadly in line with August 2022, with 3% more organisations making use of their financial reserves in the three months to December than the three months to August.

Figure 9. Actions taken by third sector organisations in response to financial challenges



Organisations were asked how confident they were that they will still be operating in 12 months' time. Eighty-nine (89%) of organisations responded that they were confident, with 58% very confident and 31% quite confident. This is the first wave that confidence has dropped below 90%. The percentage had remained constant at 92% from waves two through four. It was 97% in wave one.

Conclusions

The findings from wave five of the Scottish Third Sector Tracker suggest that third sector organisations are operating in an increasingly difficult environment. Rising costs and/or inflation is in the top three biggest challenges for almost half of organisations in the sector and 93% of organisations report rising costs in at least one area. For those organisations, almost half (46%) report that these costs are having a negative impact on their ability to deliver their services and/or activities.

Rising costs are also having a negative impact on organisations paid workforce, the financial health and sustainability of the organisation, and increased demand for their services. Respondents believe that the situation is likely to deteriorate over the coming months.

Organisations have taken measures to mitigate the impact of rising costs by applying for additional funding, increasing staff pay or benefits, and reducing or adapting programme activities to save cost. Just over one in five respondents reported not having made any changes.

For organisations looking for information, support, and advice on how to manage rising costs, almost a third made use of their local Third Sector Interface, their funders and/or SCVO. The other sources of information, support, and advice that organisations would like to see made available included, additional funding, one comprehensive advice, information, and support portal and specific funding to help with rising energy costs.

Overall, 89% of organisations working directly with the public, highlighted emerging needs that were worsening in the communities they serve. Seventy-three percent of organisations said that the rising cost of living was getting worse, 67% highlighted mental health and wellbeing and 59% reported greater financial hardship or vulnerability. Overall, a startling 81% of organisation reported worsening financial hardship among the communities and groups they serve.

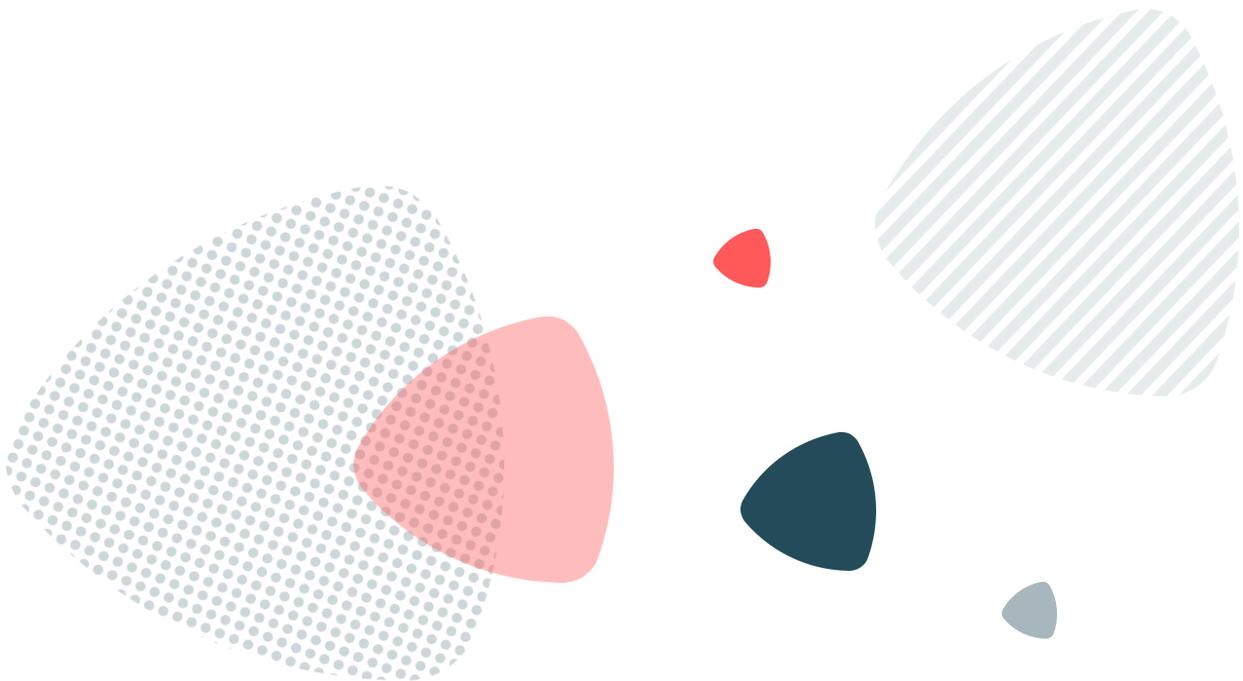
The impact of this financial hardship among communities and groups is resulting in a marked deterioration in peoples' health and wellbeing, including both their physical and mental health. Respondents also reported that people were having to choose between heating and lighting their homes and eating. Further, a reduction in disposable income was linked with rising cases of isolation.

To try and alleviate some of these issues, organisations were responding by increasing and/or adapting services, providing food, signposting to information and support, reducing the cost of their services, providing warm spaces and through direct financial support.

The financial position for organisations also continues to be precarious. More organisations reported a decrease in their average monthly turnover. Additionally, fewer organisations reported increased turnover during this period compared with the previous three months and more organisations are using their reserves.

For those organisations reporting a decrease in income from donations/fundraising, this was attributed to lower levels of disposable income as the cost-of-living crisis intensifies, finding the time and resources to fundraise and the belief that funding available through trusts and foundations has reduced and/or become more competitive.

In summary, organisations are facing an increasingly difficult operating environment with rising costs/inflation, staffing and volunteers issues and shortages and financial pressures all making it difficult to run a sustainable organisation and provide adequate support to the people and communities they serve. Many organisations are doing their level best to continue to operate and support their staff through a time of reduced income and increased demand.



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