



BRIEFING NOTE

Impacts of the Cost of Living Crisis on Organisations Funded Through Foundation Scotland

January 2023



**Foundation
Scotland**

Briefing Note

Impacts of the Cost of Living Crisis on Organisations Funded Through Foundation Scotland

Foundation Scotland has asked the organisations we fund how the cost of living crisis is impacting them and the people they support. We are also keeping an eye on research carried out by others to check if the picture we are getting is consistent with emerging evidence from elsewhere. Here we summarise what we have found so far, and the feedback we have had on what we should do as funders to best help at a very challenging time.

Running costs are increasing...

When we asked our grantees about the running costs of their organisations, increased energy bills were the most often cited area of concern. Increased travel costs and salary costs were the second and third most often cited concerns. A minority of organisations stated they had seen no or limited impacts of cost increases, but most of these caveated their response with the word 'yet'.

The government has been providing support with energy bills to non-domestic customers over the winter, but this will be cut significantly at the end of March 2023. There is clearly a great deal of nervousness about the implications of this for financial sustainability.

“We are still on a fixed electricity rate at present, but once this ends next year we are very worried about the impact on our work. If our fixed rate ended this year then there is a possibility we couldn't continue.”

Pay rises for staff during 2023 are also a serious worry, with many organisations anticipating the need to pay substantial increases from April 2023.

“At the moment we are coping. However, we are looking at a huge deficit for our 2023/24 budget and will need to make difficult decisions regarding fair pay for our workers and maintaining our staff numbers, which will have an impact on our service.”

There is already a significant pay gap between the third sector and other sectors [which is set to increase](#). This is against a backdrop where staff shortages and retention are [acknowledged as a major challenge](#).

Demand for services is changing...

Where organisations reported changes to demand for their services, the majority had seen an increase in demand. This included dealing with more complex issues and with people who had not needed help in the past.

“Huge increase in anxiety, drop in motivation. Referrals have tripled, we are at breaking point trying to cope with the demand.”

“Increase in referral numbers but more importantly an increase in the level of need of the families being referred. Families who previously would have met Social Work criteria for support are now being referred to voluntary organisations for support. Families are seeking more varied support from us - many families are seeking financial support (gas/electricity/food).”

However, this demand increase is not across the board. Some organisations have seen a decrease in participation in activities such as sports and social activities as household budgets tighten and others have seen reduced demand for hiring community-owned spaces such as village halls as users' budgets come under pressure.

The people supported by many organisations are struggling...

The squeeze on household finances caused by increases in energy bills, food costs and transport costs is leading to people going without essentials. Poor mental health and increased anxiety is also very clearly linked to financial insecurity. The organisations we fund that are working with beneficiaries in poverty are seeing first-hand how this crisis is impacting people.

“Our beneficiaries are often tearful and near crisis (both men and women). I am worried that people will reach crisis quicker... Many of our families have children with complex disabilities so they will struggle to cut fuel costs.”

One succinct and chilling summary from one of our grantees about the impacts on beneficiaries stated:

“Anxiety/depression/fear/despair/suicides.”

Fear about what the future holds is impacting on many.

“Everyone is struggling. people who have not had to count pennies before need to. People are worried about how they will be able to afford to heat their homes this winter. They are really scared.”

Some organisations fear for their own future...

There was also fear at an organisational level, with some organisations wondering if they would be able to continue in light of increased costs.

“Unfortunately, we may have to close the doors - that's a real possibility. The club has been around since the 1870s and we have never experienced anything like this before.”

“[Our greatest worry is] our very existence. Current quotes for electricity contracts for 2023 and beyond are 3-6 times what they are just now. That is just not survivable!”

The fears weren't limited to cost increases. Increased demand for services, lower capacity in the public sector to deal with problems, staff and volunteers under stress, alongside fundraising and generating income being increasingly difficult are all contributing to worry about the future.

“The pressure on the third sector is already too much. We're now being expected to operate Warm Banks for our communities. But who is going to pay for us, small grassroots charities, to provide these spaces when it will mean an increase in our already massively inflated energy costs? The pressure on staff to put extra support on the ground when we're already at capacity is also a major issue. The public sector needs to take the strain and not rely on the third sector to pick up the pieces.”

During the Covid pandemic, the voluntary sector played a vital role in developing local solutions to extraordinary problems. However, some of our grantees feel that the dynamism of the voluntary sector won't overcome this crisis.

“[Our greatest worry is] that we run out of creative ways to help.”

What other research is telling us about the cost of living crisis

Surveys by [SCVO](#) and [OSCR](#) confirm that rising costs are a major concern across third sector organisations. However, volunteer shortages and staff shortages are also cited as major challenges the sector is facing.

These factors are not independent of each other. Research by [Volunteering Scotland](#) shows how the cost of living crisis is negatively impacting volunteers, and an inability to fund pay rises is likely to further exacerbate labour shortages in a sector where [low pay is already a problem](#).

Commentaries about the cost of living crisis often assume demand is increasing across the third sector. This is definitely the case for organisations dealing with [poverty](#) and [crisis situations](#). However, some of the organisations we fund have seen a drop in participation, particularly if they need to charge fees or attending incurs transport costs. This does not mean that need for the activities has declined, just that a squeeze on discretionary expenditure means that some households can no longer afford to take part.

Our grantees have told us about the stark realities facing be vulnerable people they help. Other work tells us more about which [groups in our communities are worst affected](#). They are:

- People with disabilities
- Children and young people
- Older people
- Minority ethnic communities
- Refugees and migrants
- Unpaid carers
- People who are homeless or at risk of homelessness
- Single parents
- Adults who are unemployed or economically inactive

Many of the same groups bore the brunt of the Covid crisis, suggesting that the cost of living crisis may be further embedding [inequalities which widened during the pandemic](#).

How can Foundation Scotland help?

When we asked our grantees about how funders could provide better support in this crisis, the response we got showed that, whilst just giving more funding is welcome and necessary to meet immediate increased costs, we also need to review what we fund and the processes we use.

Unrestricted funding which can be used to meet core running costs is seen as particularly vital.

“Funders can provide core funding to allow us to carry on delivering our services – Restricted/project funding will become increasingly difficult to spend if we can't meet our core costs and manage our centers. Trust organisations to deliver and just do one big pot of core costs - save everyone time and money so we can do more good.”

Increased flexibility in how grants can be used and multiyear funding were also cited as helpful in addressing the financial uncertainty felt by many groups.

Views from our grantees are mixed on whether we should change funding priorities to target those most vulnerable to the crisis. Some favoured increasing support to individuals experiencing hardship, emergency food aid and warm rooms. Others preferred longer term solutions such as support for energy efficiency and insulation. However, concerns were expressed that targeting can miss vulnerable people, such as when pockets of poverty exist in more affluent areas.

Other things we can do include simplifying processes, a quick turnaround for decisions and providing clear information about what funding is on offer. Foundation Scotland is also seen as potentially having a role in advocating for the sector and making donors aware of the depth of the crisis being faced by Scotland's voluntary and community groups.

How is Foundation Scotland Responding?

The ongoing climate emergency, the Covid pandemic, and now also the cost of living crisis, have exacerbated and exposed deep-seated social inequalities within society. Foundation Scotland recognises that channeling more funding towards activity that tackles inequality will help build longer term solutions that improve more people's lives. But we recognise too the need to get funding swiftly to support immediate needs to alleviate further stress and hardship in the short term.

Many of the community placed based panels supported by Foundation Scotland that make decisions on locally based grants, have been able to respond quickly to the issues being faced by groups in their areas.

These responses have included:

- Proactively inviting applications from organisations such as local Citizens Advice services to support work with households facing financial hardship.
- Funding uplifts where applicants have experienced major cost increases, particularly on capital projects. This has been considered on a case by case basis.
- Increasing amounts of education and training bursaries in line with inflation.
- Providing core funding to key local organisations and facilities.

We will be delivering a Communities in Crisis fund over the next year, where we look to provide funding to support organisations that are supporting the most vulnerable in communities and who are impacted most by the rising cost of living. We have received funding from the Red Cross and M&G investments to start this fund and hope to attract more funders to join.

We have been encouraging our donors to provide unrestricted funding where possible to allow organisations to apply the funds to what they need most.

We are informing our donors about how the rise in cost is impacting the charities and community groups we support.

Informed by our commitment to incorporating wellbeing economy principles into our approach and operations¹ we are also:

- Piloting a new fund targeting community led solutions that seek to tackle inequality.
- Considering to what extent grants need to be larger and longer, providing time and space for groups and organisations to explore more preventative approaches (but not turning the tap off support to immediate need and downstream activity).
- Developing our approach to assessment and evaluation to better acknowledge work that is longer term and where results are perhaps less tangible or visible.

¹ <https://wwwFOUNDATIONSscotland.org.uk/sites/default/files/2023-02/Raising%20our%20Gaze%20September%202022.pdf>

- Encouraging groups and organisations and encouraging to think and act more preventatively, if they're not already, so they are not limited to seek grant funding only for short term, quick fix remedial work.
- Encouraging more collaboration and risk taking (by ourselves as well as those we fund) through trying things out and sharing learning.
- Recognising that some of the most effective and long-lasting changes sit in the policy space, considering how we contribute to that and what support communities need to influence and shape the policies that impact them.



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