SCVO Research Report

State of the Sector 2024

Key Scottish voluntary sector figures and trends

Jan 2025

The voluntary sector in numbers – key facts

There are over
46,500
voluntary sector organisations in Scotland

In a typical year,
4 in 5
households use a voluntary sector service

Almost
1 in 3
people said they had used a services by a charity in the last 12 months (OSCR 2022)

43%
of young people said they had used a service provided by a charity in the last 12 months (OSCR 2022)

In 2023 the voluntary sector's turnover in Scotland was
£9.7bn

In 2023 the voluntary sector spent
£9.3bn
on carrying out its activities

In Scotland last year
830,000
people volunteered

The sector looks after substantial assets on behalf of the communities and people of Scotland... from historic buildings, social housing and community land to investments held by charitable foundations, totalling an estimated
£37bn
last year

There are over
200,000
trustees leading charities across the country

Scotland's voluntary sector has
136,000
paid staff

89%
of voluntary organisations in Scotland are local

The voluntary sector plays a particularly important role in rural communities – with
35%
of organisations based in rural or remote areas

The sector is made up of, among other things:

- 23,800 registered charities including 163 housing associations
- Around 1,000 community interest companies
- 83 credit unions
- Over 6,000 of these voluntary organisations are also social enterprises

From our About the Sector page

Key financial trends in 2024

Summary

Our recently published data and analysis of 2022/23 financial data shows that while the sector continues to grow modestly in terms of income, sustainability remains a key issue as economic factors continue to put pressure on most voluntary organisations.

Funding from government has remained fairly stable, while income from the public has to a large extent recovered after being hit hard by Covid. Unfortunately, for many voluntary organisations expenditure rises have matched and outpaced many of these hard-won gains

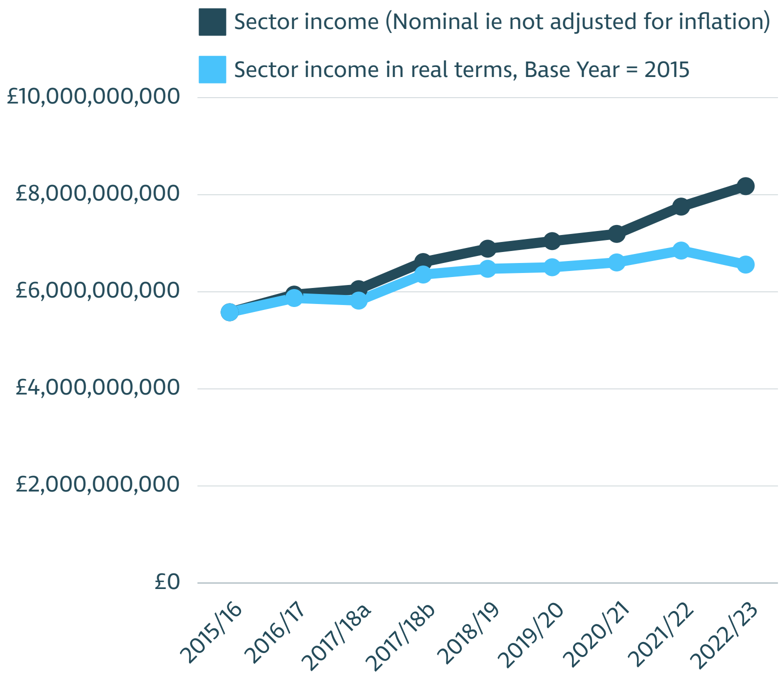
Inflation and rising costs impacting on sector

Inflation rose steeply over 2022-2023 peaking at 11% in October 2022, a 41-year high. The inflation rate has now gone back down to a more reasonable level, but prices are still rising albeit at a slower rate. The sector has seen rising costs across many areas from staff costs to insurance and utilities bills.

Staff costs make up almost half of the sector's expenditure, and over the last 5 years have risen from £2.4bn to £3.2bn despite the number of paid staff in Scottish charities remaining virtually unchanged see Sector Stats - People. This seems to be steeper than the labour cost increases seen across most other sectors. Cost of living increases and increases to the living wage will see staff costs continue to rise for sector employers, and some analysts are reporting that the recent changes to employers National Insurance contributions are already having an impact on workforce numbers as "firms put hiring on hold".

However, the key driver behind much of the sector's increased expenditure is the sharp rise in the cost of basics such as utilities and insurance. Over recent waves of the Tracker organisations have reported costs rising across almost all operating areas. The most pressing cited in the Spring 2023 wave were: the cost of materials and supplies (76% of the sector) followed by transport costs, staffing costs and energy costs. In the Winter 2023 Tracker 84% of organisations said they were very or quite concerned about energy costs. In many annual accounts we saw heat and lighting costs treble and even quadruple in 2023 – a combination of price hikes and services finally getting back to pre-Covid levels. We also saw a steep rise in things like rental costs and insurance costs.

Figure 1. Scottish third sector income 2015 to 2023, with and without inflation adjustment



The impact of inflation can be seen in the chart here, where we can see that after adjusting for inflation sector growth in real terms is much more flattened, and there was even a small downturn in 2022/23.

The sector's overall income increased in cash terms by around £400m (+5%) between 2022 and 2023. However, after adjusting for inflation, the sector's income actually fell in real terms by nearly £300m (-4%).

When we analyse growth in more detail, we also see a mixed picture.
For example, the Social Care sector saw income grow by over £100m, accounting for a third of all income growth. But Social Care is also the sector that saw the biggest increase in expenditure, which meant that overall, it saw a combined deficit of nearly £50m.

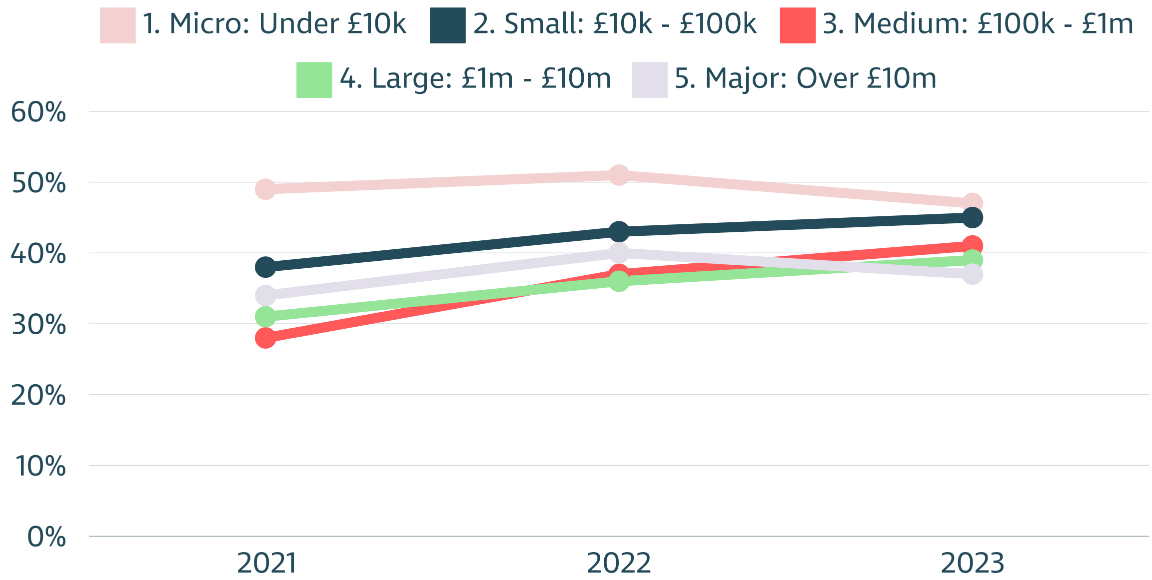
Most organisations still in the black, but deficits are on the rise

Despite the tough economic climate over half of charities were still able to keep within budget in 2023. However, margins have tended to be wafer-thin.

There has been a steady rise in the numbers of organisations spending more than they managed to generate. Small, medium and large organisations that make up the backbone of the sector have seen deficits rise steadily since 2021 – see Figure 2.

More positively, at the two opposite ends of the spectrum both the smallest (Micro) and largest (Major) charities saw the numbers reporting a deficit fall in 2023.

Figure 2. Percentage of organisations reporting a deficit, 2021 to 2023



One positive here is that for now these deficits tend to be quite small, with most charities only just falling short of breaking even. However, it still means that many charities have very little wiggle room when it comes to meeting unexpected expenses, and many have been nibbling away at their assets for several years now.

A number of 2023 Trustee Reports talk optimistically about their plans to rebuild their depleted reserves, but this will be a challenge for many given these wafer-thin margins and rising deficits.

> **"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.**
>
> Third sector Tracker respondent

> **"The Directors, recognising consecutive years of deficit draining the reserves, have put plans in place to increase income, reduce costs and exercise greater financial control. A freelance fundraiser has been engaged to supplement the efforts of our fundraising officer, focusing on obtaining unrestricted grants and donations. The Chief Executive and her team have increased the number of activities that generate direct income. Every opportunity to reduce costs is being considered and some changes have already been implemented.**
>
> From a Medium-sized charity's Annual Trustee Report

In 2022, six in ten organisations reported struggling financially. This number is now closer to eight in ten (77%).

Third sector Tracker 2024

Sector assets now worth £37bn but many organisations are drawing on reserves unsustainably

The value of assets managed by the sector have increased steadily every decade, driven by things like the property value and investment growth. However, recent pressure from rising costs has seen a £1bn fall in assets as organisations draw on reserves to cover shortfalls, with cash reserves seeing a large fall from £5.2bn in 2021 to £3.7bn in 2023. This drop was only partially mitigated by rising value of fixed assets such as buildings and long-term investments.

The chart here shows that while the value of Fixed tangible assets (eg heritage assets, land and premises) has increased, there has been a fall in the value of investments held by the sector, alongside a large fall in all-important Cash reserves.

Note: the data here excludes Housing Associations, which between them manage social housing stock worth almost £16bn.

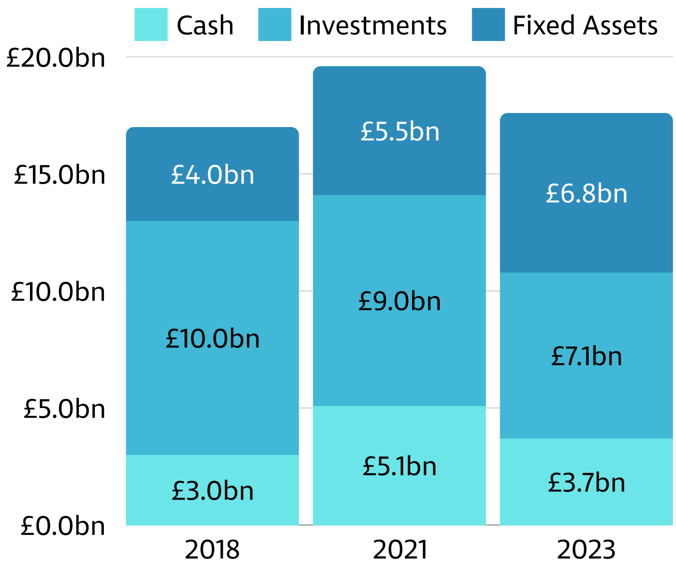
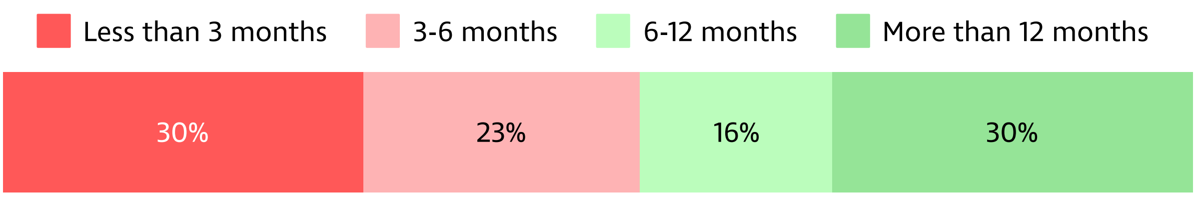


Fig 3 Key sector assets 2018 to 2023, in £bn

While much of the sector saw modest increases in their assets, large charities (Over £1m turnover) have seen the value of their funds fall, with average funds held dropping from £17m in 2021 to £12m in 2023. Medium and large charities are also the least financially robust - half have less than 6 months expenditure in reserves and nearly 1 in 3 large charities has less than 3 months of expenditure in reserves. This is not a new trend and is in line with what we've seen over the last 5 years, but it does raise concerns.

We know from the most recent waves of the Tracker that a third of charities are using their reserves to make up shortfalls, and that 2 in 5 of these organisations feel that their current usage of reserves is unsustainable.

Fig 4 Large charities (£1m+): months of expenditure in unrestricted reserves



Key income sources and trends

The public sector and the general public are the two most important sources of income for the Scottish voluntary sector. Five years ago, public sector funding was just slightly higher than income received from the public via donations and sales.

Covid saw that gap widen significantly. Money from the general public dropped sharply, but we saw public sector funding boosted by over £1bn to £3.3bn in 2021.

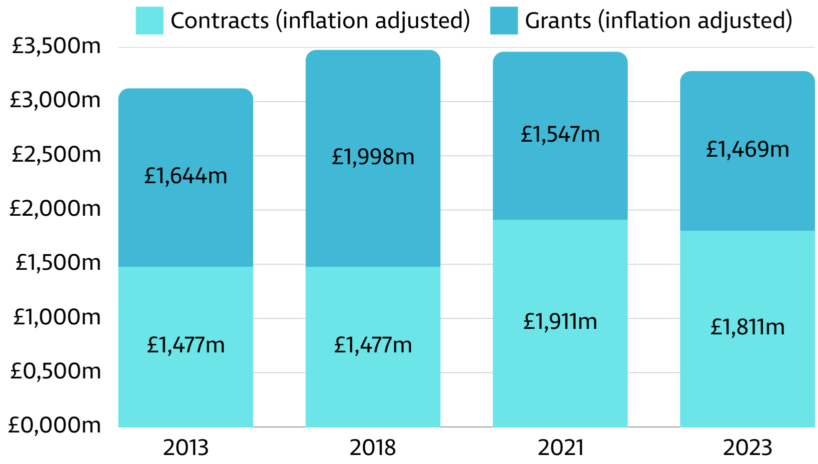
Public Sector income

Public sector funding currently makes up 40% of the sector's income. There has been a slight fall in the value and relative importance of public sector funding to the sector in 2023 now that emergency Covid funds and Furlough money has ended.

Fears of a sudden substantial withdrawal of essential government financial support have happily not been realized, but while public sector funding has stayed at 2021 levels in cash terms, its real term value has fallen for both grants and contracts.

Half of all public sector money comes from Local Authorities, the majority in the form of contracts. In recent years we have seen an increase in Scottish Government funding, often in the form of grants, many but not all of which relate to Covid and resilience funding.

Fig 5 Public sector income 2013 to 2023, split by contracts and grants



Public sector funding in Scotland and the rest of the UK

The picture for public sector funding in Scotland is quite different from the wider UK picture. If we compare the green line in the two charts below, we can see that government funding is the top income source for the Scottish third sector, but second for the wider UK.

Over the last 10 years Scotland has seen public sector income grow slowly but steadily with an extra boost during the peak pandemic, with only a shallow decline as we entered the recovery period in 2022/23.

Meanwhile in the UK we can see that government income has been slowly decreasing over the last decade, and while we saw a similar boost during Covid, the UK then saw public sector income fall sharply from £17bn to £14bn in 2021/22 (2022/23 data not available yet) – see NCVO's UK Almanac.

Fig 6 The top three sector income sources in Scotland, 2012 to 2023

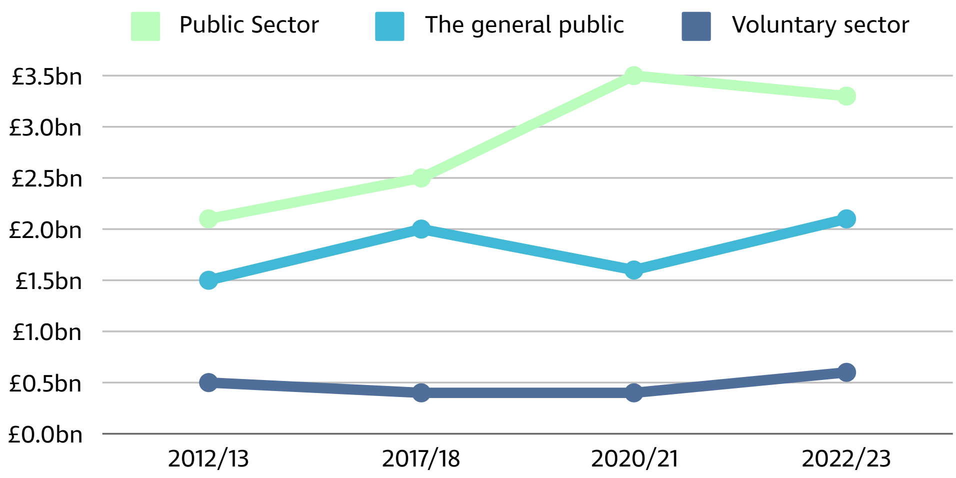
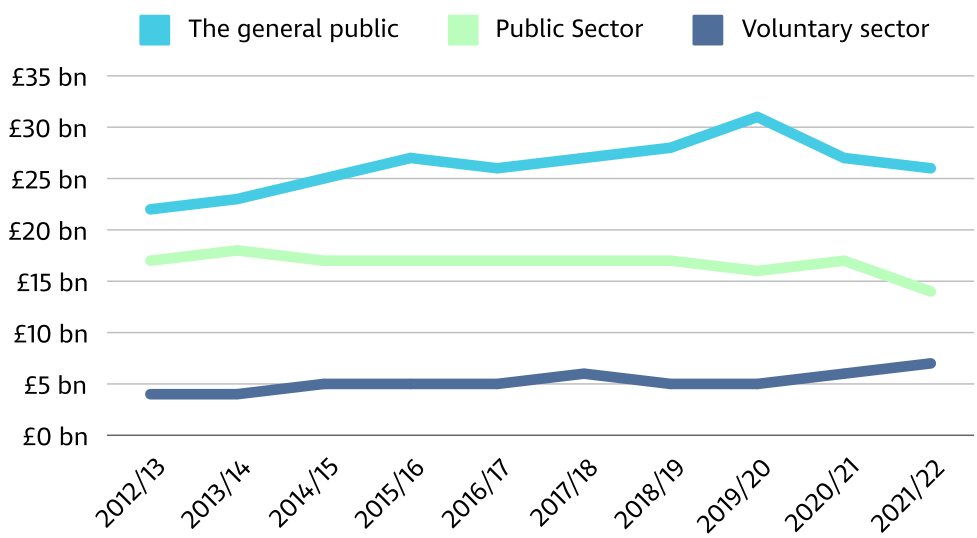


Fig 7 The top three sector income sources in the UK, 2012 to 2023



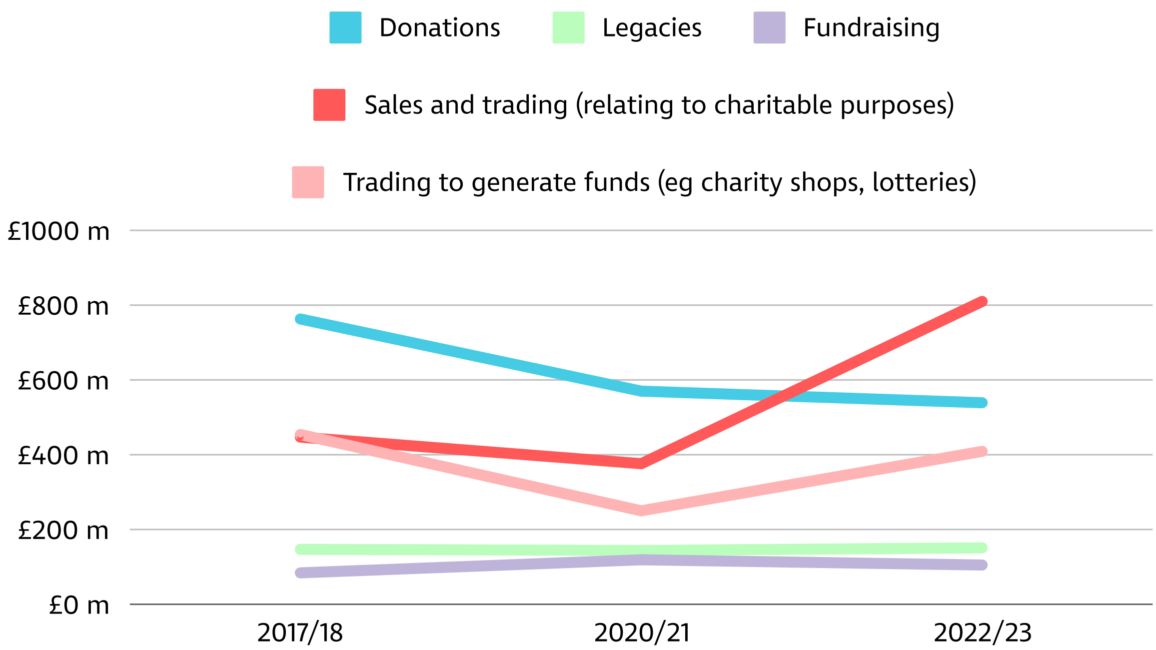
Both charts show inflation adjusted figures

Income from the public – donations, fundraising and sales

Looking at the previous chart (Fig 6) we can see that the £2bn the sector receives from the general public is a vital source of income – although perhaps not as critical as in the rest of the UK where most of the big household name charities are based.

In 2020/21 we saw a drop in income from the general public due to Covid and the Cost-of-Living crisis impacting on fundraising, sales and donations. Happily trading and fundraising income now appears to be making a recovery as we can see from the upticks in the chart below, although straightforward donations are still subdued.

Fig 8 General public income by specific income streams



Balancing the books

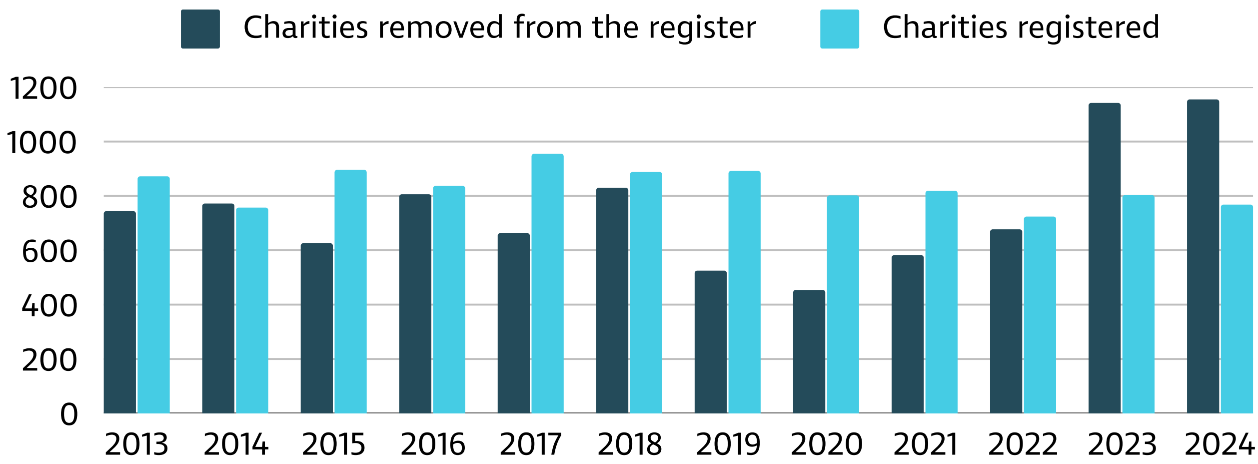
From both charity accounts and the Tracker we know charities have been rising to meet the financial pressures outlined above. Many charities report investing in fundraising activities, and we have seen fundraising costs rise by a third, from £415m in 2021 to £558m in 2023.

Most (87%) organisations are confident of their survival and a similar proportion think they have the capacity to meet most or all current demand for services, albeit with an increasing number having to expand their fundraising activities and adapt services to remain operational.

Less positively, a number of charities are having to reduce or close unsustainable services.

In the most recent wave of the Tracker, 38% of organisations report that they have reduced some areas of service to focus on others. And a couple of years ago almost two-thirds of large social care organisations (63%) told CCPS that they were considering taking emergency measures such as reducing service or handing back contracts.

Although data from OSCR does show an increase in the number of charities being wound up in the last 2 years, this includes a large number of inactive charities that have been removed from the register due to large clean up exercise. However this is an important indicator of sector health that we will be keeping an eye on.



Green shoots of growth still springing up everywhere

To finish up, let's end on a positive. Despite many challenges the sector continues to adapt and grow. Hundreds of new charities and community groups have been formed in recent years across rural and urban Scotland, meeting new demand and filling current gaps.

Key areas for new charities include Community Development, Environment, Poverty alleviation, Culture & Sport, and Equalities including LGBTQ and minorities. For more on this see our sector Size and Shape info.

For all data see our interactive Sector stats: scvo.scot/research/facts-figures
For PDF versions and data tables see our Evidence Library
For all the latest Tracker info see our Scottish Third Sector Tracker