




# The impact of rising costs on third sector organisations in Scotland

# Contents

The page features a dark teal background with a large white abstract shape. This shape contains several overlapping circles and ovals with different patterns and colors: a red dotted circle, a grey solid circle, a grey striped circle, a red solid circle, a red striped circle, a red solid circle, and a dark teal solid circle.

<b>3</b>	<b>Introduction</b>
<b>3</b>	<b>Challenges of rising costs</b>
<b>4</b>	<b>Costs increases</b>
<b>6</b>	<b>Case Study</b>
<b>7</b>	<b>Energy Prices</b>
<b>8</b>	<b>Response to rising costs</b>
<b>10</b>	<b>Support available</b>
<b>12</b>	<b>Conclusions</b>

## Introduction

This paper highlights the impact of rising costs and inflation on third sector organisations operating in Scotland. Since August 2021, inflation has been above the UK Government's 2% target, peaking at 11.1% in October 2022 – the highest since the early 1980s (when it was about 18%). As of May 2024, inflation was 2.3%.

Third sector organisations are facing a deeply challenging combination of increasing need among the communities they work with, rapidly rising operating costs and reductions in income.

Charities Aid Foundation (CAF) reported in March, that the UK public donated an estimated £13.9 billion to charity in 2023. This was an increase from £12.7 billion in 2022, and was driven by some donors making larger donations, rather than by more people giving to charity. Although giving levels have declined over the past few years, they did not deteriorate further during 2023, despite the high cost of living and a technical recession in the second half of the year.

## Challenges of rising costs

The Scottish third sector tracker started to collect data the same month that inflation started to rise above 2% - August 2021. In December 2021 (wave 2 of data collection), rising costs and inflation were reported to be a top 3 challenge for 14% of organisations. By Wave 7 (Spring 2024), 44% of organisations chose rising costs and inflation as one of their top three challenges. Social enterprises were particularly concerned about this, with 64% rating rising costs and inflation as a top 3 challenge in Wave 6.

In Spring 2022, we explored in-depth the impact of rising costs on third sector organisations. In this third wave, we asked respondents to tell us about the main challenges that rising costs were presenting their organisation. Those challenges can be grouped under three broad categories: funding and finances; service delivery and staff and volunteers.



**“Rising costs are not matched by increases in contract funding leading to loss making across the board and subsequent pressure on reserves or sustainability.”**



**“Rising costs and no increase in funding has resulted in us having to dip in to reserves to cover basic operating costs.”**



**“Budgets have been stretched to go further in order to cover increasing costs and so other activities have been curtailed or cancelled.”**



**“Cost of living [is] not matched by income received meaning that staff are disadvantaged, and staff retention and recruitment are seriously adversely impacted upon.”**

Costs have increased for the majority of third sector organisations across all areas of operations; materials and supplies; energy and transport; fundraising etc. (see following section). This has had a detrimental impact on organisations ability to deliver their programmes and services – 60% of organisations in Spring 2024 reported that rising costs are having a moderate to significant impact on their ability to deliver their programmes and services.

## Cost increases

Since that third wave, the Tracker has asked organisations to what extent they have seen a change in prices for materials or supplies; staffing; transport; energy; marketing, advertising or fundraising; business support costs or premises rental (see Figure 1).

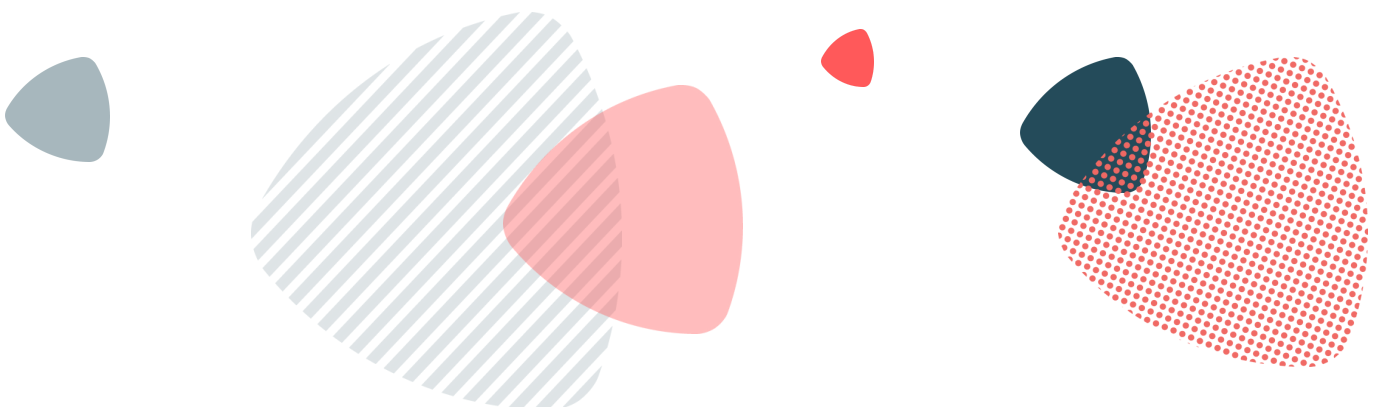
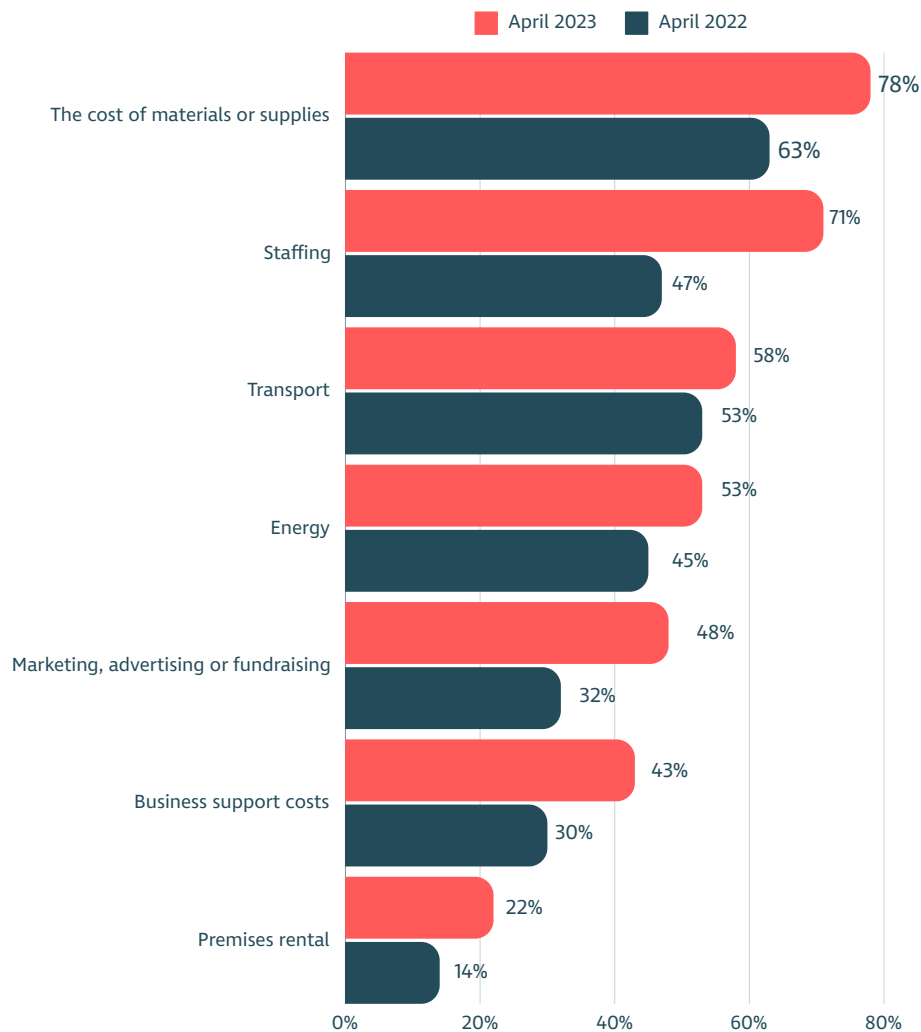


Figure 1. Cost increases



In both Wave 3 and 6, organisations were most likely to say that the cost of materials or supplies had risen in the past three months. The percentage reporting this rose from 63% in Wave 3 to 78% in Wave 6. This is a challenge for any organisations whose work is dependent on supplies of materials, including food aid charities; care organisations; homelessness charities and others. In Wave 3, the second most frequently reported overhead to have seen a rise in cost was transport (as selected by 53% of organisations). In Wave 6, 58% of organisations reported rising costs in this area, and this was the third most frequently selected option. Concerns here relate to rising costs of fuel, making it more expensive for organisations to deliver goods to communities, offer transportation to people in their communities who need additional help, or pay travel expenses to staff.

## Case study

Jubilee House (an SCVO member) was set up as a registered Scottish charity in 2015.

Jubilee House has three main goals:

- Recovery from domestic abuse.
- Teaching the skills that promote abuse free lives.
- Mental health and wellbeing

Jubilee House's managing director, Fiona McGrath, spoke with SCVO about the challenges of managing a third sector organisation during this period of rising costs and inflation. Jubilee House's insurance costs have increased by almost £500 this year and utilities costs have also increased. These cost pressures have resulted in Jubilee House having to dip into their reserves to cover increased costs and it has also resulted in some planned work being put on hold at a time of increased demand for services.

Those services are almost at capacity and Fiona is spending time applying for funding and exploring new income streams, including monetising the training they provide. In terms of funding, core and unrestricted funding is often difficult to secure and would be of huge benefit to the organisation. The short-term nature of most of the funding is also an impediment to more strategic thinking and providing Jubilee House's four paid staff with job security.

The overhead which has seen the largest percentage point increase has been staffing – increasing from 47% of organisations reporting a rise in costs in the three months preceding Wave 3 (Apr 2022) to 71% in Wave 6 (Apr 2023). Organisations have sought to offer staff pay rises to keep up with the rate of inflation or to offer higher salaries to ensure they can compete with public and private sector roles.

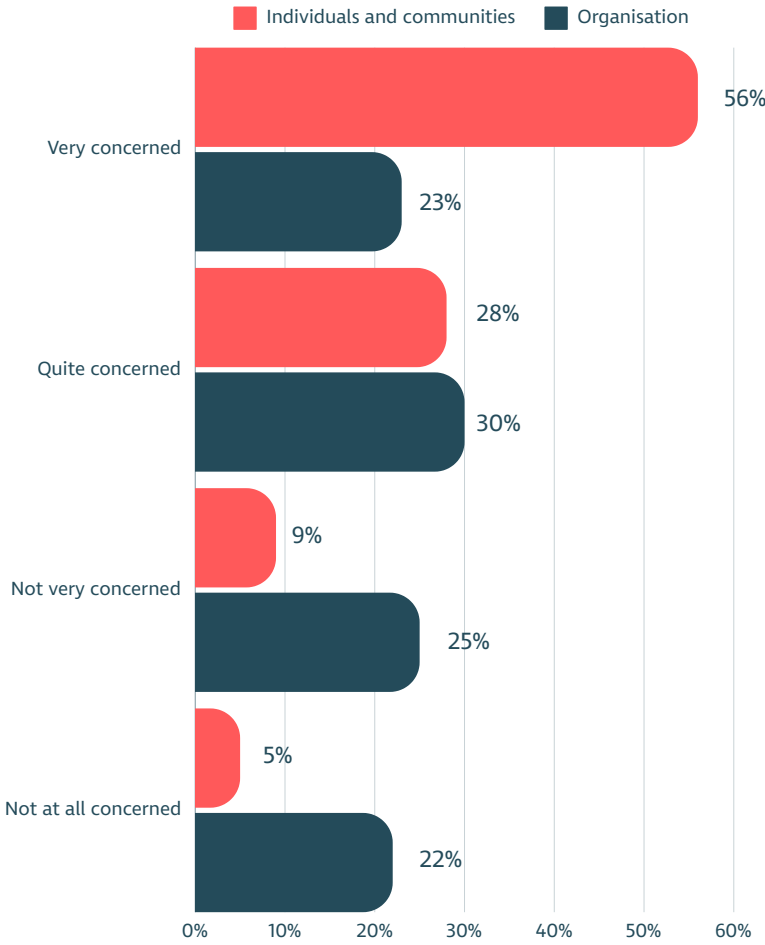
The area that has seen the fewest organisations reporting overhead costs is premises rental (14% in Wave 3 and 22% in Wave 6). The reason for this being lower is that over two fifths of organisations from Wave 3 onwards said that this was not applicable to them as they don't rent any premises.



# Energy prices

In wave 6, we asked respondents to tell us how concerned they are about rising energy prices, both for their organisation and the individuals and communities they serve. Over half of respondents (56%) are very concerned and 28% are quite concerned about energy prices for the individuals and communities they serve. Fifty-three (53%) are very or quite concerned about energy prices for their organisation.

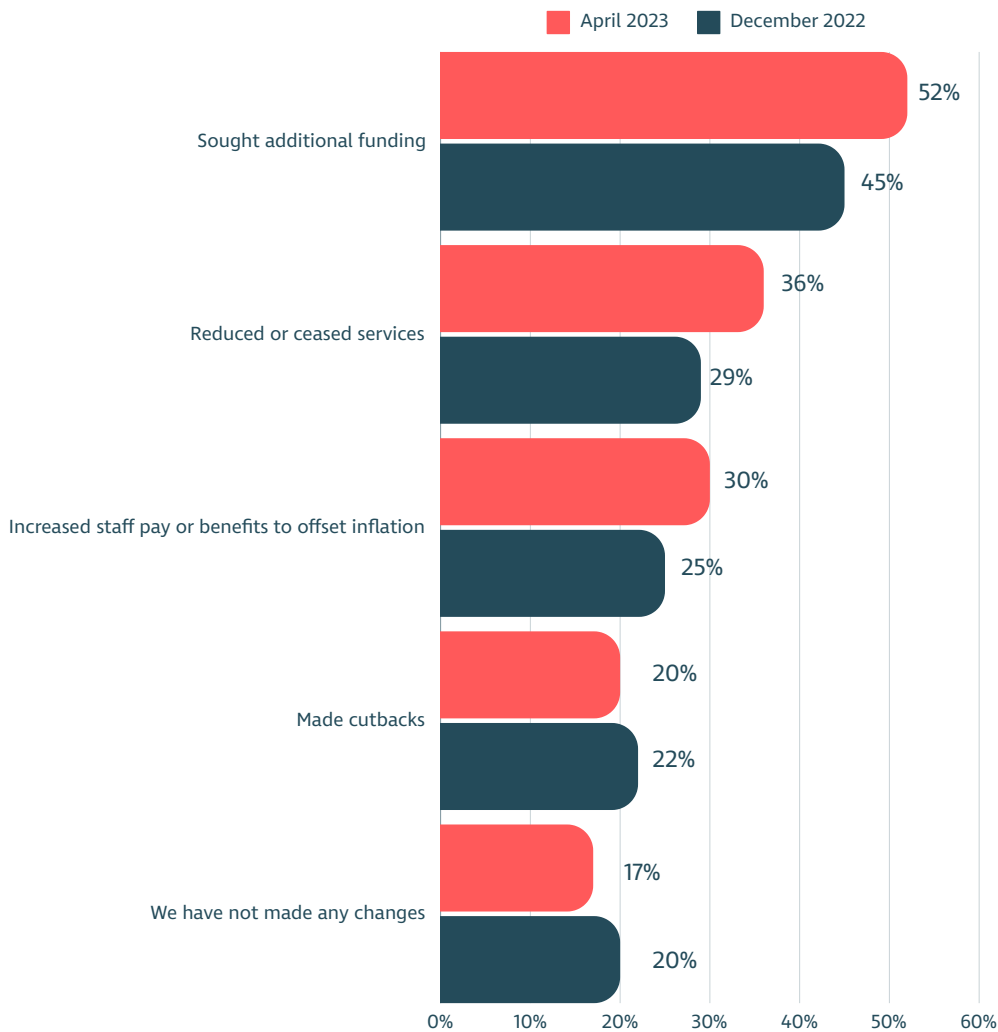
Figure 2. Concern about energy prices



# Response to rising costs

As organisations face more internal pressures from rising costs, many have had to adapt their services or activities to save money. Organisations were asked in Waves 5 and 6 about the changes they have made in response to the rising costs. At Wave 6, 83% percent of organisations said they had made at least one change to limit the impacts of cost increases.

Figure 3. Response to rising costs



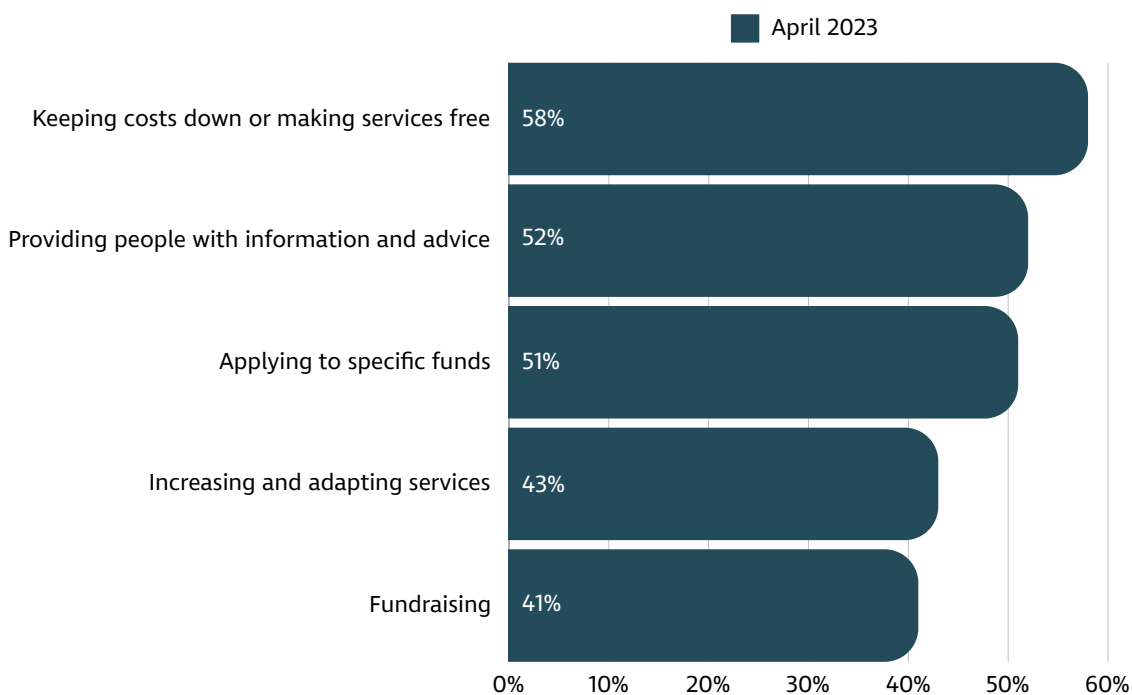


In both waves, the most frequent change that organisations made in reaction to rising costs was to seek additional funding, as indicated by nearly half the organisations (45% in Wave 5, increasing to 52% in Wave 6). Organisations that employed paid staff were more likely to have sought extra funding (60% of organisations in Wave 6) than those without (34% of organisations). Whilst organisations that employ staff may have a larger cost base in general than those that do not, the findings may suggest that some organisations were seeking additional funding to enable them to improve staff wages, given that 30% reported to have increased staff pay and benefits to offset inflation in Wave 6. The second most frequently implemented change in both waves was reducing or ceasing services, as many organisations considered how they could adapt their activities to save costs.

Organisations were asked in Wave 6 about their response to the financial challenges that their beneficiaries were facing. Approximately 58% of organisations reported that they were keeping costs for their services as low as possible or running them free of charge. This option was frequently chosen by organisations that specialised in education or research (75%) and culture and sport (72%).

Just over half the organisations said they were providing information and advice on the support available to help with financial challenges (52%) while others had applied for specific funds to support the communities they worked with (51%). Only 3% of organisations said they had not yet taken any action in response to the crisis.

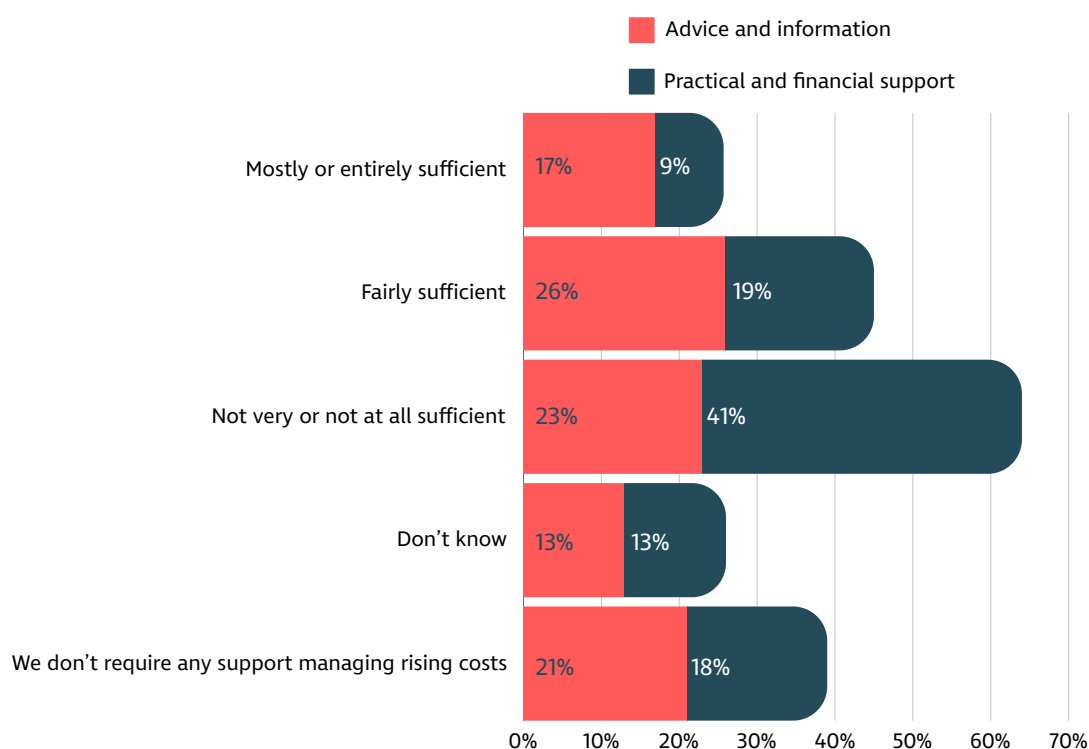
Figure 4. Response to financial challenges face by beneficiaries



## Support available to organisations

The Scottish Government and other organisations have issued advice, information and practical support on rising costs to support the third sector in facing the cost-of-living crisis. In Wave 6, 17% of organisations said the available advice and information was mostly or entirely sufficient for their needs, but a higher proportion indicated that it was not at all sufficient. A fifth of organisations said this question was not applicable to them as they felt that they didn't require advice or information about managing rising costs and 13% didn't know if the advice was sufficient.

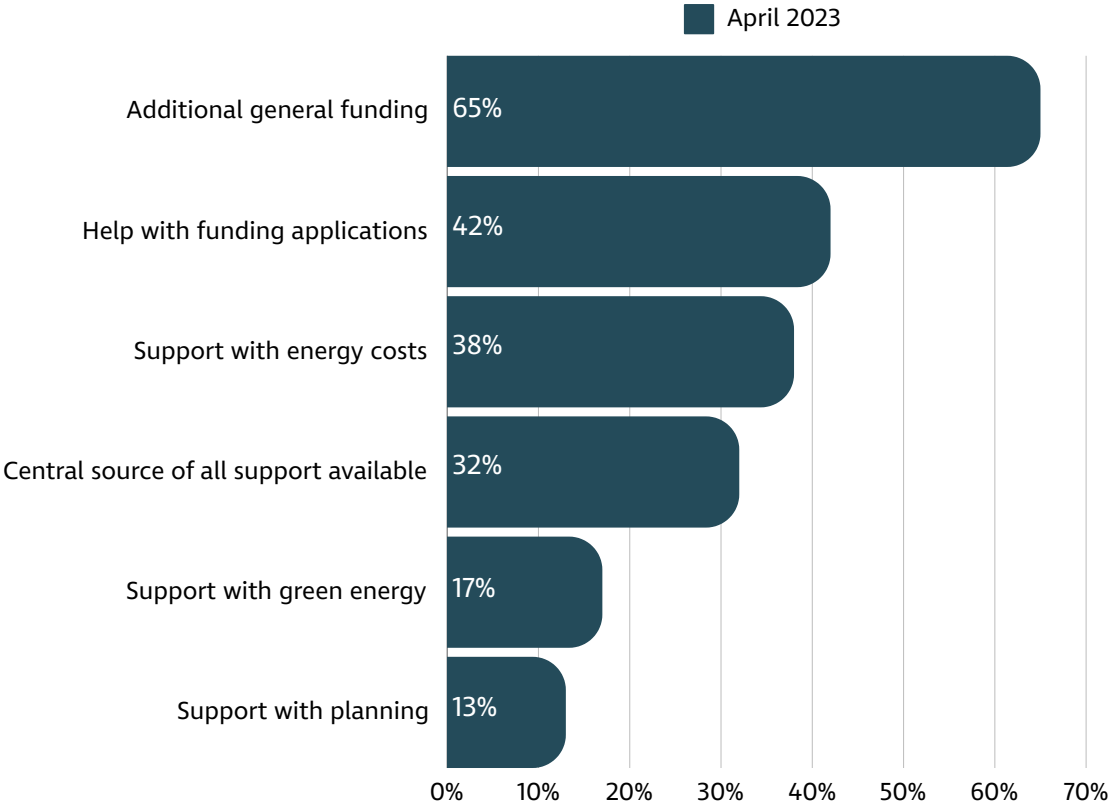
Figure 5. Sufficiency of support and advice available



Only 8.7% of organisations reported that the practical and financial support available to them to help with rising costs was mostly or entirely sufficient, whereas 41% said it was not at all sufficient. Under a fifth of organisations said that this was not applicable to them as they don't need practical support to help them rising costs. Overall, the data suggest that many organisations continue to need more practical and financial support in dealing with the impacts of the crisis.

When asked what support organisations would find useful to help with managing rising costs, two thirds said that they required additional general funding (see Figure 6). Those with paid staff were more likely to want access to additional general funding (75%) compared to those without (45%). The next most frequently requested support was help with funding applications and financial support with energy costs (42% and 38% respectively).

Figure 6. Support most required



## Conclusions

The findings 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.

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.

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.