



**Business Intelligence Insights
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The Third Sector
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Business Intelligence Insights

Scotland Excel Business Intelligence Insights have explored key themes impacting the public sector and procurement landscape, including Demographics, Energy and Net Zero, Artificial Intelligence and Technology, and Funding. An archive of previous reports is available on the Scotland Excel [Member's Area](#).

This Insight will explore the impacts of previously explored themes on the delivery of public services in the context of **The Third Sector** in Scotland. Further information and resources can be accessed by clicking on [underlined](#) content.

The Third Sector

The Third Sector makes a significant economic and social contribution in Scotland, and is an important pillar in the delivery of public goods and services. However, the scope of organisations that fall into the third sector is broad, and often debated. Whilst there is no accepted definition of what it means to be a third sector organisation, the [Scottish Government](#) classify the third sector as made up of **charities**, **social enterprises**, and **community groups**. The lack of clear definition in which organisations constitute the third sector makes it challenging to measure its true economic and social contribution.

Charities

Organisations listed on the [Scottish Charities Register](#) that use their funding for charitable purposes to benefit the public.

Social Enterprises

Businesses with a social and/or environmental purpose, that [re-invests profits](#) into fulfilling their mission.

Community Groups

Groups of individuals who work for the benefit of the public.

The relationship between the third sector and public sector in Scotland is mutually beneficial, as both groups have many shared priorities including improving health and wellbeing, reducing inequality, and housing. As well as shared priorities, both sectors face similar financial and social pressures.

However, third sector organisations are subject to distinct regulation including charity law and face unique funding pressures. The challenging third sector landscape impacts the sustainability of the sector, with [1.5](#) times more charities leaving the Scottish Charities Register than being registered in 2023. [Financial resilience, staffing, and the third sector landscape](#) have been identified as the biggest challenges facing third sector organisations in 2024.

This Insight will explore the role of and challenges faced by the third sector suppliers delivering public services and outline the importance of the relationship between the public and third sector. The 'food for thought' boxes provide the reader with an opportunity to pause, ask questions, and consider how they can foster this relationship through their work.

What is the economic value of the third sector in Scotland?



Figure 1: The Impact of the Third Sector in Scotland

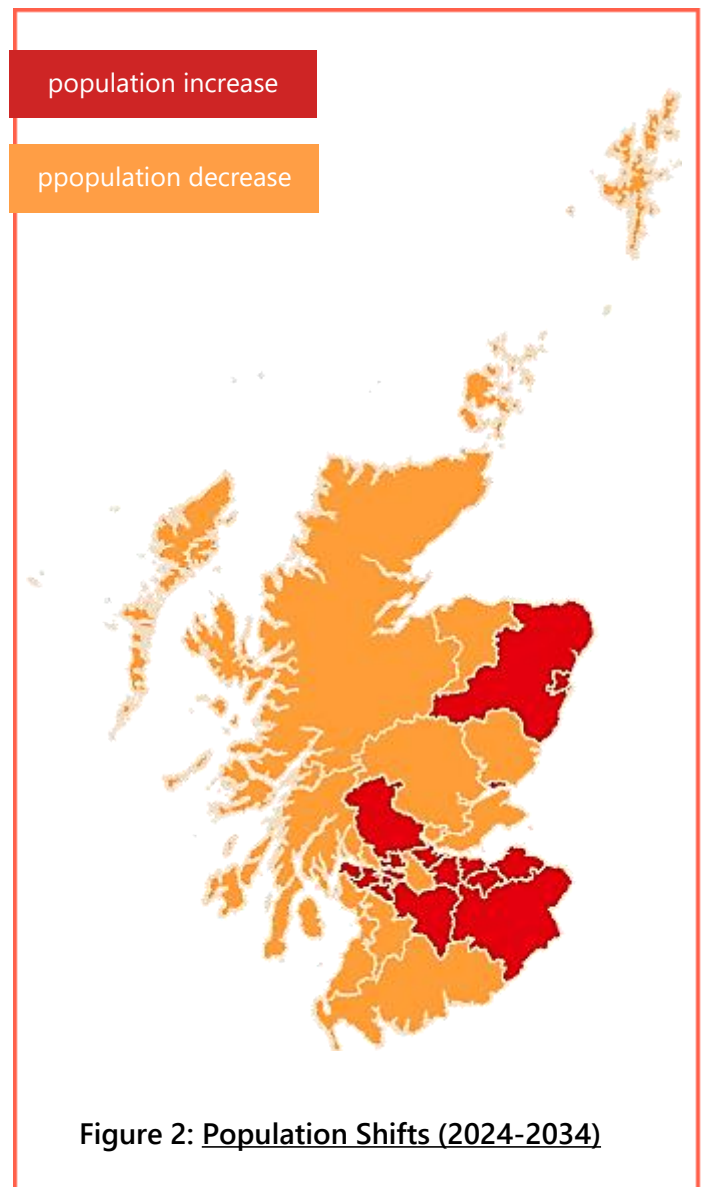
Demographics

How do demographic characteristics and shifts impact the demands of the third sector?

The demographics of the Scottish population determines the needs of the Scottish public, therefore impacting the service demands of third sector organisations. Third sector services often support the most disadvantaged groups in Scotland, whose needs are characterised by demographic factors such as age, gender, ethnicity, location, and education level. Demographic changes such as an aging population and migration will impact both the demand for third sector services and the availability of labour and volunteers in Scotland.

Scotland's aging population is a significant demographic challenge that is expected to drive increased demand for social care services in the coming years. The combination of a declining population of children and a growing population of older people create a complex landscape for third sector suppliers in Scotland. The demand for support will also be characterised by migration, with varying impacts being felt by each local authority.

Figure 2 depicts predicted population changes in Scotland over the next decade, indicating growth in the local authority areas highlighted in red, and decline in those in orange. This projected shift suggests that there will be an increase in population in urban areas, whilst rural populations are expected to decline. Alongside changes to the total population in each local authority, the aging nature of the population will shape the demand for services in each area.



Food for thought

With 50% of the voluntary sector income in Scotland generated by social care, health, and housing, how will the demographic shifts outlined impact...



- the financial sustainability of third sector suppliers on public procurement frameworks?
- the demands for services provided by third sector suppliers?
- the housing needs of the Scottish population on a local level?
- the availability of labour and volunteers in rural and urban locations?

How can public procurement and ethical commissioning support third sector suppliers to prepare for these demographic shifts?

Energy and Net Zero

The third sector is sensitive to energy price rises. Rising energy costs impact both the needs of individuals and communities, and the capacity of third sector organisations to support them. In Spring 2024, 84% of third sector organisations in Scotland reported being at least 'quite concerned' about energy costs impacting the individuals and communities that they serve.

UK and Scottish Government policies play a key role in shaping the energy demands of the public. The announcement from the UK Government of changes to the Winter Fuel Payment is expected to put 2 million pensioners at risk of fuel poverty in the UK. The UK level cut has created a £160 million gap in the Scottish budget, which has led to the payment being stopped in Scotland for 2024-25, where 1 million people were expected to receive the support.

The projected change in demographics outlined earlier will impact fuel demand in Scotland too. Currently, properties in rural areas are more likely to be described as fuel poor than those in urban areas. With the population of rural areas expected to decrease over the next 10 years, it is fundamental that the performance gap of rural and urban properties does not worsen.

Climate Ready Clyde identified Glasgow postcodes in the top 20% of deprivation according to the Scottish Index of Multiple Deprivation (SIMD), which also face flooding risk, heating risk, or both. This data informed approach helps pinpoint communities most exposed to deprivation and climate change impacts.

It is crucial that the net zero transition and impacts of climate change are managed to prevent vulnerable groups from being impacted disproportionately. These factors are likely to impact energy consumption patterns and increase the demand for third sector support related to heating and energy.

Artificial Intelligence and Technology

Artificial Intelligence (AI) and technological developments present significant opportunities to alleviate challenges faced by third sector organisations. A recent survey found that there is public support for AI adoption in the third sector, with over 70% of people agreeing that AI should be made accessible to all charities.

AI adoption requires a balanced approach, and can generate benefits to the third sector including more efficient processes and improved resource availability. Technology can support third sector organisations to help more people, and respond faster to challenges.

However, there are significant financial barriers and risks associated with AI implementation in the third sector. 40% of charities are considered '**extremely unprepared**' for the integration of AI in areas such as policy, ethical guidelines, data protection, and cybersecurity. One of the key concerns regarding AI in the third sector is the loss of person-delivered care in the delivery of social benefits.

NHS Somerset has deployed an AI solution that analyses patient data to forecast unplanned hospital admissions and invites 'at-risk' individuals for assessments to develop care and support plans. The technology is being rolled out in the South West of England, following a trial that saw a reduction of 35% in resident falls, 60% in unplanned hospital attendances, and 9% in ambulance call outs.

This example highlights the benefits that digital transformation can bring, and **the importance of ensuring that third sector organisations have access to evolving technologies**. Adoption of technology that anticipates challenges faced by third sector organisations could reduce costs in the long-term and alleviate staffing challenges in the sector.

Food for thought

The examples above highlight the value of data application in enabling a targeted approach to service delivery.



What other data and information could be analysed to support third sector organisations to...

- identify the needs of the Scottish population?
- meet the changing demands of an aging population?
- identify and support vulnerable groups in the energy transition?

Funding

The benefits of third sector funding are felt by individuals, communities, and local authority areas. Like councils, third sector organisations must make complex financial decisions in the continued delivery of services to the Scottish population.

Third sector organisations have various funding models and income streams. Funding comes from sources including the public, the government, the voluntary sector, investment, and the National Lottery. Alongside various sources of income, third sector funding comes in various forms including grants, fundraising income, donations, contracts, income from activities, and sponsorship.

Whilst third sector funding may come from various sources, third sector organisations do not benefit from the guaranteed funding stream that local government does. This creates uncertainty around the financial sustainability of third sector organisations. In Spring 2024, 41% of third sector organisations reported that the practical and financial support available to them was not sufficient in helping to manage rising costs.

The main source of funding for the voluntary sector is the general public, which accounts for almost 50% of total funding. As a high portion of third sector funding is generated through donation, third sector organisations are particularly sensitive to market developments including inflation, and rising energy costs. Whilst people have been faced with a cost-of-living crisis, charities have faced a cost-of-giving crisis as people and businesses have had less funding to share with charities.

How can public procurement and local government support third sector financial sustainability?

There are many ways in which the public sector can continue to support the integration of third sector organisations in public sector service delivery and supply chains. The Supplier Journey published guidance for SMEs and third sector organisations in relation to public procurement. Further, within the Scottish Procurement Policy Handbook, there is guidance for the incorporation of SMEs, third sector bodies, and supported businesses in public sector procurement.

The Scottish Government has launched a Dynamic Purchasing System which aims to provide public and third sector bodies with an avenue for the purchase of goods and services provided by supported businesses, to support the integration of disabled and disadvantaged people into the workforce. A supported business is defined by the Scottish Government as an organisation in which at least 30% of employees are disabled or disadvantaged, which promotes the social and professional integration of these groups. The British Association for Supported Employment hosts a database of all Supported Business in the UK.

Food for thought



Integrating third sector organisations into public sector supply chains can support the sustainability of the third sector and boost their valuable contribution to the delivery of public services, the communities that they serve, and the economy.

How might your role create opportunities to support the sustainability of third sector organisations?



For queries related to Business Intelligence at Scotland
Excel or Business Intelligence Insights please contact
Hannah.Wood@Scotland-Excel.org.uk.