

<b>Social Justice and Social Security Committee: Third Sector Resilience</b>
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**Briefing from the Office of the Scottish Charity Regulator (OSCR)***- 1 December 2021*

Key messages:

- **Overall, small charities have seen their income more adversely affected than larger charities**
- **Most charities have adapted to the restrictions brought about in response to the pandemic to continue to provide benefit to their community**
- **Sustainable, flexible funding will play an important part in improving the resilience of the charitable sector**
- **Governments in Scotland should consider a more strategic, partnership based approach when engaging with the charitable sector**
- **Analysis of Scottish charity data will play a key role in developing a comprehensive understanding of the impact of the pandemic across the entire scope and scale of the Scottish charity sector**

When thinking about resilience in the charitable sector it is important to recognise the variety of scope and size among charities (as described in our recent [Sector Overview Report](#)) and that the experiences of charities during the pandemic and their future resilience will vary widely depending on circumstance. A significant majority of Scotland's 25,000 charities have few or no staff and are entirely reliant on volunteers.

OSCR carried out [two surveys in 2020](#) to understand how charities were being affected by the pandemic. Some of the quotes supplied by charities to the qualitative part of the surveys appear throughout this briefing in italics. OSCR will be surveying charities and the Scottish public in February 2022 to seek views on public trust in charities and help us understand the topical issues facing the Scottish charity sector.

OSCR's [Annual Report and Accounts](#) also includes a number of recommendations to Scottish Ministers including our endorsement of the view that central government, local government and agencies should consider a more strategic and 'joined up' approach to the sector as we emerge from the pandemic.

**1. Income levels**

We have undertaken a preliminary examination of the income levels from a sample of the charities that have submitted their Annual Return for the 2020-21 period. The results are included in a table at the end of this briefing.

Of particular note is the disproportionate effect the pandemic has had on the income of the smallest charities in Scotland. The fall in the median income of charities with an income of less than £10,000 is significantly greater than the fall in the overall median income of charities. The table also indicates that the median income of larger charities has increased possibly as a result of increased demands for services and the financial support provided by government at all levels. It should be noted this increase may prove to be temporary as some of those support schemes (such as furlough) come to an end.

We will have a much clearer picture of the income levels of charities in the coming months as the majority of charities submit their Annual Return in December. All charities in Scotland must submit an Annual Return to OSCR, though we ask for less information from smaller charities. Once the remaining charities have submitted their Annual Return by early 2022, we will have a more complete record of the variance in charity incomes levels during the pandemic and can provide this information to the Committee.

*The biggest threat to charities at this time is a financial one so anything that can help offset the loss of income due to the impact of COVID-19*

- Text in italics are direct quotes from respondents to our 2020 surveys

## **2. Adaptability in the sector**

One trend which became apparent relatively early on in the pandemic was the initiative and adaptability displayed by charities. When the restrictions required by the pandemic came into effect most charities who could no longer provide public benefit in their usual way adapted to provide benefit in a new way.

*Working for a charity support body our observation from the 100s of charities we work with as well as our own response is that the charity sector responded very quickly and with agility in either delivering regular services in new ways or providing crisis response or both. Charities seemed to be able to say what can we do? and get on with it.*

Charities are constrained in that they must use all of their assets to advance the charitable purposes described in their governing document and charities must seek consent from OSCR before changing their charitable purposes. While some charities still provided the same kind of benefit as before in a new way (for example, art classes going online) others pivoted to an entirely new form of benefit such as a community centre closing and shifting to providing food parcels.

OSCR prioritised applications for consent to amend a charity's purposes where the change was as a result of a charity adapting to the pandemic.

## **3. Number of registered charities**

The number of registered charities has been increasing slowly over the last three years at a relatively consistent rate increasing from 24,563 in 2018-19 to a current figure of 25,420.

The pandemic doesn't seem to have affected the slow uptick in the number of charities on the Register and while figures for new registrations are lower than might normally be expected, the number of bodies applying for charitable status and the number of new charities joining the register have been largely sustained through the pandemic despite the challenging times.

Charities are usually only removed from the Register once they have notified OSCR that they have wound up. The low number of removals may reflect charities ceasing to operate but failing to notify us that they no longer exist. A key task for OSCR is to ensure as many charities as possible are supported to fulfil their reporting requirements so that we can maintain an accurate Scottish Charity Register.

#### **4. Funding**

A recurring theme in our survey responses was the restrictions imposed on grant funding and the difficulties this caused charities. In particular respondents to the surveys were keen to convey three areas where funding could, in their view, be improved:

- Multi-year funding settlements
- Funding for essential costs (or core costs)
- Trusting charities with unrestricted grants

While it is not for OSCR to instruct funders on what conditions to attach to their grants, it is worth stating that charities must use all of their assets to advance their charitable purpose. As long as the trustees are satisfying their statutory duty to act in the best interests of the charity, OSCR does not consider any one form of charitable expenditure as inherently better or worse than any other. The pound spent on the electricity bill is just as valid as the pound spent on the food parcel.

*Address the reluctance of funders to value, and therefore be willing to financially support, core costs such as management and admin salaries.*

While the discussion around grant funding for essential costs predates the pandemic, the situation has worsened as other sources of funding such as service provision have been affected by pandemic restrictions. Charities that could previously meet their essential costs via trading income are now seeking grant funding to meet those continuing costs.

Similarly, from an OSCR perspective, charities building up a reasonable level of reserves should be seen as an acceptable use of charitable funds and, indeed,

many charities relied upon their reserves during the pandemic which will need to be replenished if the resilience of the sector is to be improved.

## 5. Conclusion

The current tale of the charitable sector is variable; many charities have managed to react to the pandemic by bringing benefits to their communities in new and increased ways. However, the information we are seeing indicates that it is the smallest charities that have been impacted most adversely.

Funding is of critical importance to charities and stakeholders have noted that many charities are struggling to recruit and retain staff. It is important that charities are able to raise funds to meet all of their costs and that sustainable, flexible funding underpins the future resilience of the sector.

*We have learned that financial support for staffing and other costs must be in place to support viability for when this challenging time ends. Rebuilding a whole childcare sector would cost much more, than sustaining it through the hard times.*

### Appendix 1 – Median annual incomes from a sample of Scottish charities

Income grouping	Sample 2021 median annual income (1 Apr 2020 – 31 Mar 2021)	Sample 2020 median annual income (1 Apr 2019 – 31 Mar 2020)	Sample 2019 median annual income (1 Apr 2018 – 31 Mar 2019)	Sample number of charities and proportion (%)	Scottish charities on the Scottish Charity Register
£0 to £9,999	£1,277	£3,899	£4,527	1,079 (39%)	9,880 (41%)
£10,000 to £24,999	£15,251	£16,691	£15,805	390 (14%)	3,463 (14%)
£25,000 to £49,999	£35,027	£34,876	£34,230	217 (8%)	2,406 (10%)
£50,000 to £99,999	£70,296	£68,067	£64,741	221 (8%)	2,206 (9%)
£100,000 to £249,999	£165,581	£153,167	£145,025	311 (11%)	2,176 (9%)
£250,000 to £499,999	£362,136	£330,339	£329,741	205 (7%)	973 (4%)
£500,000 to £999,999	£691,882	£617,770	£583,550	99 (4%)	516 (2%)
£1m to £10m	£2,936,119	£2,865,461	£2,754,091	198 (7%)	762 (3%)
£10m+	£19,366,000	£17,096,531	£16,580,501	59 (2%)	208 (1%)
Not known	-	-	-	-	1,613 (7%)
Overall / Total	£19,940	£24,670	£24,396	2,779 (100%)	24,203 (100%)

Median gross annual incomes of a sample of Scottish charities (excludes cross border organisations) with 31 March 2021 accounting year end, have reported on the period 1 April 2020 to 31 March 2021 and have been registered for at least four years. Showing median incomes reported by the sampled organisations in 2021, 2020 and 2019.