



Scottish Third Sector Tracker

Wave six findings

Spring 2023

Contents

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Introduction

This paper presents the key findings from the sixth wave of the Scottish Third Sector Tracker, data for which was collected in April-May 2023. The Tracker collects panel data from Scottish third sector organisations to give current insights into the state of the sector, key trends, and developments. 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 six also explored organisations main concern with rising costs; the impact of staff shortages and skills gaps; and if organisations had experienced delays or cuts to their funding and the ramifications of those.

About the data

The wave six findings draw on responses from 358 third sector organisations. Surveys were conducted online. 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 four months. A thematic analysis was conducted on qualitative responses to open questions. 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 six, the preceding five waves and more information about the project is available on the [SCVO website](#).

Findings

Key current challenges for third sector organisations

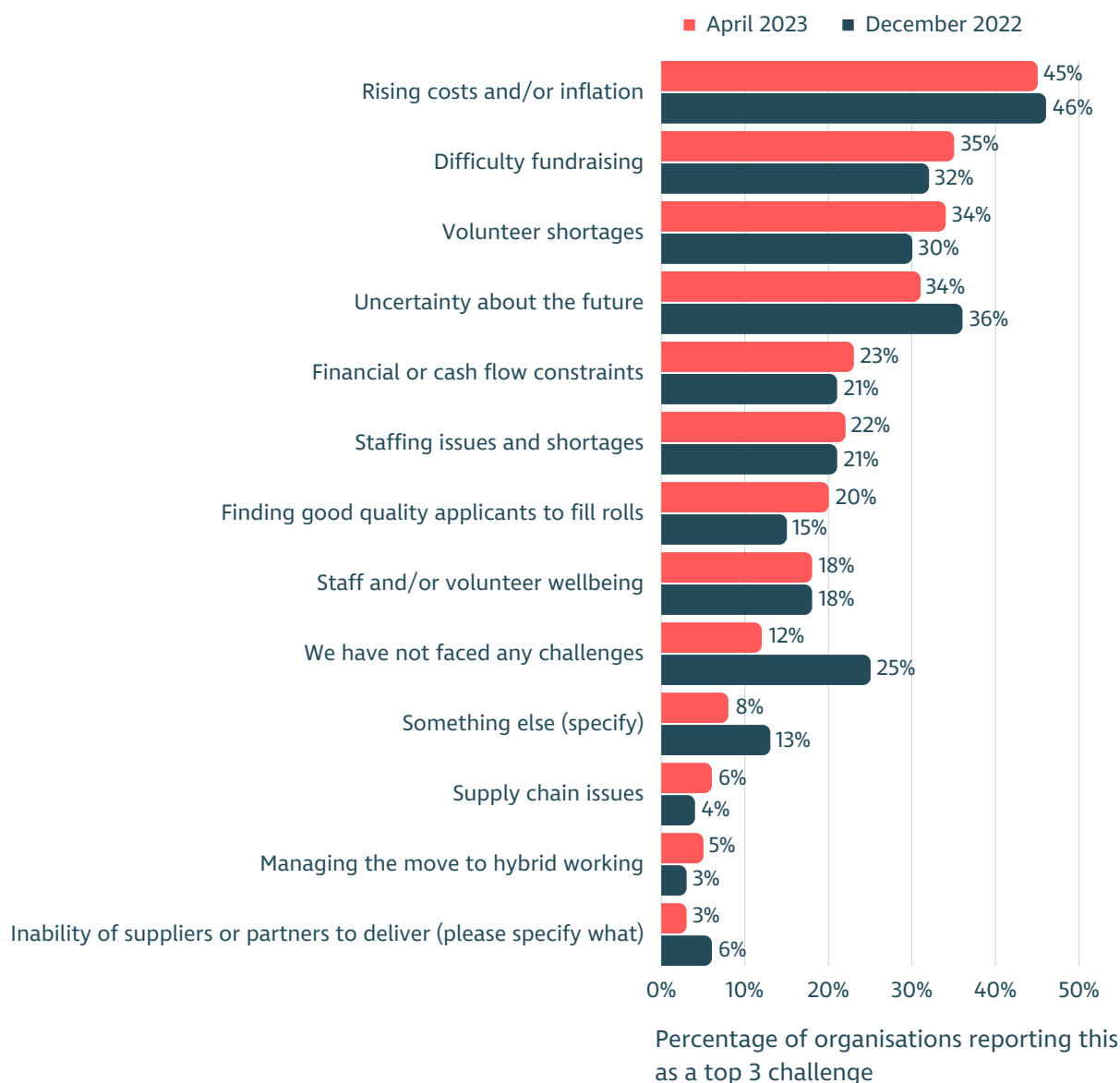
Organisations were asked about the biggest challenges they had faced since Winter 2022. Eighty-eight per cent of organisations reported facing challenges, down from 93% in December. The response most frequently ranked number one challenge was volunteer shortages (17%), followed by rising costs and or inflation (16%) and difficulty fundraising (13%).

When considering organisations' top three challenges, the most frequently reported were rising costs and or inflation (45%), followed by difficulty fundraising (35%) and volunteer shortages (34%).

The biggest change in reported top three challenges is the number of organisations reporting that they had not faced any challenges in the preceding four months – down from a quarter of organisations in Winter to 12% in Spring 2023. Difficulty fundraising, volunteer shortages and finding good quality applicants to fill roles are reported by more organisations as a top 3 challenge in Spring than in Winter. The most significant decrease is the number of organisations reporting uncertainty about the future, with five percent fewer organisations placing it in their top three challenges in Spring.

The aggregated response options suggest that organisational finances (71%) are the most common challenge in Spring, followed by staffing and volunteers (63%) and planning (37%).

Figure 1. Top three challenges for third sector organisations



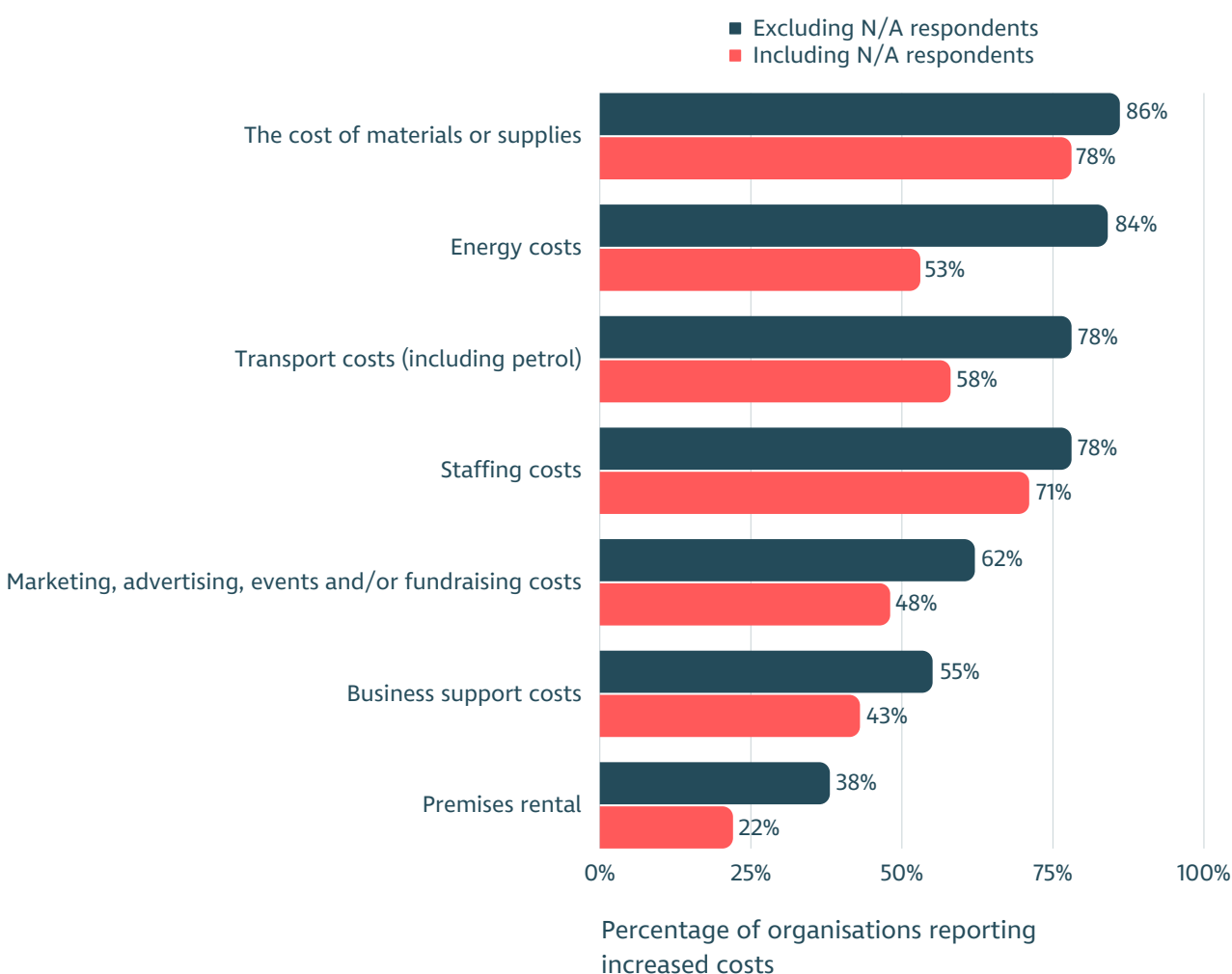
Rising costs and Scotland's third sector

Overview of rising costs

The survey asked how organisations' costs had changed over the previous four months. Overall, 94% of organisations reported increased costs in at least one area of business, in line with December. The most widely reported cost increase was to materials or supplies (86% of organisations for which materials and supply costs were relevant). The second most frequently reported cost increase was energy (84%), followed by transport and staffing costs (78%). Energy and staffing costs have seen the most significant increase since December.

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 (excluding N/A respondents), alongside the results for all respondents, which gives an indication of the sector-wide picture.

Figure 2. Increased costs for third sector organisations




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, 51% reported that negative impacts were either moderate or significant, an increase from 43% in wave four and 46% in wave five.

We also asked respondents to tell us the main concern rising costs are presenting their organisation. Two hundred and ninety-seven respondents replied. The major themes to emerge included, funding (including fundraising), staffing, sui (of the organisation), service delivery and planning.

For those organisations that mentioned funding, the most frequent response was that rising costs have led organisations to need additional funding to continue to operate. For many organisations, this means spending more time fundraising and applying for increasingly competitive funding streams.

 **“We expect to see a continued increase in supplier costs for events we deliver. Our concern is that we will not be able to meet these increased costs. We will have to spend more time fundraising, in the knowledge that others are having to do the same, which means our chances of success are likely to be reduced”**

In many cases, respondents referred to a funding deficit, i.e., the funding they receive no longer meets the cost-of-service delivery. This was often coupled with mentions of current funding arrangements not being uplifted for inflation, often for decades.

 **“Our funding is primarily based on fees from local authorities (partnerships) for the individual services. Any increases in fees are required, by them, to be fully spent on staff salary increases. We have now not had any core cost uplift to meet the inflationary impact for 20 years. We are there for (sic) reliant on growth, cost fundraising and cost cutting to remain sustainable.”**

As mentioned, funding often comes with spending restrictions attached. In this case, any increase in funding was to be spent on staff salaries, regardless of organisational priorities or need. This ‘unsuitability’ of funding was a common theme. As was making use of reserves to cover cost increases, both themes captured in the quote below.



“We have used reserves to protect services and staff posts this year, and we have used reserves to increase staff salaries to support them with the costs of living - but the grants are not increasing with inflation, so we can’t plan ahead to cover the costs, and we risk depleting our reserves, as we can’t afford to do this again next year. Grant awarding bodies need to find a way to adjust grants year on year to ensure they meet rising costs, but it needs to be offered in an unrestricted way.”

On the topic of staffing, many organisations mentioned that rising costs are making it more difficult to manage both paid staff and volunteers. Rising costs are not only having a detrimental impact on organisations ability to increase staff salaries, but also on their ability to recruit and retain staff. For organisations that chose to increase staff salaries, this puts a strain on the financial sustainability of the organisation as many are forced to use their reserves to cover this increase. Finally, organisations report that rising cost are having a negative impact on the income and well being of staff.



“Staffing costs are our biggest challenge – we want to increase salaries however contracts, funders won’t provide additional funding therefore you are limited to what you can offer. Third sector is being left behind at a time of rising needs. Public sector funding reducing and seeing more protectionism and lack of decisions made around commissioning. Income streams are drying up and/or being more competitive.”



“When planning a new staff recruitment, it is evident that to meet the equivalent of public sector (main employer here) we simply cannot compete - so have delayed major plans. We have recruited a part time worker and there was a good response, so it is heartening to know when the value of what we do is communicated well then people do apply.”

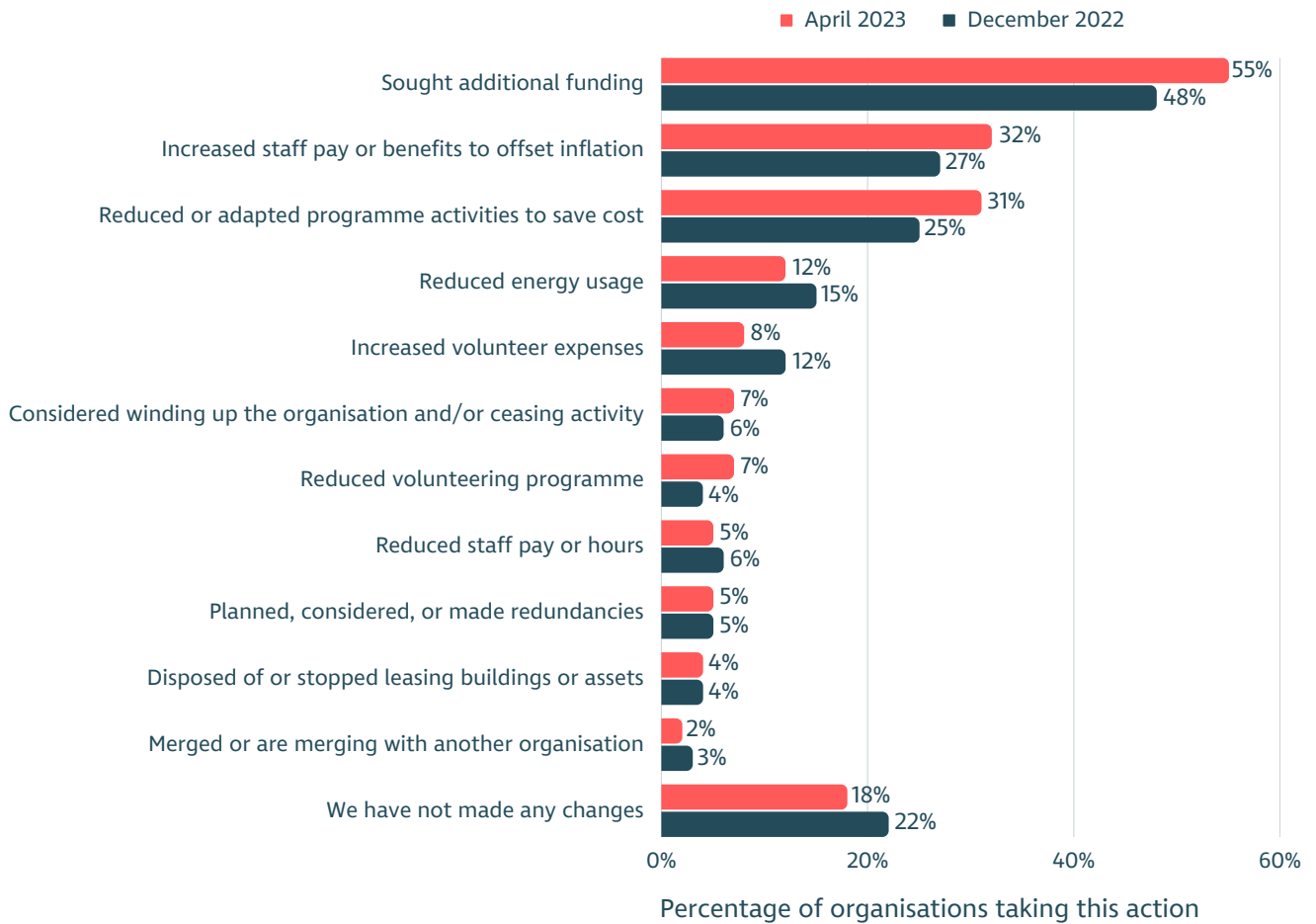
Some respondents, such as the one quoted below, speak to the difficulties of balancing the books and remaining solvent as costs continue to rise.



“Managing income to expenditure whilst trying to maintain financial resilience to cover redundancy if we come to that eventuality. We are trying to increase income streams so that we are not so dependent on a few income streams and that the loss of one would not mean the charity had to close.”

We then asked respondents to tell us what changes their organisation had made in reaction to recent rising costs. Of those organisations reporting rising costs, over half (55%) had sought additional funding, an increase of seven per cent since December 2022. More organisations also reported increasing staff pay or benefits and reducing activities to save costs.

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



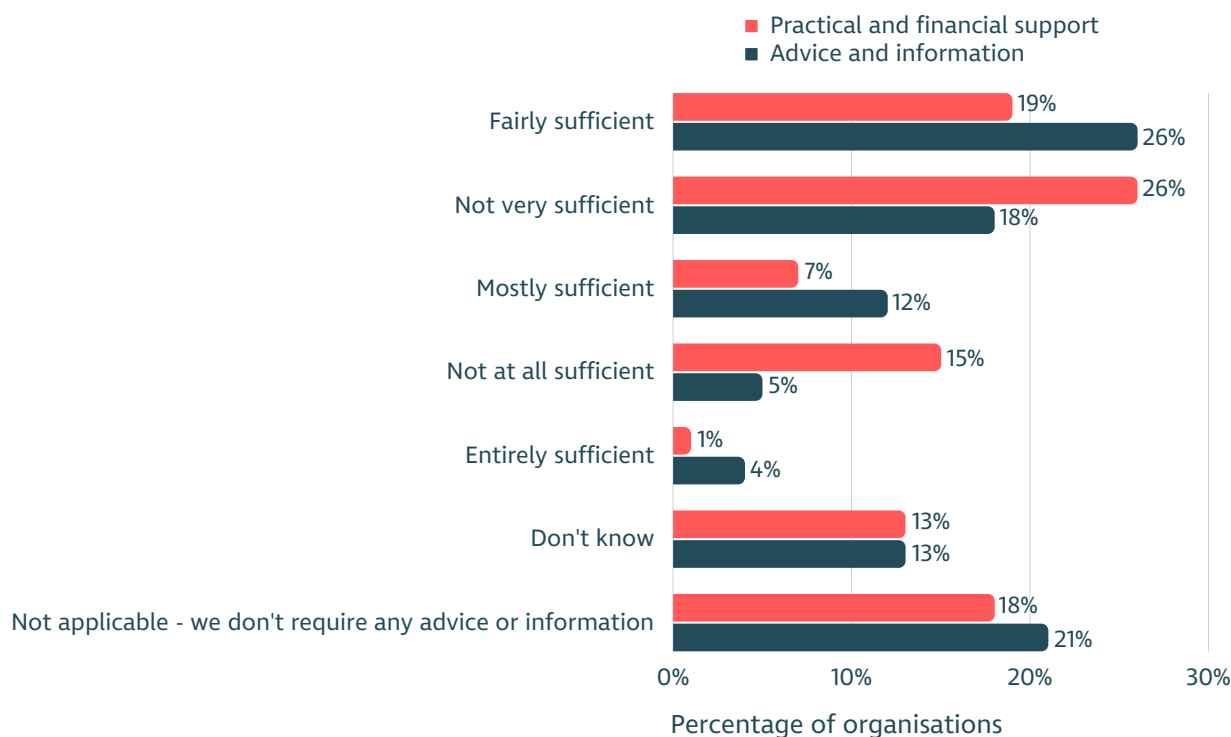
We then asked organisations a series of questions about the advice, information, and practical and financial support available to third sector organisations to help manage rising costs.

The first question we asked organisations was if they thought the advice and information about managing rising costs was sufficient. For a quarter of organisations (26%), they thought the advice and information to be fairly sufficient. Interestingly, a fifth (21%) of respondents said that they didn't require any advice or information about managing rising costs.

The second question posed to respondents was about the practical and financial support available to help manage rising costs. On this occasion, a quarter of organisations (26%) said that the practical and financial support was not very sufficient and an additional 15% said that it was not at all sufficient. Only one per cent thought the practical and financial support was entirely sufficient.



Figure 4. Sufficiency of advice and information and practical and financial support available to third sector organisations to manage rising costs



Finally, we asked respondents what their organisation would find useful to help manage rising costs. Unsurprisingly, two-thirds of organisations would find additional funding useful in managing rising costs. Forty per cent of organisations wanted help with funding applications and 38% would find financial support with energy costs helpful. A third (32%) of organisations wanted a central source of information, advice, and support.

Figure 5. Types of support third sector organisations would find useful



Demand for services

Organisations were asked how demand for their core services and activities had changed since December 2022. For most organisations, demand has increased. Sixty-three per cent of respondents reported an increase in demand, this figure is up from 58% in December and in line with August 2022.

There is a significant difference between large (annual turnover >£100,000) and small organisations. For large organisations, 71% reported an increase in demand for their services, while for smaller organisations this figure is 60%.

Of these organisations reporting increased demand for their services, 79% have been able to meet most or all this increased demand, in line with December.

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

Change in demand	August 2022	December 2022	April 2023
Significantly increased	25%	24%	27%
Moderately increased	40%	34%	36%
Stayed the same	23%	30%	27%
Moderately decreased	11%	8%	4%
Significantly decreased	2%	5%	2%

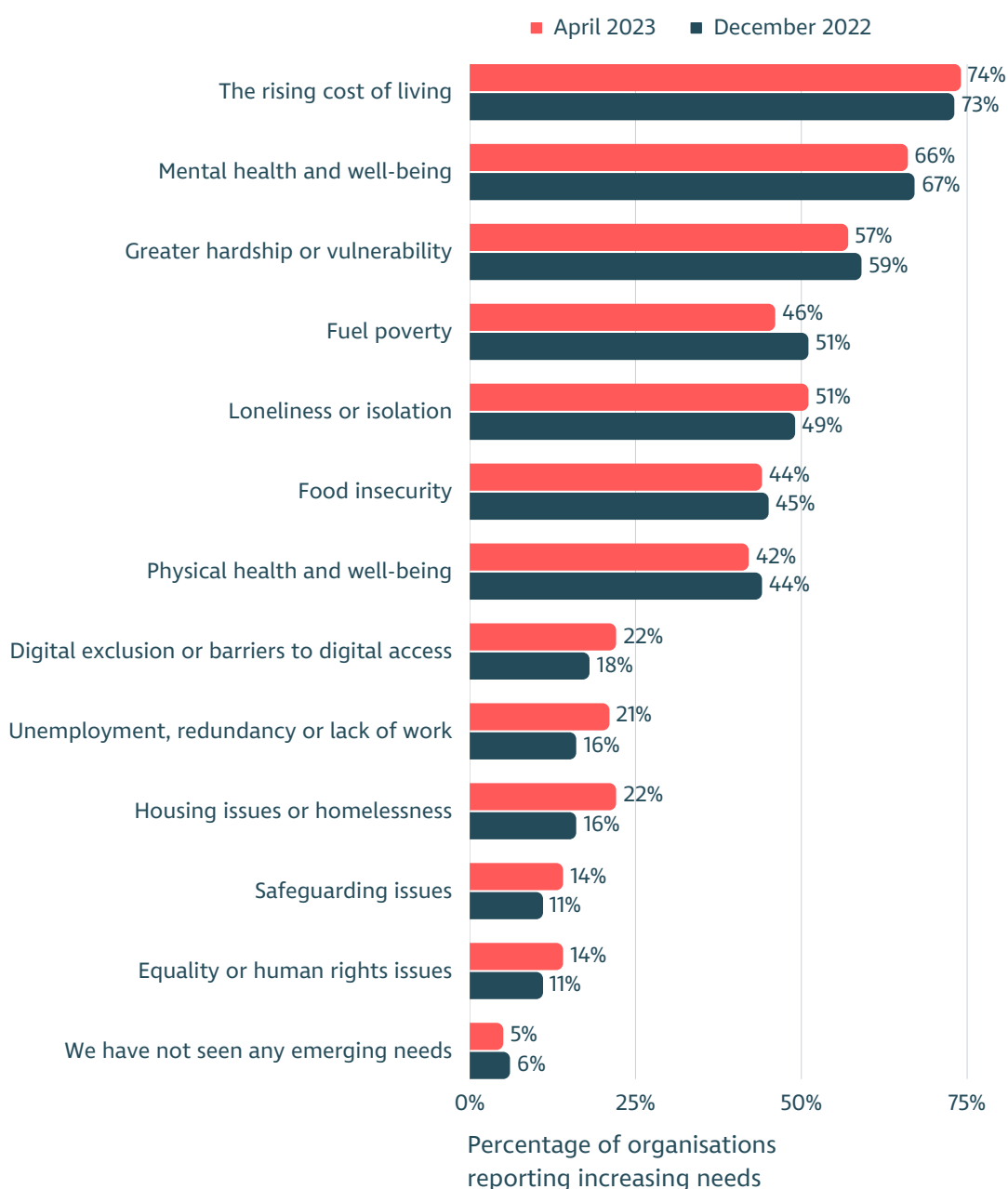
Impact of rising costs on needs within communities

Organisations that work directly with the public were asked which needs or concerns have worsened among the communities and groups they serve. Overall, 92% of these organisations highlighted needs that were worsening in the communities they serve, up three per cent on December 2022.

Three quarters (74%) of organisations reported that the negative impacts associated with the rising cost of living had become worse within the communities and target groups they serve over the past four months. While fuel poverty seems to have eased a little (a 5% decrease), housing issues or homelessness was reported by six per cent more organisations in April than December and unemployment, redundancy or lack of work has increased by five per cent.

Only five percent of organisations reported that needs within the communities and target groups they serve hadn't increased.

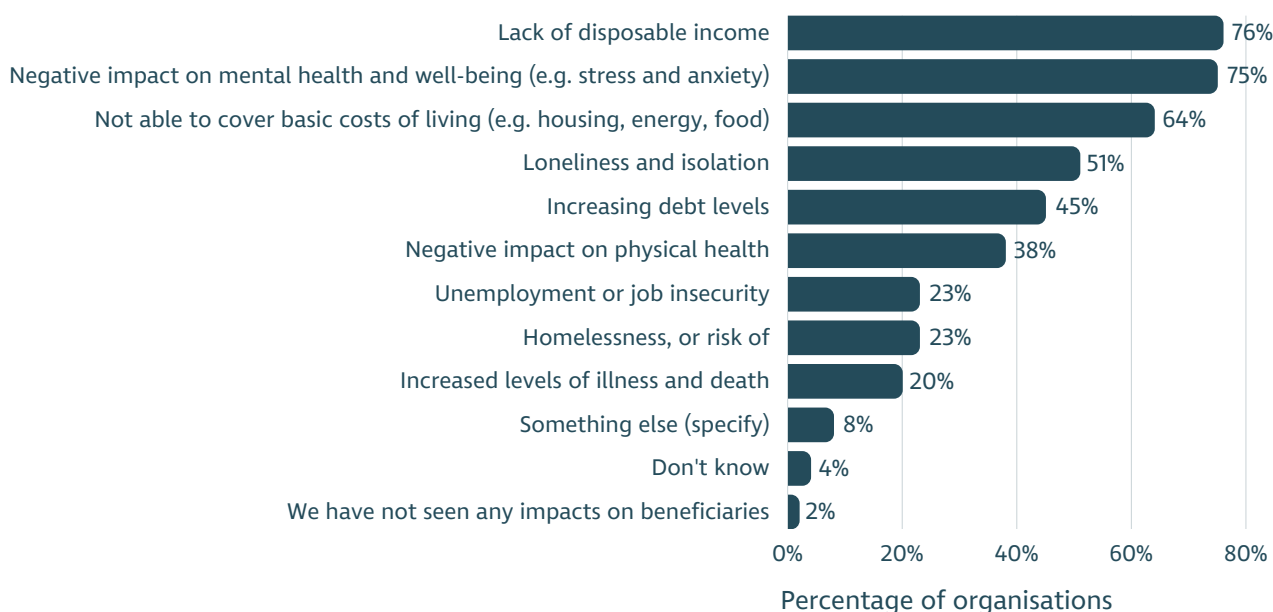
Figure 6. Third sector views on increasing needs within communities and target groups



For those organisations that reported working with individuals facing financial pressures, we asked them to tell us in what ways financial pressures had impacted on their beneficiaries' lives.

Three quarters (76%) of organisations noted that lack of disposable income was the most frequently observed impact, followed closely (75%) by a negative impact on the mental health or well-being, including stress and anxiety. For almost two thirds of organisations, they noted that financial pressures were resulting in their beneficiaries being unable to cover the basic costs of living, such as housing, energy, and food.

Figure 7. Third sector views on the impact of financial pressures on communities and target groups



Organisations were then asked how they were responding to the financial challenges that the individuals and/or communities they serve are facing.

The most frequent response was that organisations were doing their best not to pass on rising costs to their beneficiaries via service charges, and where possible making services free of charge. This was reported by almost 60% of organisations. Over half of organisations reported providing people with information and advice and applying for funding that would specifically support the communities they work with.

Figure 8. Third sector response to financial challenges faced by communities and individuals



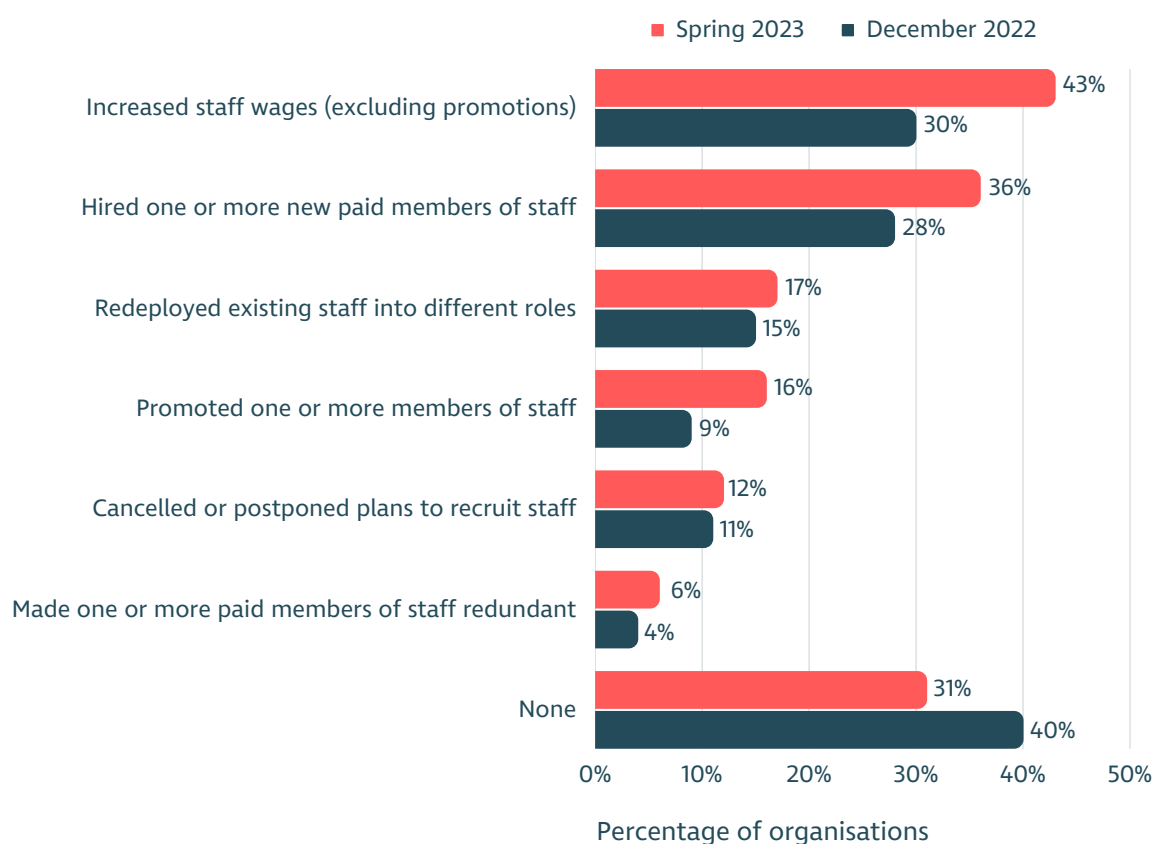
Staffing and volunteering

Organisations were asked the extent to which they had increased or decreased staff numbers since December 2022. Of the organisations that employed paid staff, 61% said that staffing numbers had remained stable, 23% had more paid staff than in December and 15% of organisations had fewer staff.

Since August 2022, paid staffing numbers have remained relatively stable for most third sector organisations. The recruitment lull in December (down 10 per cent on August) has eased a little, up four percentage points by Spring 2023.

Organisations were asked about the key actions they had taken in relation to paid staff over the last 4 months. Of the organisations that employed paid staff, 43% had increased staff wages (excluding promotions), 13% more organisations than December 2022. As mentioned above, more organisations had also hired new paid members of staff in Spring 2023 and almost double the number of organisations (16%) had promoted a member(s) of staff, up from nine per cent in December 2022.

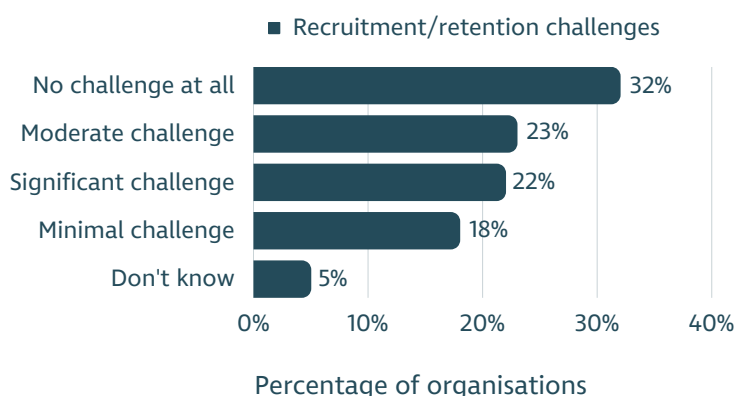
Figure 9. Key actions taken by third sector organisations in relation to paid staff



The data from the last few waves of the Tracker has suggested that a significant proportion of organisations have faced challenges when recruiting new paid staff and/or with retaining staff. Therefore, we asked organisations to tell us to what extent this has been a challenge over the past four months, since December 2022.

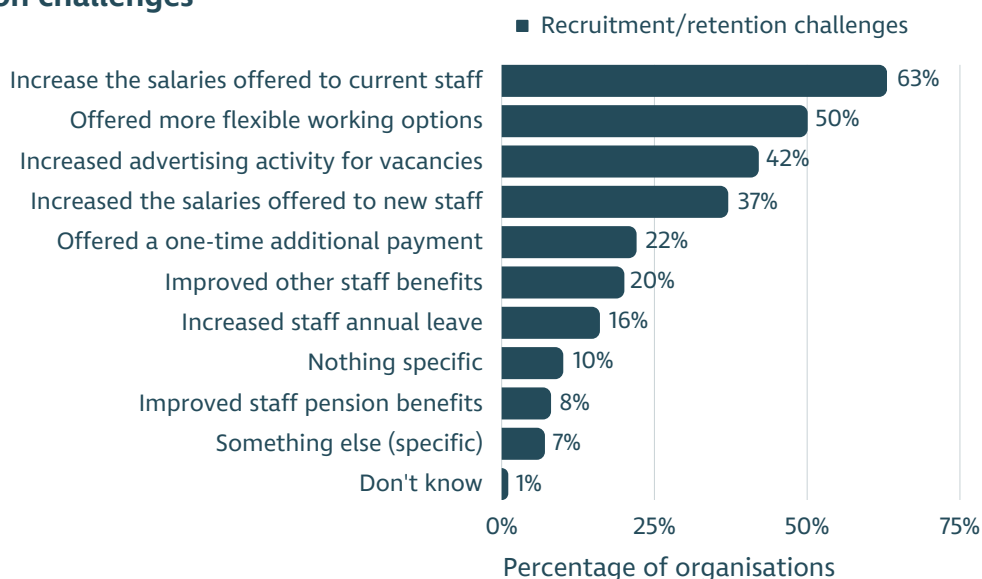
Interestingly, one third (32%) of respondents said that they had faced no challenge at all in recruiting new staff or retaining staff. However, 45% of respondents said that it had been a moderate to significant challenge for their organisation. Unsurprisingly, large organisations (annual turnover > £100,000) were twice as likely to say that it had been a significant challenge than small organisations.

Figure 10. Challenges recruiting and/or retaining paid staff



For those organisations that reported that they were facing recruitment and/or retention challenges, we asked respondents to tell us what actions their organisation had taken to try and alleviate the issue. Almost two-thirds (63%) of organisations reported increasing salaries offered to current staff and half had offered more flexible working options. Forty-two per cent had increased advertising for vacancies and 37% had increased the salaries offered to new staff. Only 10% of organisations had done nothing specific.

Figure 11. Actions taken by organisations to address recruitment and/or retention challenges



We then asked those respondents to tell us what impact these challenges relating to staff recruitment and/or retention have had on their organisation. There were one hundred and thirty-three responses. The key message from respondents was that the sector is not valued as a place to work and struggles to compete against the public sector, at least in terms of salaries. Organisations told us that they do not have the funds to retain or attract appropriately qualified staff and this is having a detrimental impact on service delivery and staff well-being and morale. There was also a feeling that the people applying for roles were not qualified enough. The issue seems particularly pronounced for rural based organisations and has only been exacerbated by Brexit.

“We are unable to compete with the salaries offered for the same roles by the local authority or housing associations. even though we've tried to increase staff benefits to make working for us attractive we simply cannot compete with the level of salaries on offer in the sector.”

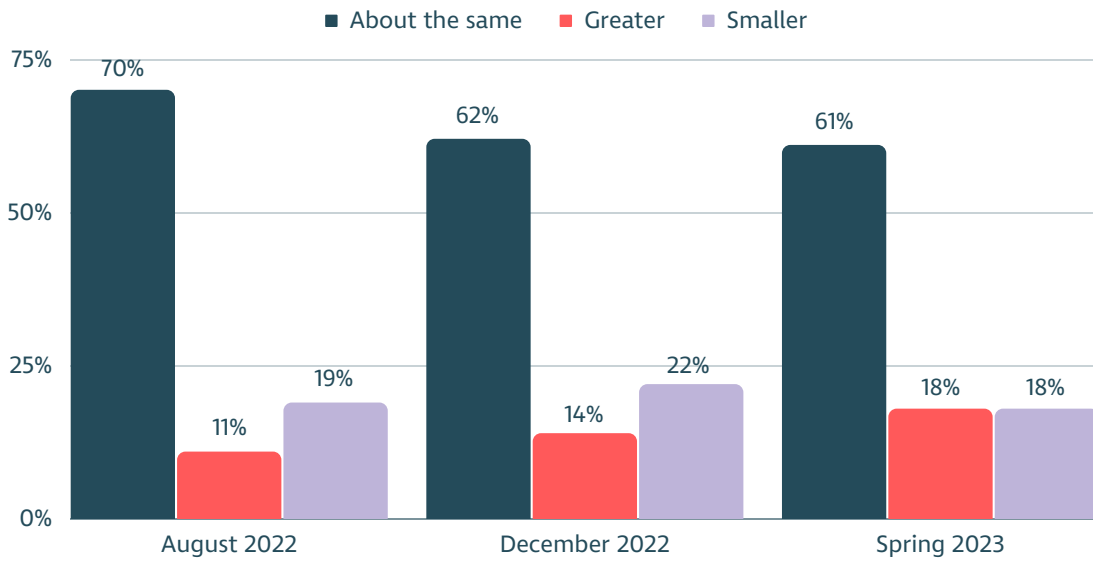
“Due to two key members of staff moving to public sector jobs, we have struggled to find candidates with the relevant experience and qualifications to replace them (incurring additional re-advertising costs).“

“Our biggest problems with recruitment were over the last year or two. This is still a problem, as it's still very much a job-seeker's market, which means staff are moving to other roles much faster than they did in the past, but it still takes a long time to fill a post. Less qualified applicants are applying for roles they may not have attempted in the past, which is good for them but gives us a much less experienced and less qualified pool of candidates to draw from. All of this means we're constantly having to draw on the good will of remaining staff to fill gaps in service and that the people we support aren't getting the attention or service they deserve.”

Volunteer numbers remain relatively stable for most third sector organisations, with 61% of organisations saying that volunteer numbers in Spring 2023 were about the same as December 2022. Eighteen per cent reported working with more volunteers and the same number reported working with fewer volunteers than in December 2022. The upward trend of organisations reporting that they are engaging more volunteers is welcome, up from 11% in August to 18% in Spring 2023.



Figure 12. Change in number of volunteers engaged by third sector organisations



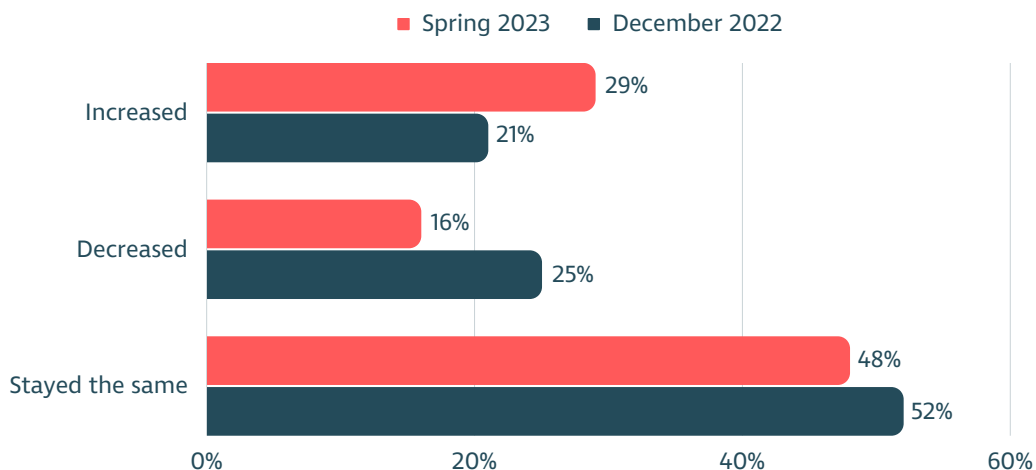
Financial health of third sector organisations

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

Almost half of organisations (48%), reported that their average monthly turnover had stayed the same over the four months since December 2022. Twenty-nine per cent said that their average monthly turnover had increased and 16% said that it had decreased.

Spring 2023 saw an eight per cent rise in the number of organisations reporting that their average monthly turnover had increased compared with December 2022. Similarly, there was a nine per cent drop in the number of organisations reporting a decrease in their average monthly turnover.

Figure 13. Change in average monthly turnover

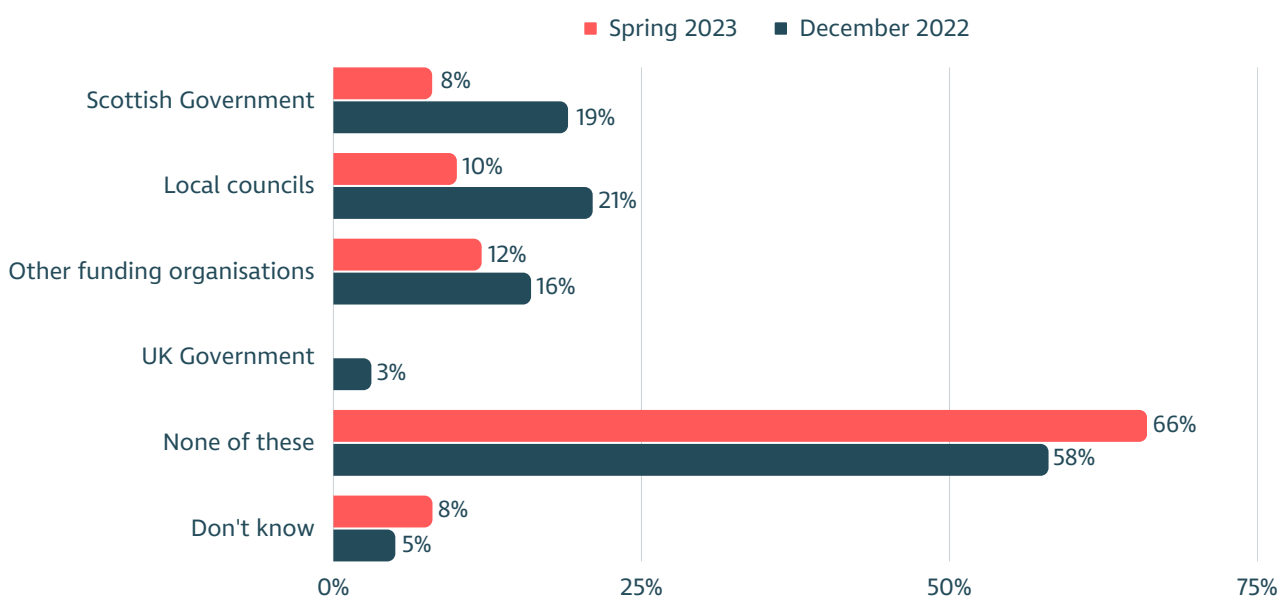


Of the respondents that reported decreased turnover in the last 4 months, 37% thought this to be a medium-term issue lasting more than three months and up to a year. Thirty per cent thought this reduced turnover to be a long-term issue lasting for more than a year and 22% thought it to be a short-term reduction, less than three months in duration. There is a significant drop (12%) in the number of organisations believing that their reduced monthly turnover will last more than a year in comparison with December 2022.

In the preceding wave we asked respondents to tell us about what sustainable funding for the third sector looked like for them. In this wave, we asked respondents to tell us if any of their funding organisations had reduced, stopped, or delayed their annual funding.

Most organisations do not report experiencing funding cuts, stoppages, or delays from any of the funders listed in Figure 14 below. One in five organisations (21%) reported delays to funding from local councils and 19% of organisations reported delays from Scottish Government. In terms of cuts and stoppages, one in ten organisations said that local council funding had been cut or stopped and eight per cent of organisations said the same for Scottish Government funding.

Figure 14. Third sector organisations experiencing cuts or delays to their annual funding



We also asked respondents to tell us about the impact of delays or cuts to funding. One hundred and forty-one respondents told us about the impact of delays and 50 about cuts to funding.

The key themes to emerge from those organisations that told us about the impact of delays to funding included, uncertainty, cuts to services, staff wellbeing and sustainability. Organisations note that delays to funding is creating uncertainty in the organisations ability to continue operating, over the short and longer term. The respondents below highlight how difficult it is to plan for the future and deliver the services that their community needs when funding is not provided in a timely manner.



“Delays in funding decisions have had a significant impact on our organisation recently...without timely funding decisions, we are finding it increasingly difficult to maintain the resources we need to provide our transport services to the members of our community. We may have to delay or cancel some of our services. Additionally, the uncertainty surrounding funding decisions can make it difficult to plan for the future...Overall, the delays in funding decisions are having a negative impact on our organisation's ability to operate effectively and meet the needs of our community.”



“The delay in funding decisions has a massive impact on the organisation. The local councils, government and other funders have dragged their heels in relation to making decisions which has ultimately put organisations at a disadvantage by not allowing them to plan ahead, seek other funds to cover core costs/activity costs and meet the needs of their communities.”

Similarly, the respondent below speaks to the negative impact on services if funders do not make timely decisions on funding applications.



“Delays have a detrimental effect upon our services as we wait to hear if we can proceed or start projects. This is particularly felt if the final outcome is negative as we are left hanging on for weeks/months only to then find out it isn't happening at all. It really isn't good enough and funders should be aware of that.”

The delays also create uncertainty for organisations trying to budget and makes for less innovative organisations with development often taking a back seat. It's not just beneficiaries and communities that feel the negative impacts of delays to funding, but staff too report feeling anxiety and worry.



“Delayed responses by trusts to our proposals means reduced income for us, as trust income is spread out over longer time periods. Delayed launches of calls for proposals by the Scottish Government similarly delays possible income for us and hence spreads our income out over a longer period.”



“The inability of Scottish Government to confirm or issue grant offer letters means we face considerable uncertainty around budgets, and it develops a nervousness around the Board table, leading to more risk-averse, more cautious decision-making being deployed. The uncertainty caused by the non-confirmation of year-to-year funding creates levels of anxiety and worry among the staff group more generally. Development activity (which is often key) moves to the back burner.”



“Insecurity of funding for staff salaries...unable to proceed with developments due to delays in funding decisions...delayed decisions make it more difficult to plan which other funders we can approach if funding decision is unsuccessful leading to greater insecurity for projects.”

As for those organisations reporting cuts to funding, the three key themes to emerge were, long-term sustainability of the organisation, cuts to services and staff redundancy. For some organisations, although their funding has remained the same, given the rate of inflation, the funding is no longer enough to cover costs. In some instances, where funding has decreased the services have been scaled back or stopped altogether.



“While we look to have exit strategies in place, the fact is that any drop in funding/non-continuation of a funding stream means that, having created a demand for a service, the client group generally has nowhere to go or find an alternative source of help.”



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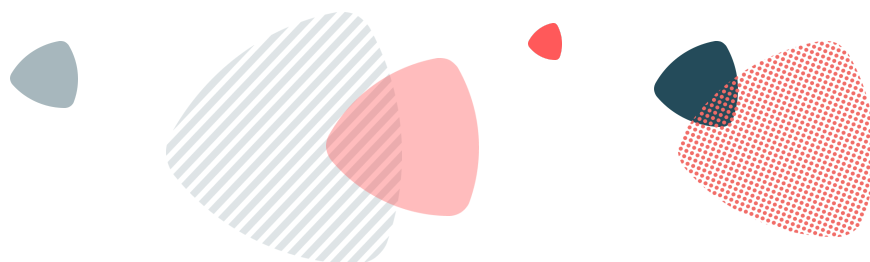
“Scottish Govt. - decreased in some project funding which has resulted in those projects reducing/ceasing. Scottish Govt. Core - no increase in the last year and so effectively a significant reduction which has impacted on the organisation's ability to sus. (sic).”

The reduction in funding is also putting the future of some organisation in jeopardy, including the staff who work there. Organisations report cutting or reducing services, making staff redundant or depleting their reserves to combat the loss of income.



“Loss of services, loss of staff, erosion of reserves, potential questions as to going concern of organisation if this trend continues.”

Finally, organisations were asked how confident they were that they will still be operating in 12 months' time. Ninety per cent of organisations are confident, with 55% very confident and 35% quite confident. Only one per cent are not at all confident. These figures are in line with December 2022.



Conclusions

The findings from wave 6 suggest that more organisations are feeling the impact of rising costs, inflation, and other financial pressures. Core operating costs continue to rise with more organisations reporting a negative impact on their ability to deliver services. In addition, difficulty fundraising continues to be a perennial issue for around a third of organisations with over half applying for additional funding to combat rising costs. Funding delays and cuts, whilst not appearing to be prevalent, cause additional financial uncertainty for organisations.

Two-thirds of organisations would like to see more funding made available to help with rising costs, with 40% wanting specific help with energy costs. This comes after a quarter of organisations said that the practical and financial support available to help with rising costs was not very sufficient and an additional 15% said that it was not at all sufficient.

Financial reserves remain important to the survival of many third sector organisations, however, almost half of those organisations using reserves feel this use to be unsustainable. This wave also saw an increase in the number of organisations reporting that they had access to less than six months operating costs in their reserves.

Despite these financial pressures, 60% of organisations report reducing the cost of their services or making them free to support the communities they serve as the rising cost of living continues to have a detrimental impact on peoples' lives.

While financial pressures are prevalent, staffing and volunteer issues remain high too, with volunteer shortages the response option most frequently ranked as organisations number one challenge. Many organisations report increasing the pay offered to new and existing staff and offering more flexible working conditions to attract and retain paid staff. In the face of these challenges, most organisations remain confident of their future survival, although the percentage of organisations that are very confident has dropped.



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