

SCVO State of the Sector report

April 2014

About the report

The Scottish third sector encompasses an estimated 45,000 voluntary organisations, contributing to the well-being of people and communities across all parts of Scotland. Organisations range from small local grassroots community groups, arts and sports clubs, pre-school day care and village halls, to culture and arts venues, and major housing, health and social care providers.

This report examines the financial health and key trends of the 'regulated third sector', which encompasses around half of all voluntary organisations, including a sub-set of 19,635 charities from the OSCR register, plus additional information on 162 housing associations and 107 credit unions.

The report is based on financial data from 2012/13.

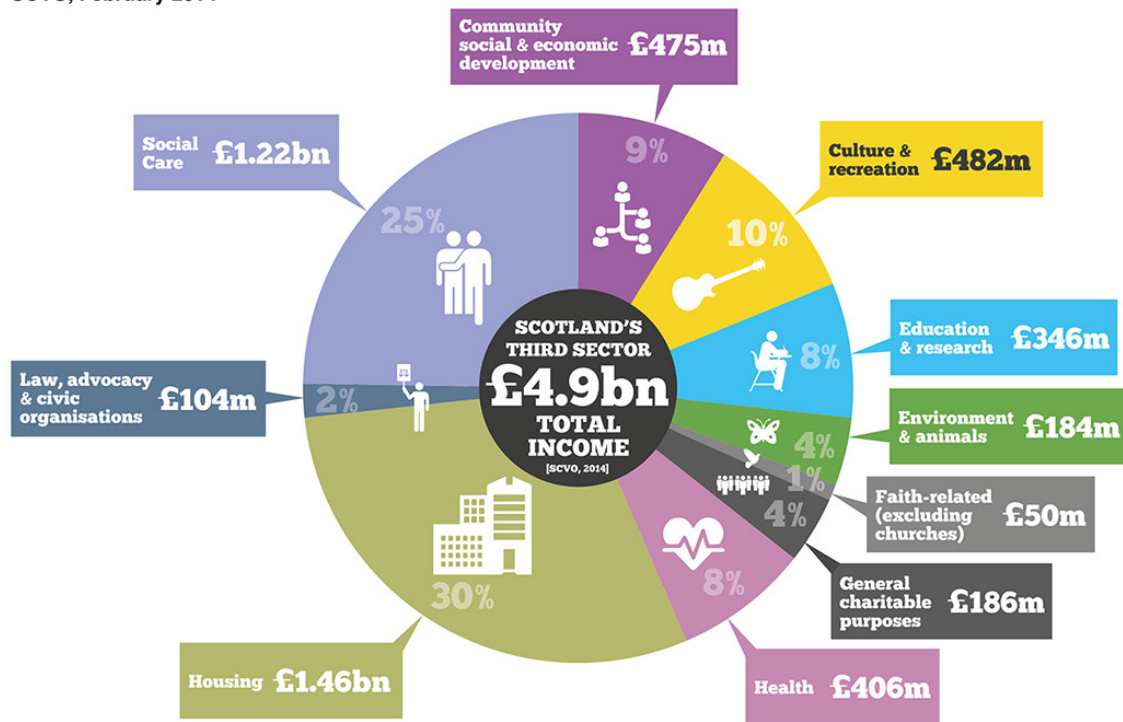
The report does not assess the additional economic and social impact of the wider third sector, e.g. small voluntary organisations who are not registered as charities, the Scottish income and spend of UK-wide charities, and companies which sit out-with the SCVO definition of 'third sector' (see methodology section).

Key findings

- The regulated third sector's total income rose to its highest ever level, reaching almost £5 billion in 2013
- Total expenditure on the services provided by the sector and the people it supports also rose to a record level of £4.7 billion
- **Turnover is now four times that of the Scottish food and drink industry (£1.03 billion) and equal to the Scottish creative industries (£5 billion)ⁱ**
- **The sector employs 138,000 people – as many people as the Creative Industries and the Energy Sector put together**
- The largest 4% of organisations employ 73% of the sector's staff. Social care-related organisations are the major employer, followed by housing and health.
- The sector's total turnover rose by £300m, but this growth was concentrated in a few large organisations. On average, organisations saw much more modest growth of 0.8%, lagging behind inflation
- Smaller organisations were once again more likely to see a deficit, and dip into assets
- At the other end of the spectrum, two-thirds of the largest organisations generated surpluses, but these were very modest relative to organisation size
- Many large organisations are unable to meet their reserves targets – most of the sector's largest employers and service providers would be unable to cover 6 months expenditure from reserves

The economic contribution of Scotland's Third Sector

SCVO, February 2014



NB: Turnover of Scottish third sector charities based on SCVO classifications and using a sub-set of 2012/2013 charity income data from OSCR.

Figure 1: The economic contribution of the regulated third sector by sub-sector

* See also breakdown tables of Social Care, Health, and 'Community, Social & Economic development' subsectors on p18

Third sector financial overview

The tables below summarise the headline figures for the regulated third sector:

	Number of orgs	Income (£m)	Expend (£m)	Staff (headcount)
Third sector charities (2013)	19,635	£3,477m	£3,230m	c. 120,700
Housing Associations (2013)	162	£1,400m	£1,424m	16,952
Credit Unions (2012)	107	£28m	£19m	354
TOTAL	19,910	£4,905m	£4,674m	c. 138,000

Table 1: Summary of numbers, income, expenditure and staff

	Fixed Assets (£m)	Current Assets (£m)	Total Assets (£m)	Liabilities (£m)	Net Assets / Total Funds (£m)
Third sector charities (2013)	£6,593m	£1,674m	£8,267m	(£461m)	£7,806m
Housing Associations (2013)	£4,658m ⁱⁱ	£1,023m	£5,681m	(£4,060m)	£1,619m
Credit Unions (2012)	£333m	£56m	£389m	(£345m)	£44m
TOTAL	£11,584m	£2,753m	£14,337m	(£4,868m)	£9,469m

Table 2: Summary of assets

Income and expenditure

The sector's turnover has doubled over the last 10 years, from £2.4billion in 2003 to £4.9billion in 2013. This increase has been matched by a doubling of spending in the last 10 years, from £2.3bn to £4.7billion. These figures show a record level of spend by the sector on providing services and supporting communities across Scotland.

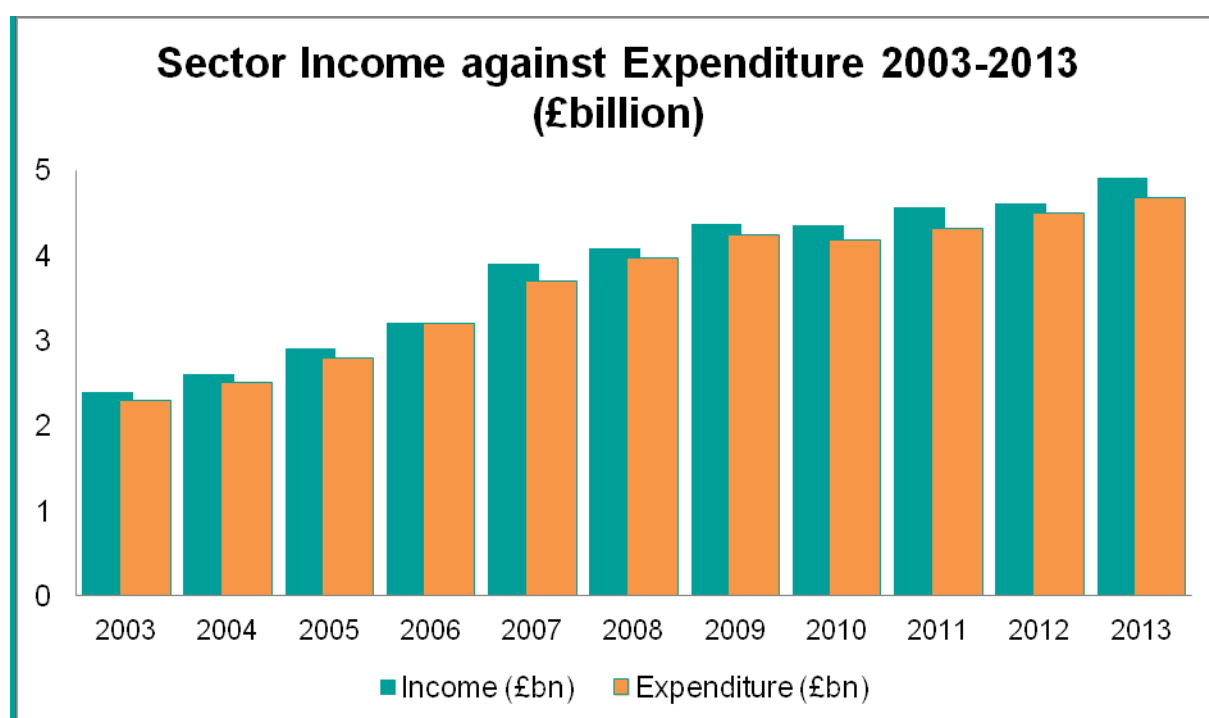


Figure 2: Overall sector income and expenditure growth over last decade

Figure 3 shows that four-fifths of the sector's economic activity occurs within a small number of organisations with over £1m turnover. These organisations also employ a quarter of the sector's paid staff. At the other end of the scale, two thirds of the sector is made up of organisations operating on small amounts of income and primarily reliant on volunteers.

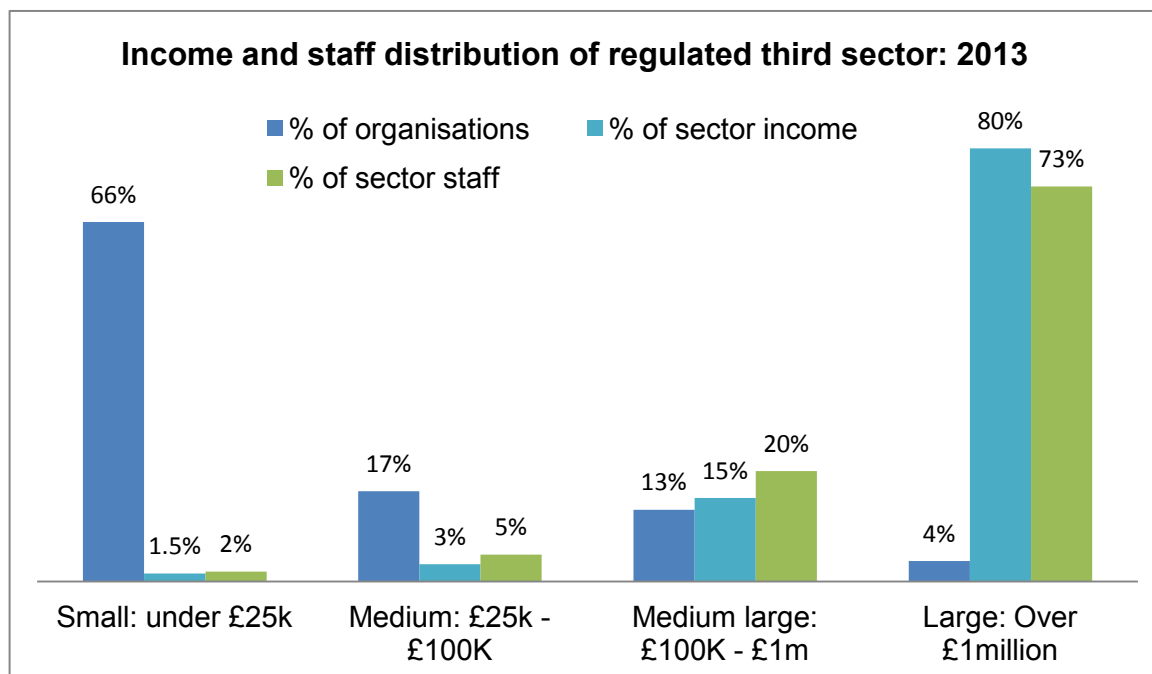


Figure 3: Shape of sector income and staffing by organisation size

*See table 6 for organisation numbers by income band

Sector growth

The sector's total income grew by £300million (6%) between 2012 and 2013.

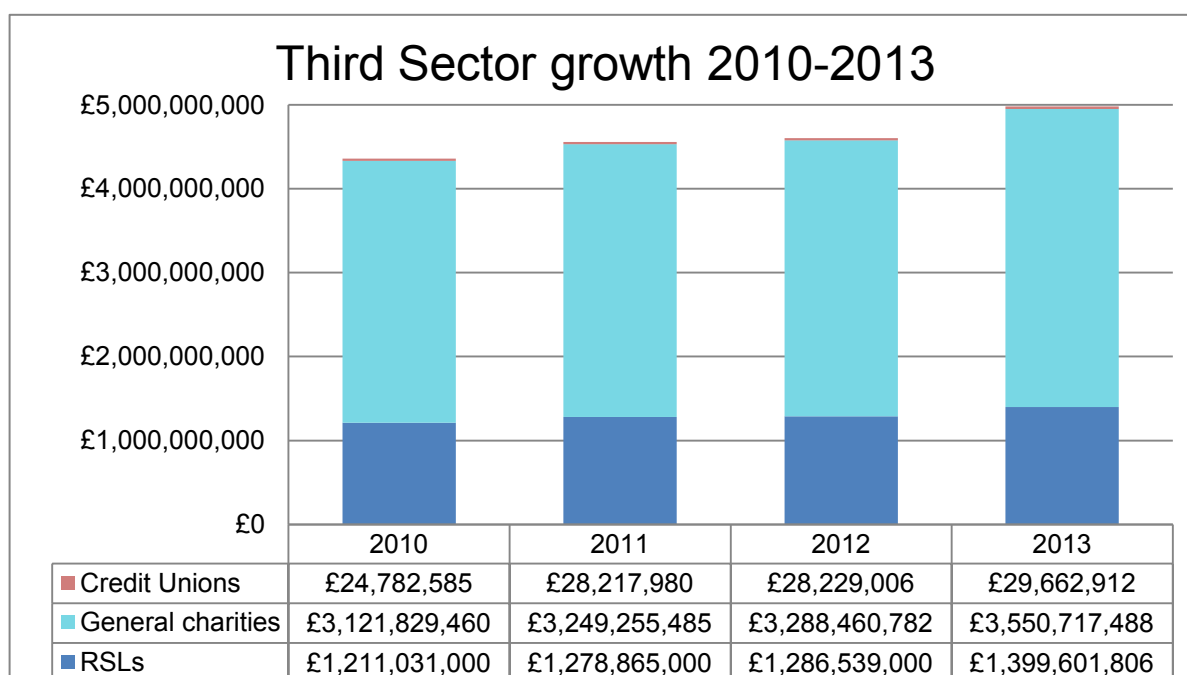


Figure 4: Income growth, breakdown by type over last 4 years

Credit Union growth

Credit Unions have seen their membership, assets and income grow in recent years thanks to the continued need for affordable credit and positive publicity promoting credit unions as the safe and ethical alternative to pay day lenders. Campaigns by the public sector and past funding to build capacity have also contributed to this growth.

Credit union membership in Scotland grew by 17,000 between 2011 and 2012 to 282,698 members. Income from shares and loan interest has grown steadily in recent years, increasing by 5% between 2011 and 2012, while assets grew by 13% in the same period, from £344,635,089 to £388,786,470.

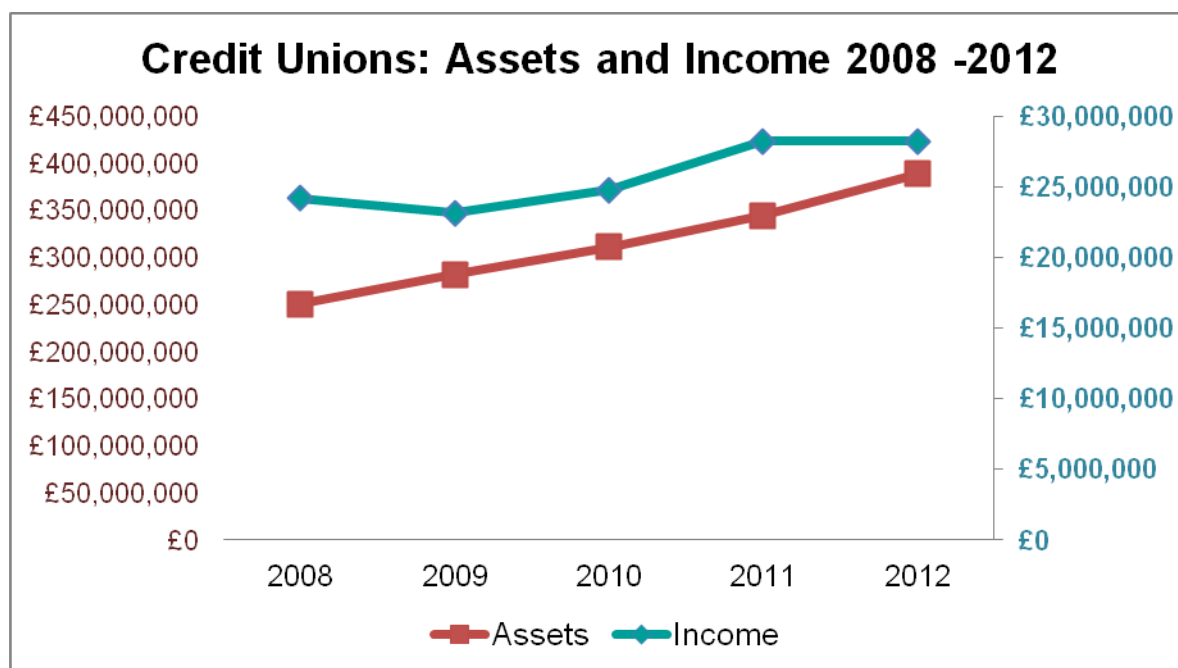


Fig 5: Credit union growth, 2008-2012

Housing Association growth

The 162 housing associations in Scotland make up a substantial part of the third sector economy. The housing sector is also a major contributor to the sector's growth, and saw an 8% increase in income between 2012 and 2013.

Over the last 5 years Scottish housing associations have increased the number of homes for rent by 9,080 units and now manage 285,423 housing units.

The sector's growth reflects the continuing strong demand for social housing, with expenditure also continuing to rise steeply. As well as high operating costs and improvements to existing housing units, a large amount of money including Scottish housing grants and loan finance is being invested in building new housing stock and in area regeneration. If capital spend is taken into account then many housing associations spent more than their income last year - these investments should however strengthen sustainability in the long-term.

Case study: Port of Leith Housing Association

Port of Leith Housing Association was founded in 1975 to redevelop older tenement properties in Leith. For over 30 years, the Association has been at the heart of the redevelopment and regeneration of Leith. Between 2008-13, the Association has invested in new building projects, increasing housing units from 2,164 to 2,473. The 2013-18 five-year business plan outlines further investment and development, reaching a total of 2,835 affordable homes.

As well as regenerating derelict sites and creating desirable and affordable housing, the Association has expanded its "wider role" activities, working in partnership with the community alongside local statutory and voluntary organisations.

Third Sector charities growth

Over the last five years the number of third sector charities has remained relatively stable, with the number of charities closing offset by new charities being established.

Despite ongoing financial challenges, third sector charities' combined turnover increased by 5.75% between 2012 and 2013. This growth is due to a number of factors, but is primarily driven by a small number of large new charities, resulting in lop-sided growth skewing the national picture.

Large new charities accounted for two-thirds of the increase in income and brought in £190m+ of new income. These new charities were dominated by some notable new charitable trusts, set up by philanthropists such as the Wood Family Trust and The Weir Charitable Trust, as well as others such as the Postcode Lottery and the Jessica Trust/Resilient Scotland Trust. After these large initial endowments, the benefits of this funding should soon begin trickling down to the wider sector via grants programmes (albeit at a more modest level).

Many established charitable trusts such as the Robertson Trust also saw their income rise significantly, contributing to the sector's overall growth.ⁱⁱⁱ

Other growth areas were culture and recreation bodies such as Edinburgh Zoo (reaping the benefits of the panda effect) and a number of multi-million pound capital build projects such as the Scottish Opera Theatre Royal upgrade, the new Beacon Arts Centre build, and the Black Watch Museum purchase and development of Balhousie Castle. Government funding in early 2013 to mitigate the impact of welfare reform is a key factor behind the growth experienced by Citizens Advice Scotland and other advocacy and advice providers.

Looking at average growth across the sector, it is clear that a small number of charities are distorting picture, as the average growth rate of the sector is only 0.8. For the very smallest and largest organisations the average growth rate is only 0.7%

and 0.5% respectively (Table 3). While the average third sector organisation does appear to be experiencing growth, it is at a much more modest level than the overall picture shows, and falls well behind inflation levels.

Size of organisation	Average % Growth
Large: Over £1million	0.5 %
Medium large: £100K - £1m	1.1 %
Medium: £25k - £100K	1.1 %
Small: under £25k	0.7 %
Overall average % growth: 2012 to 2013	0.8 %
Rate of inflation (CPI): average for 2013 ^{iv}	2.6%

Table 3: Average % increase in income by organisation size

Surpluses and deficits

Thanks to careful financial management and a somewhat less harsh economic environment, 2013 saw a decrease in the number of organisations in deficit, down from 50% in 2011 to 43% in 2013.

However, many organisations particularly in the smaller income bands are continuing to dip into their reserves, with more than 2 out of 5 spending more than they took in. Looking at overall surpluses by income band, Figure 6 shows that three out of the four smallest bands saw an overall deficit.

The sector's larger organisations are not immune, with more than a third reporting a deficit. Furthermore, on the face of it a healthy £47m surplus of the organisations with over £10m turnover (Figure 7 below) is almost entirely due to the Wood Trust and the Mactaggart Trusts, who accounted for 90% of the surplus between them (£44m).

A small number of charities with large surpluses are concealing a picture where most charities are lagging behind inflation and many are struggling to meet costs.

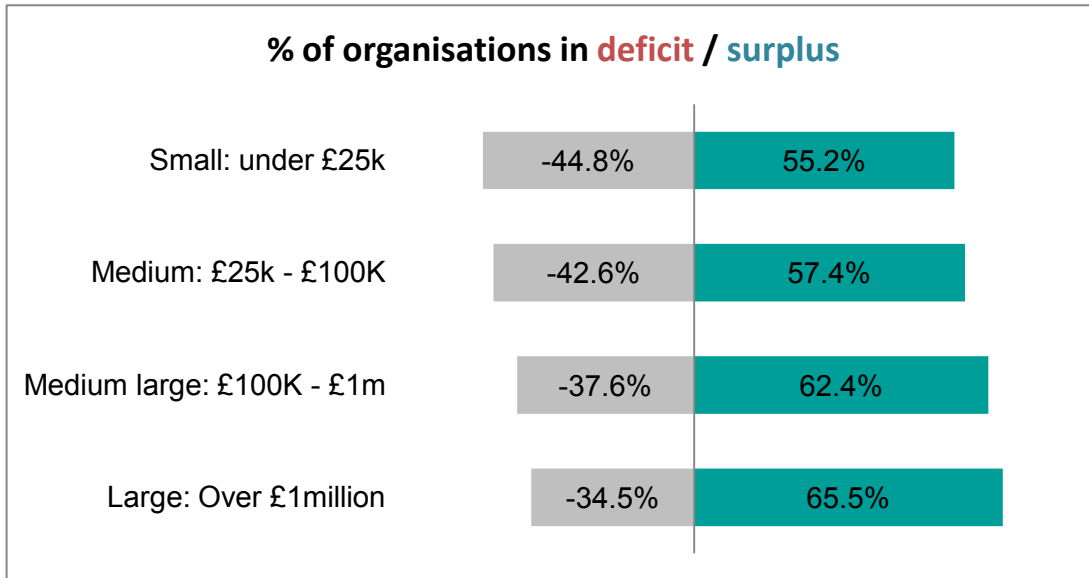


Fig 6: Percentage of organisations ending 2013 financial year in deficit and surplus

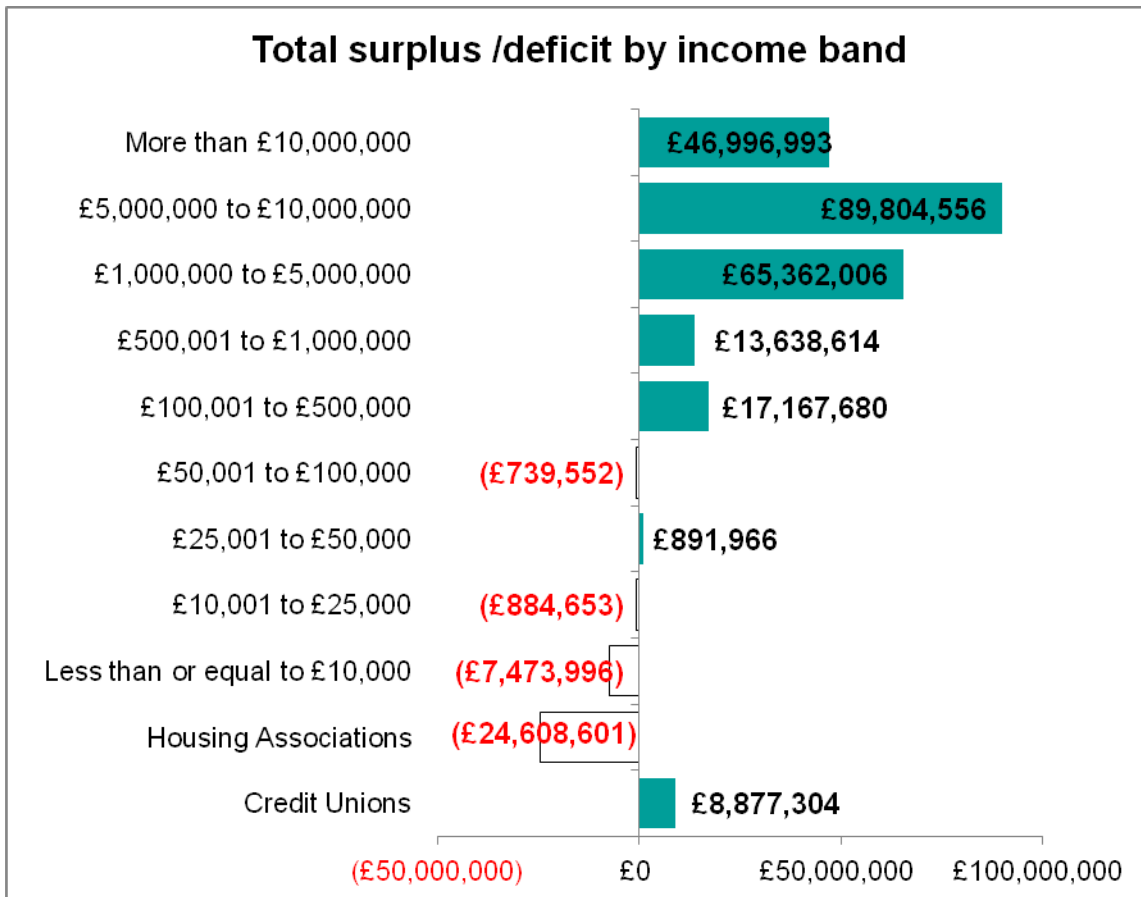


Fig 7: Total combined amount of surplus/deficit by organisation size and type

When is a deficit a good thing?

A large deficit or loss at the end of the financial year is usually a danger sign, warning that the organisation's long-term sustainability may be at risk.

However, in a number of cases the 'deficit' is deliberate and in line with the organisation's business plan. Annual expenditure is often higher than that year's income due to money saved up in reserves over previous years now being spent on a project such as a new community facility, or reserves being spent on securing long-term assets, such as housing stock or investments.

Case study: St Columba's Hospice

St Columba's Hospice in Edinburgh has been careful to ensure surpluses in previous years, but in 2013 it started the essential rebuild of the Hospice to create a brand new, state-of-the-art facility. While this shows in the accounts as a deficit, it is part of a long-term financial plan.

St Columba's Hospice:

"Our rebuild project will cost approximately £26 million to complete. With the need for a future rebuild in mind, the prudent financial management of the Hospice Governors has ensured that funds have been accrued over the years. Therefore, we are able to contribute £19 million from our own reserves, leaving us £7 million to raise to realise our vision for our new Hospice."

Other build projects include the Beacon Arts Centre, Townhead Village Hall and the purchase and development of the Black Watch Museum.

Assets and reserves

The third sector manages substantial assets on behalf of the communities and people of Scotland, totalling an estimated £14billion. When liabilities are taken into account this works out at around £9.5bn in Net Assets or Total Funds, of which £1.6 billion is managed by housing associations and £7.8 billion is managed by the rest of the charity sector - see table 2 above.

A large proportion of these assets are restricted – either in the form of fixed heritage assets, restricted funds that must be applied for a specific purpose or service, or endowment funds held in trust.

Figure 8 shows that around half of the charity sector's funds are restricted. Figure 9 shows that around three-quarters of charity fixed assets are in the form of investments, while three-quarters of their current assets take the form of cash in the bank (note that these figures exclude housing association assets).

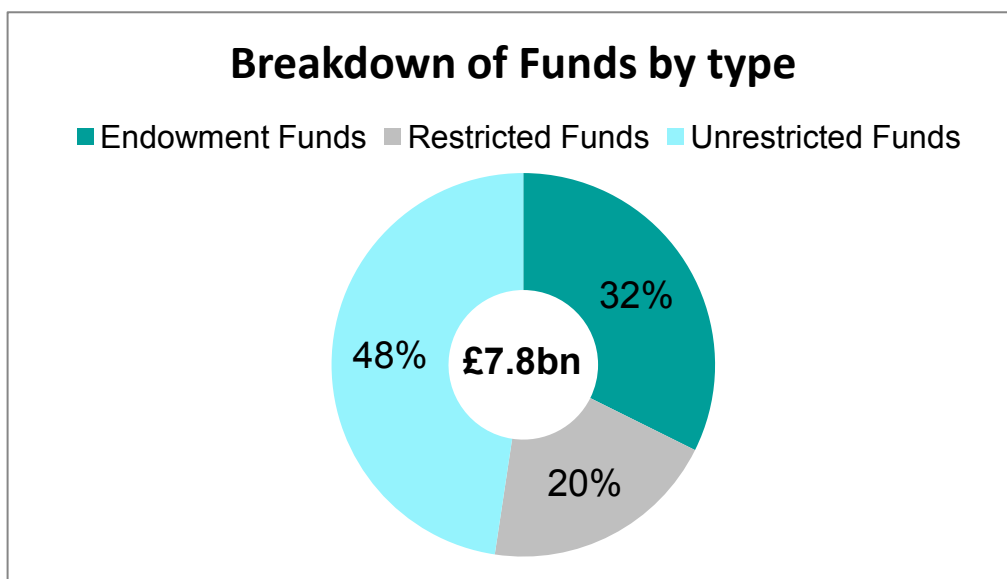


Fig 8: Breakdown of charity funds by type: restricted versus unrestricted

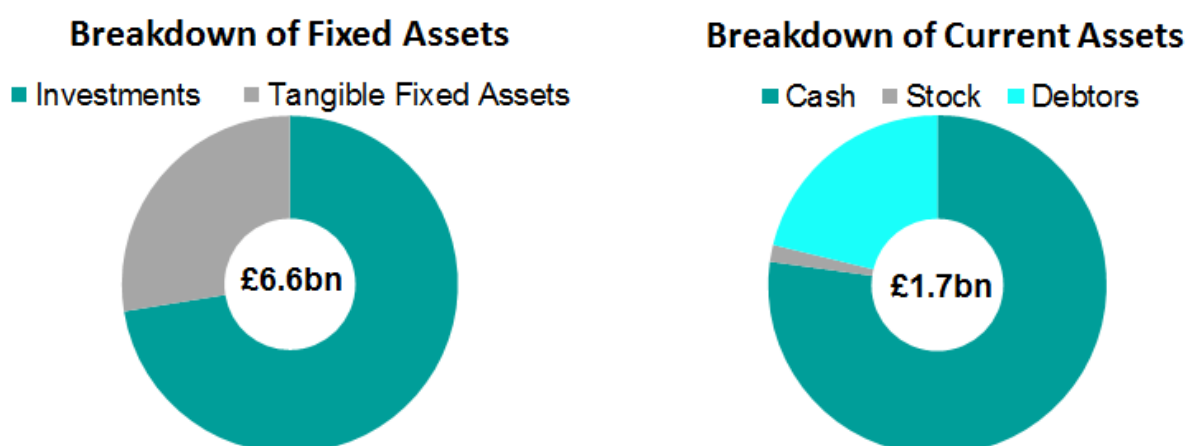


Fig 9: Breakdown of charity Fixed and Current Assets

Sector reserves

Reserves policies vary for every charity, and depend on a range of factors such as the type and size of organisation, funding security and evaluation of risk and levels of unrestricted funds. Most organisations aim to have a certain number of months' expenditure in reserve so that in the case of a serious drop in funding they will be able to operate for a time, ensuring that services continue to be provided, staff continue to be paid and plans can be made to close, scale back activities and/or identify new funding sources.

Small organisations without staff and organisations with relatively stable income streams may set this figure at around 3 months' expenditure, while those with significant commitments or reliant on more precarious funding may decide on 6-12 months. Analysis of accounts (table 4) shows that on average charities have around 11 months' expenditure in reserves.^v However, many of the largest charities are struggling to meet their minimum reserves policy. Over a quarter of £1million plus turnover charities have less than 3 months' worth of reserves (Figure 9). This group includes a number of large social care providers.

Smaller organisations are on average richer in unrestricted reserves and cash assets. However, this is not necessarily a good thing for the organisation or its beneficiaries. A reserves policy is also intended to set a *maximum* amount to be held in reserves - any money above the amount set aside to meet risks should be applied to fulfilling the charity's objectives. Many smaller charities have over 2 years' worth of expenditure in reserves, often in the form of cash in the bank. As well as not making the best use of charitable funds, the charity is likely to be losing money in real terms due to poor interest rates.

Organisation size	Number of charities	Average months of Expenditure in Reserves
Less than or equal to £10,000	10,770	29.6
£10,001 to £25,000	2804	11.5
£25,001 to £50,000	1750	9.4
£50,001 to £100,000	1327	10.0
£100,001 to £500,000	2025	10.0
£500,001 to £1,000,000	418	7.1
£1,000,000 to £5,000,000	488	4.5
£5,000,000 to £10,000,000	111	5.3
More than £10,000,000	100	5.1
OVERALL AVERAGE	19,793	11.4

Table 4: Average number of months' expenditure in reserves by organisation size

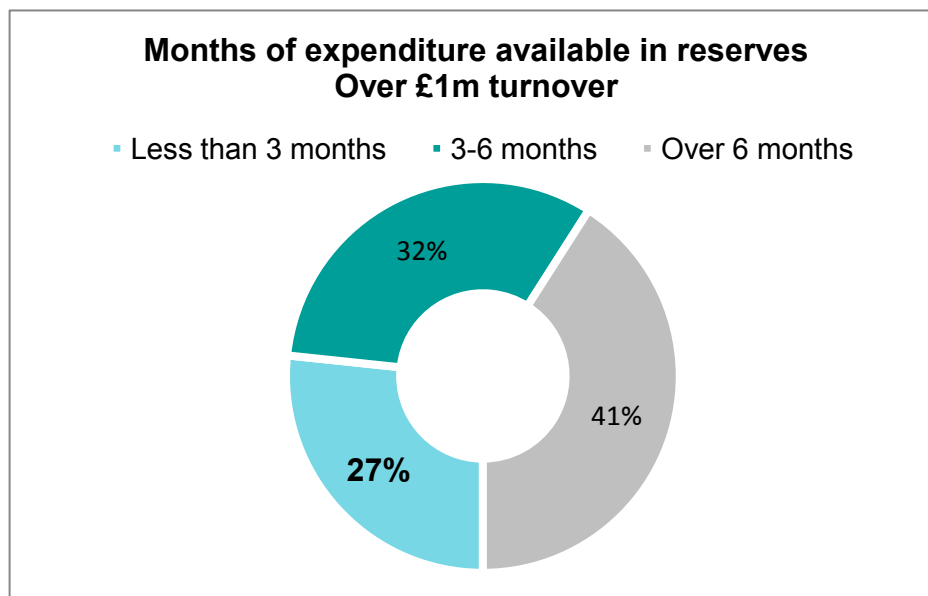


Fig 10: Months of expenditure in reserves for largest 'Over £1million' organisations

Shape of the sector

Organisations and income by sub-sector and geography

Two-thirds of the sector's organisations are involved in social care-related activities, Community, social & economic development, and culture and recreation (Fig 10). Housing accounts for almost a third of the sector's turnover, followed by social care which accounts for a quarter (see Fig 1 above). Two-thirds of organisations operate locally, while 7% operate nationally across Scotland, and 2% have an international focus (Fig 11).

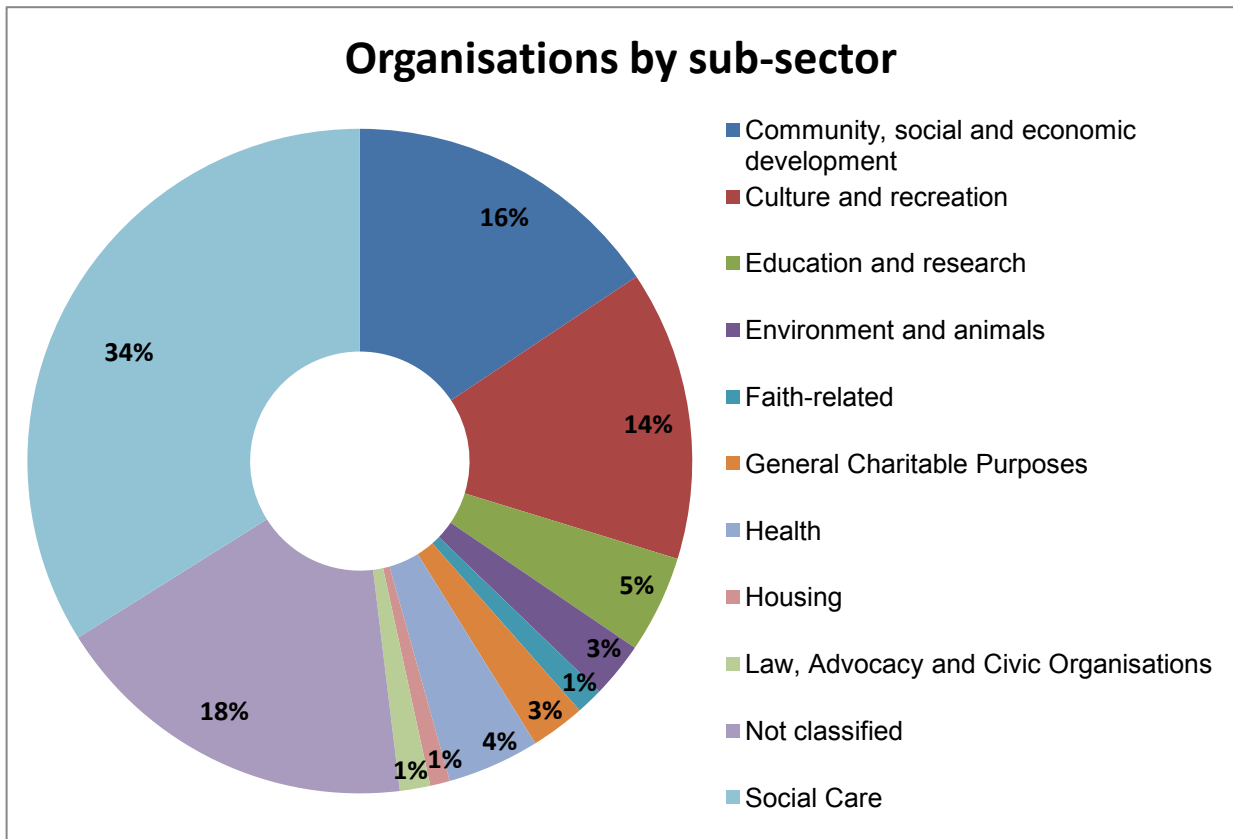
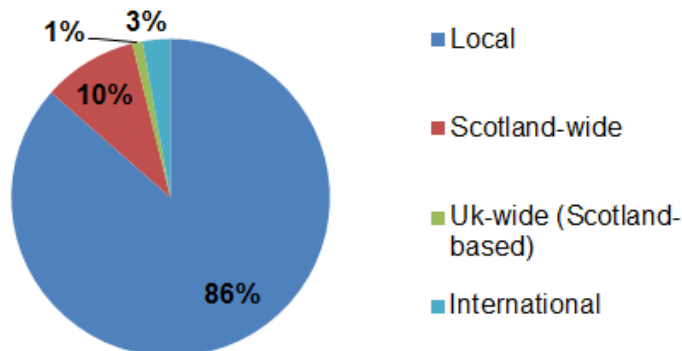


Fig 11: Organisations by Sub-sector (based on ICNPO classification)

* See also breakdown tables of Social Care, Health, and 'Community, Social & Economic development' subsectors on p18

Number of organisations



Share of Income

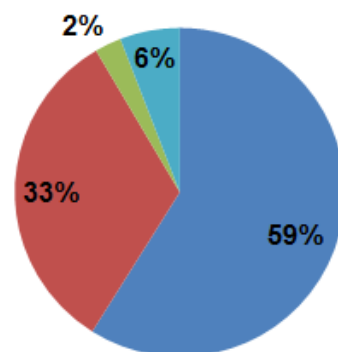


Fig 12: Geography

The sector's people

The third sector employs an estimated 138,000 people (headcount) or 83,350 Full Time Equivalent workers. It is supported by an estimated 127,500 trustees who manage and steer each organisation, with an average of 7 trustees per organisation^{vi}. Around 1.3 million volunteers formally volunteer with organisations, providing 126 million hours of support.^{vii}

Paid staff	138,000
Trustees	127,500
Volunteers	1,300,000

Paid workforce

27% of organisations employ staff, while 73% have no paid staff and operate entirely through volunteer effort.

Three-quarters of the sector's paid workers are employed by organisations with over £1million turnover, but paid staff can be found working in all sizes of organisation (Fig 13).

Paid staff are employed across all types of organisations, with the bulk of the sector's workforce employed in social care, followed by housing and health (Fig 12).

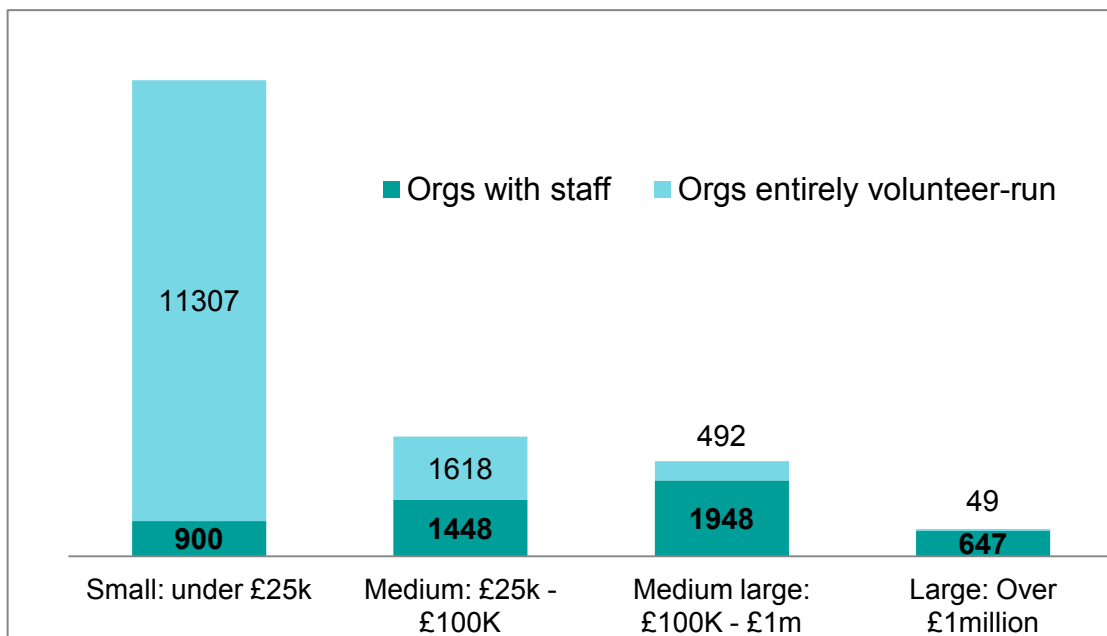


Fig 13: Number of organisations with and without staff by turnover

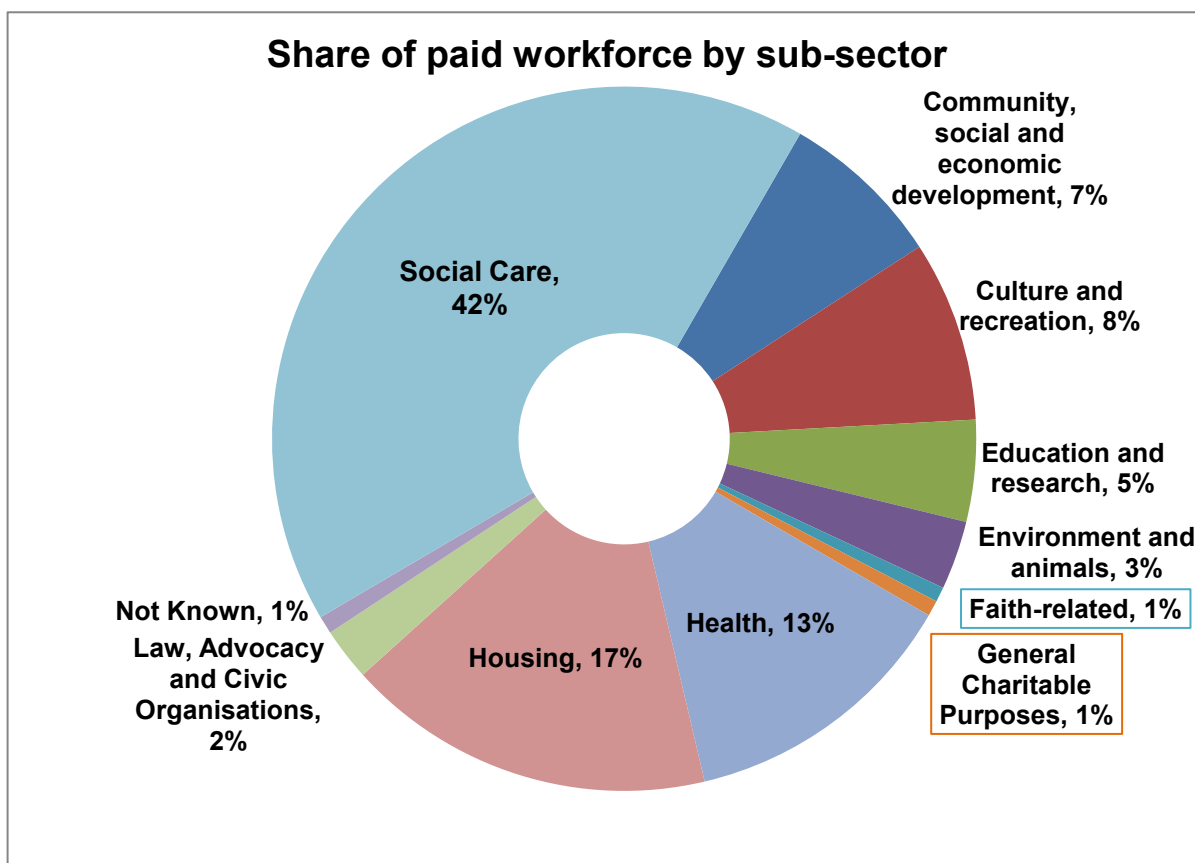


Fig 14: Number of paid staff by sub-sector (based on ICNPO classification)

* See also breakdown tables of Social Care, Health, and 'Community, Social & Economic development' subsectors on p18

Comparisons with other sectors

The sector's turnover is now four times that of the Scottish food and drinks industry (£1.03 billion) and equals that of the Scottish creative industries (£5 billion)^{viii}.

The sector employs 138,000 people, which as many people as the creative industries and the energy sector combined.

	Employees (headcount)	Turnover
Manufacture of Beverages	9,900	£447,220,000
Food and Drink	47,400	£1,033,150,000
Restaurants and mobile food service activities	55,700	£2,260,700,000
Scottish third sector	138,000	£4,905,300,000
Creative Industries	54,600	£4,998,600,000
Tourism	171,500	£6,220,500,000
Energy (including Renewables)	66,100	£66,208,000,000

Table 5: Comparison of regulated third sector with other Scottish business sectors

Methodology

The annual snapshot is based on a sub-set of charities data from the OSCR register, plus additional information from the Scottish Housing Regulator and the Financial Services Authority on housing associations and credit unions respectively.

Sub-sector data is based on the SCVO database of third sector organisations, which uses the International Classification of Non-profit Organisations (ICNPO).

Additional financial breakdown data is based on SCVO's bi-annual financial research Panel and the in-depth analysis of 1,000+ charities accounts.

The briefing focuses on the regulated third sector and does not assess the even greater economic and social impact of the wider third sector - the snapshot excludes 'under the radar' voluntary organisations who are not registered as charities, UK-wide charities, or companies which sit out-with the SCVO definition of 'third sector', such as some social enterprises, co-operatives and Community Interest Companies. It also excludes non-third sector charities on OSCR's register such as universities, public sector-led bodies and private schools, who account for over £3billion turnover between them.

The snapshot also excludes organisations such as churches which have historically not been included, as their inclusion would distort analysis of turnover and growth figures by preventing accurate 'like-for-like' year on year comparisons.

For the purposes of this research, a Third Sector organisation must be:

- Organised (i.e. have a constitution)
- Non-profit distributing
- Volunteer-led (i.e. by board)
- Independent of government
- For public/ social benefit

ⁱ Source: Scottish Annual Business Statistics 2011

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/SABS/Sectors/GrowthSectors>

ⁱⁱ Source RSL: Total Fixed Assets (£4.7bn) = Housing (£11.8bn) - related Liabilities (£7.1bn)

ⁱⁱⁱ A small number of organisations appear to have treated 'transferred assets' as income when becoming incorporated, e.g. becoming a SCIO, even when retaining their existing charity number. This is unusual accounting practice and should not occur in many organisations, but c. £20m of 'new income' to the sector is in fact attributable to this accounting practice.

^{iv} Source: ONS data on inflation and CPI <http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/november-2013/stb---consumer-price-indices---november-2013.html#tab-Consumer-Prices-Index--CPI->

^v Source: based on accounts analysis of 690 charities' Unrestricted Funds, excluding data from charitable trusts

^{vi} This figure will include duplicates, ie trustees who are on multiple boards

^{vii} Source: Volunteering data from the Scottish Household Survey

<http://www.scotland.gov.uk/Publications/2013/08/6973/12> and Volunteer Scotland <http://www.volunteerscotland.net/policy-and-research/data-and-graphs/national-profile/>

^{viii} Source: Scottish Annual Business Statistics 2011

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/SABS/Sectors/GrowthSectors>

Additional Tables:

Table 6: Total number of charities by income band

Table 6: Number of third sector charities	Number of charities	Combined turnover
New charities - no income reported yet	1,380	£0
Less than or equal to £10,000	9390	£26,690,000
£10,001 to £25,000	2804	£45,870,000
£25,001 to £50,000	1750	£62,260,000
£50,001 to £100,000	1327	£94,130,000
£100,001 to £500,000	2025	£456,650,000
£500,001 to £1,000,000	418	£295,560,000
£1,000,000 to £5,000,000	488	£1,031,320,000
£5,000,000 to £10,000,000	111	£761,230,000
More than £10,000,000	100	£2,138,330,000
TOTAL	19,793	£4,912,030,000

Tables 7-9: Social Care, Health, and Community, Social & Economic development sector breakdowns

Tables are based on primary ICNPO classification only; many more charities will carry out these activities as a secondary purpose.

Table 7: Social Care	Number of orgs	Staff	Income 2013	Expend 2013
Social care (general)	1,043	14,100	£505m	£480m
Pre-school daycare	653	2,400	£29m	£29m
Services for children and families	631	6,650	£145m	£139m
Services for women	181	990	£35m	£34m
Services for people with disabilities	523	13,500	£318m	£298m
Services for older people	250	1,900	£58m	£59m
Youth services (including Scouts, Guides etc)	2,762	3,080	£81m	£79m
Refugee and Immigrant social services	15	70	£3m	£3m
Carer's organisations	81	2,010	£29m	£28m
SOCIAL CARE	6,139	44,700	£1,204m	£1,150m
Housing Associations (Supported accommodation and older clients)	13	6,568	£201m	£196m
TOTAL SOCIAL CARE	6,152	51,268	£1,405m	£1,347m

Table 8: Health	Number of orgs	Staff	Income 2013	Expend 2013
Health care	200	2,250	£97m	£104m
Hospitals and Rehabilitation	22	650	£27m	£24m
Mental Health	128	3,800	£90m	£88m
Other Health Services and wellbeing	412	3,500	£139m	£140m
TOTAL HEALTH	762	10,200	£353m	£356m

Table 9: Community, Social & Economic development	Number of orgs	Staff	Income 2013	Expend 2013
Community and Social Development (includes around 1000 community centres and village halls)	2,710	5,300	£354m	£256m
Economic development	40	480	£20m	£25m
Employment and Training	100	2,250	£82m	£83m
Community, Social & Economic development	2,850	8,030	£456m	£364m
Credit Unions	107	354	£28m	£19m
TOTAL COMMUNITY, SOCIAL & ECONOMIC DEVELOPMENT	2,957	8,384	£484m	£383m