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Budget scrutiny 2025-26 - Third sector funding principles - Evidence Session One

Introduction

Each year, the Social Justice and Social Security Committee reviews potential considerations for the Scottish Government's budget planning. This year, the Committee will investigate the funding difficulties within the 'third sector'.

The Committee aims to explore how the Scottish Government's strategy for fair and efficient funding can support the ongoing effectiveness of the third sector. To do this the Committee is holding several evidence sessions with relevant experts including funded and funding organisations. In evidence session one, the Committee will hear from the following organisations:

- [Scottish Council for Voluntary Organisations \(SCVO\)](#)
- [Volunteer Scotland](#)
- [Social Enterprise Scotland](#)
- [Youthlink Scotland](#)
- [Third Sector Interface Network Scotland](#)

Background

The third sector, encompassing charities, social enterprises, voluntary organisations, and public social partnerships, is seen by many to play an essential role in supporting communities across Scotland. However, it currently faces significant pressures due to increased demand for its services and broader economic challenges.

The COVID-19 pandemic has led to a heightened demand for third sector support, while the ongoing cost of living crisis has caused more individuals and families to seek assistance. Additionally, third sector organisations are experiencing rising operational costs as a result of inflation.

Since a considerable portion of third sector funding is derived from public sector contracts and grants, including those provided by the Scottish Government and local authorities, addressing the financial sustainability of the sector is of particular importance to the Committee.

The third sector has identified several funding needs, including:

- Longer-term funding commitments of three years or more.
- Flexible, unrestricted core funding to ensure security, effective planning, and good governance.
- Sustainable funding that considers inflationary increases and covers full operating costs.
- Funding that enables organisations to pay staff at least the Real Living Wage.
- Streamlined, accessible, and consistent funding application and reporting processes.
- Timely processing of applications and payments.
- A partnership-based approach between funders and funded organisations.

The evidence sessions will examine these issues, gathering evidence on how the Scottish Government can best support the third sector in navigating these challenges.

Scottish Government's Fairer Funding Principles

The Scottish Government recognises that changes need to be made regarding funding of the third sector and is committed to addressing long standing issues by 2026. It is ["committed to ensuring that grant making is continuously improved and that best practice in grant management is mainstreamed across government, whilst understanding that the issue of fairer funding is a cross-government and cross-portfolio commitment"](#).

To do this, the Scottish Government has set out several improvements to the way it provides funding to the third sector including:

- "improvements to our grant-making arrangements to provide greater clarity and consistency of practice
- increasing the number of multi-year agreements to provide stability
- proportionate reporting and monitoring
- ensuring prompt notification of funding and
- reviewing grant conditions"

By addressing these issues, the Scottish Government suggests that it is recognising the "sector's strategic role in enabling the transformation and delivery of person-centred services for the people of Scotland".

SCVO's Fair Funding Definition

Whilst SCVO welcomes the Scottish Government's Fairer Funding principals, they suggest that there is a lack of clarity surrounding what progress has been made as part of the programme of reform. SCVO also notes in their [Call for Views response](#) that many of the issues that have been raised previously with the Committee have yet to be actioned by the Scottish Government. Despite this, SCVO continues to ask the Scottish Government to align their Fairer Funding principals with SCVO's definition of Fair Funding.

SCVO defines [Fair Funding](#) as follows:

“Fair Funding is central to a sustainable voluntary sector in Scotland. It includes, but is not limited to, longer-term funding of three years or more, flexible unrestricted funding, timely payments, more accessible application processes, sustainable funding which incorporates inflation-based uplifts, and transparent approaches to monitoring and reporting.”

Additionally, due to previous funding practices and future challenges SCVO highlights the following as urgently needed:

- “Longer-term funding of three years or more;
- Flexible, unrestricted core funding, which enables organisations to provide security, plan effectively, and fulfil good governance requirements;
- Sustainable funding that includes inflation-based uplifts and full costs, including core operating costs;
- Funding that accommodates paying staff at least the Real Living Wage and pay uplifts for voluntary sector staff on par with those offered in the public sector;
- Accessible, streamlined, proportionate, and consistent approaches to applications and reporting, timely processing and payments, and partnership between the grant-maker and grant-holder; and
- A comprehensive and proportionate approach to financial transparency around grant funding to support organisations and the public to understand spending decisions.”

More detailed information on Fair Funding and its four distinct elements, multi-year funding, sustainable funding, flexible funding, and accessible funding can be found on [SCVO's Fair Funding webpage](#).

Recent Funding

Recent third sector funding in Scotland has faced notable challenges, with organisations grappling with Covid-19, the cost-of-living crisis, budget cuts and financial uncertainty. Despite the role these organisations play in delivering services and supporting communities, many feel funding has not kept pace with rising costs and demand.

The third sector budget line in the Scottish Budget covers delivery of third sector infrastructure to provide development, voice and practical support to wider third sector. It also provides delivery of Social Enterprise and Volunteering Action Plans and Fairer Funding for the Third Sector. For the [2024-25 year the budget was £21.1 million](#). This is a decrease in both cash (-0.5%) and real (-2.1%) terms compared to £21.2 million in the 2023-24 budget.

Despite pledging to [increase the number of two year grants in the 2024-25 budget](#) the then Deputy First Minister delayed the implementation of a multi-year funding approach, [deferring it to the forthcoming Medium-Term Financial Strategy](#).

[SCVO's State of the Sector – Funding and Finance Research from 2021](#)

demonstrates that public sector funding makes up a significant part of the sector's income with the two largest incomes sources in the sector being local authorities and the Scottish Government.

Additionally, in 2022 the [Scottish voluntary sector spending was £8.8bn compared to £7.9bn in 2021](#), an increase of almost £1bn. Of this spend, 43% was related to staffing in 2021 with charities spending ranging from 20-40% at small charities to 70-80% at large social care and health charities. This demonstrates the impact changes to funding can have not only on the charity and those they serve, but the staff themselves.

In the [most recent Third Sector Tracker](#), published June 2024, SCVO reports that 88% “of organisations reported taking actions to mitigate financial challenges that they had experienced since December 2023”. Of the action recorded, the most common were applying for new funding from new funders and using financial reserves. SCVO also reports that of the [39% of organisations who have used their reserves since December 2023, 60% believe that their usage is unsustainable](#).

The reduction in the third sector budget for 2024-25, coupled with the delay in implementing a multi-year funding approach, highlights the ongoing financial pressures faced by third sector organisations in Scotland. Despite the sector's growing expenditure, particularly in staffing, the reliance on public sector funding remains significant, making these budgetary changes especially impactful. The findings from SCVO's recent research highlight the immediate and unsustainable measures that many organisations are resorting to in order to address financial challenges, further emphasising the need for a more stable and predictable funding environment. The deferred multi-year funding approach, now linked to the forthcoming Medium-Term Financial Strategy, will impact the third sector, particularly as it continues to navigate a landscape of financial uncertainty.

Call for Views Summary

The Committee conducted a call for views from 19 June to 16 August 2024 and received upwards of 190 submissions. The Committee sought input from both funded and funding organisations, aiming to understand what changes could be undertaken to improve the funding process, allowing available resources to be used more effectively. Below are several high-level themes from the submissions. A more

detailed analysis will be published at a later date and the full submissions from the organisations presenting evidence can be found on the [Call for Views page](#).

Barriers and Challenges in Funding Processes

Respondents from various sectors identified several barriers to effective funding processes. A prominent issue was the complexity and inconsistency of application forms. Smaller organisations, in particular, reported that these processes are burdensome and time-consuming, often stretching their limited resources. The lack of standardisation across different funding bodies further complicates the application process, making it difficult for organisations to navigate multiple funding streams efficiently.

Concerns were also raised regarding the transparency of funding decisions. Some respondents indicated that there is insufficient feedback on unsuccessful applications, leading to perceptions of inconsistency and, in some cases, allegations of corruption. The overall call from respondents was for more streamlined, standardised, and transparent processes that would facilitate easier access to funding and more manageable reporting requirements.

Multi-Year and Flexible Funding

There was widespread support among respondents for multi-year funding models. Such funding was highlighted as beneficial for providing financial stability, enabling more effective long-term planning, and reducing staff turnover within organisations. These outcomes are seen as critical for the sustainability of third-sector organisations, particularly in terms of retaining skilled staff and maintaining service delivery standards.

Flexible funding was also viewed positively, with respondents noting that it allows organisations to respond more effectively to changing circumstances and emerging needs. However, some respondents expressed concerns about the potential challenges associated with flexible funding, particularly in relation to governance and oversight. It was noted that robust management structures and clear guidelines are essential to ensure that flexible funds are used appropriately and effectively.

Real Living Wage and Inflation Adjustments

The commitment to the Real Living Wage (RLW) was acknowledged as an important factor in ensuring fair compensation within the third sector. However, respondents identified significant challenges in sustaining this commitment, particularly in light of limited and non-inflationary funding. Without corresponding increases in funding, organisations reported difficulties in maintaining RLW payments, which could lead to staff reductions or cuts in services.

Inflation was identified as a critical issue exacerbating these challenges. Respondents suggested that funding models should include provisions for inflation to ensure that wages and operational costs remain sustainable over time. Some funders recognised these challenges and indicated a willingness to consider inflation adjustments in their future funding strategies.

Application, Reporting, and Payment Processes

The administrative burden associated with funding applications, reporting, and payment processes was a recurring concern among respondents. Many called for these processes to be simplified and made more proportional to the size and capacity of the organisations involved. Standardisation of application forms and reporting templates across different funding bodies was suggested as a way to reduce this burden, making it easier for organisations to apply for and manage multiple funding streams.

Timeliness in funding decisions and payments was also highlighted as crucial. Delays in receiving funding can have significant consequences for organisations, particularly those operating with tight margins. Respondents stressed the importance of clear communication from funders regarding timelines and expectations to enable effective planning and prevent cash flow issues.

Alignment with Strategic Goals and Long-Term Planning

Respondents emphasised the importance of aligning funding with both the strategic goals of funders and the operational needs of third-sector organisations. Long-term and flexible funding models were seen as essential for enabling organisations to set and achieve their long-term objectives. This alignment was viewed as key to ensuring that funding is used effectively and leads to sustainable outcomes.

Increased job security for staff, resulting from more stable and predictable funding, was highlighted as a critical factor in improving organisational stability and service delivery. This stability allows organisations to invest in staff development, enhancing their capacity to deliver high-quality services.

Overall Summary

The responses from funders, third-sector organisations, and other stakeholders reflect a consensus on the need for more stable, flexible, and long-term funding arrangements that support strategic planning, organisational stability, and effective service delivery. While there is broad support for these changes, concerns about effective management, clear guidelines, and strong governance remain. Addressing challenges related to the Real Living Wage, inflation, and the complexity of funding processes is seen as essential for enhancing the sustainability and impact of the third sector.

Themes for Evidence Session

All five organisations present at the evidence session provided detailed responses to the call for views. Their submissions are based on the views of their membership and/or the third-sector as whole. The following themes are drawn from these submissions and include issues and potential solutions highlighted by the organisations. Their full submissions can be found in Annex A.

Theme 1: Funding Stability and Longer-Term Funding

Highlighted Issues

All submissions underscore the instability caused by the lack of multi-year funding. This issue is especially concerning for third sector organisations that need financial certainty to plan effectively and deliver consistent services. The absence of long-term funding commitments forces organisations into a precarious financial situation, where they must continuously scramble for resources, leading to significant operational challenges. For instance, Social Enterprise Scotland highlights how this instability is particularly pronounced in rural areas, where recruiting and retaining skilled staff is already difficult due to geographic isolation and limited local resources. Volunteer Scotland and YouthLink Scotland also stress that the uncertainty around short-term funding makes it challenging to sustain volunteer-led initiatives and youth services. This uncertainty affects the recruitment and retention of volunteers and youth workers, who are vital to the success of these programmes. Furthermore, TSI Network Scotland notes that this instability directly impacts their ability to support smaller, community-based organisations, which are often the most vulnerable to funding fluctuations.

"TSIs themselves are confronting the same challenges facing other charitable and voluntary organisations. Our purpose is to support and strengthen the third sector and that becomes harder to do when we also face payment delays, short-term funding, and budget erosion." – TSI Network Scotland

The submissions reveal that short-term funding cycles detract significantly from the core mission of organisations, as they are forced to allocate disproportionate amounts of time and resources to securing new funds. This perpetual cycle of funding applications prevents organisations from engaging in meaningful long-term strategic planning, which is essential for addressing complex social issues such as poverty, youth engagement, and social care. Similarly, Social Enterprise Scotland highlights how the administrative burden of constant funding applications detracts from the ability of local charities and voluntary groups to focus on service delivery, reducing their overall effectiveness.

"A constant stream of funding applications also means wasted staff time and resources on project planning and reporting, that could be better employed elsewhere to deliver social and charitable outcomes." – Social Enterprise Scotland

SCVO adds that this environment of uncertainty and instability often leads to staff turnover, as organisations are unable to offer secure employment, further exacerbating the challenges in service delivery.

Proposed Solutions

All submissions advocate for a fundamental shift towards multi-year funding arrangements, with a common recommendation of a minimum three-year commitment. This approach is seen as crucial for providing the financial stability needed for organisations to plan effectively, secure employment, and improve

operational efficiency. SCVO argues that multi-year funding is essential for allowing voluntary organisations to move beyond the constant cycle of short-term funding applications and focus on delivering long-term outcomes that benefit communities. YouthLink Scotland supports this approach, noting that multi-year funding is particularly important for sustaining youth programmes. Social Enterprise Scotland also emphasises that multi-year funding would significantly reduce the administrative burden associated with repeated funding applications, freeing up resources that could be better spent on service delivery and innovation however the timing of longer-term funding needs to be considered.

“One disadvantage to long term funding might be that organisations miss out on application deadlines and therefore have to wait longer to apply. This can be solved by different rounds of application deadlines.” – Social Enterprise Scotland

Volunteer Scotland adds that stable, long-term funding would make it easier to recruit and retain staff who are often discouraged by the uncertainty of short-term projects.

“Constant one-year funding awards can lead to recruitment and retention challenges with staff, leading to a loss of experience from the sector. This also has a considerable impact on the continuity of experience for volunteers and disrupts their relationships with trusted staff members.” – Volunteer Scotland

In addition to advocating for multi-year funding, the submissions also highlight the importance of consistent and timely decision-making by funders. Delays in funding decisions are reported to cause significant operational challenges, such as cash flow issues, potential staff redundancies, and difficulties in planning.

“Speed in decision making and of making payments is a significant issue. Delays in awards can result in significant crises for organisations, with staff threatened with redundancy, cashflow issues and financial year pressures.” – Social Enterprise Scotland

TSI Network Scotland recommends that funding decisions be communicated at least three months before the start of the financial year to reduce the risks faced by voluntary organisations. This recommendation is also present in the submission from SCVO, which calls for a more proactive approach from the Scottish Government in ensuring that funding decisions are made and communicated in a timely manner, allowing organisations to plan with greater certainty and reduce the stress and instability that currently plagues the sector. YouthLink Scotland also underscores the need for timely decision-making, asking for “confirmed contracts with at least three months’ notice before the end of existing contracts/funding arrangements”. Social Enterprise Scotland expands on the need for clarity on upcoming from the Scottish Government.

“It’s essential that Scotland’s social enterprises, charities and community organisations get greater certainty and stability, in order to plan and grow their services and to reach and support the diverse groups that they serve.” – Social Enterprise Scotland

Members may wish to ask:

- 1. Social Enterprise Scotland highlighted a potential drawback of multi-year funding: organisations that miss deadlines or fail to secure funding may face longer wait times before reapplying. What additional challenges could arise from an increase in multi-year funding, and what strategies could be implemented to mitigate these challenges?**

Theme 2: Core and Flexible Funding

Highlighted Issues

A significant concern raised by multiple submissions is the reliance on project-specific funding, which restricts organisations' ability to cover essential core costs, such as salaries, rent, utilities, and general operational expenses. This form of funding is seen as limiting the capacity of organisations to adapt to changing circumstances, stifling innovation, and hindering their long-term sustainability. Volunteer Scotland highlights that volunteer-led organisations, which often operate with minimal paid staff, find it particularly challenging to sustain their activities when core costs are not adequately covered: "The provision of funding to support core costs helps to ensure that organisations can provide supportive and inclusive volunteering opportunities that align with the [Volunteer Charter](#)". YouthLink Scotland echoes these concerns, noting that restricted funding can impede the ability of youth organisations to respond swiftly to emerging needs, thereby reducing the effectiveness of their interventions.

"In the spirit of that approach, funding principles should allow some flexibility on how funds are used so organisations can move quickly to unexpected challenges and meet the needs of those they support. This will enable organisations to adapt their plans to help their community's needs." – YouthLink Scotland

Social Enterprise Scotland also points out that the rigid conditions attached to restricted funding often force organisations to prioritise the specific demands of funders over the actual needs of the communities they serve. This can lead to a misalignment between funding priorities and community outcomes. Flexible funding could also improve an organisation's ability to maintain reserves.

The lack of flexible funding is reported to have a detrimental effect on the operational effectiveness of third sector organisations. Without the ability to cover core costs or respond to unexpected challenges, these organisations may find it difficult to maintain essential services, especially during times of crisis. This situation is further exacerbated when organisations are unable to invest in staff development, infrastructure, or other critical areas that contribute to their long-term sustainability. Social Enterprise Scotland stresses that unrestricted core funding would enable organisations to quickly adapt to fast-changing circumstances, foster innovation, and ensure continuity in service delivery. SCVO adds that core funding is critical for maintaining the infrastructure that supports the broader voluntary sector, noting that without it, many organisations would struggle to survive. TSI Network Scotland also emphasises that the increase in core costs, coupled with the lack of flexible funding,

is forcing some organisations to deplete their reserves or even face closure, particularly in rural and remote areas where financial resources are more scarce.

"The increase in core costs for voluntary organisations is rarely recognized and that can require organisations to use reserves, strategies to diversify income and – sadly – can place some at risk of having to wind up." – TSI Network Scotland

Proposed Solutions

There is a strong consensus among the submissions that funders should provide more flexible, unrestricted funding to enable organisations to cover their core costs and quickly adapt to changing needs. This type of funding would allow organisations to allocate resources where they are most needed, ensuring that services remain responsive and relevant to the needs of the communities they serve. Social Enterprise Scotland advocates for a shift towards more flexible funding arrangements, arguing that this would boost innovation and enhance the capacity of organisations to deliver on their missions. SCVO recommends that future grant arrangements include meaningful discussions between funders and recipients about the balance between restricted and unrestricted funding, to ensure that organisations have the financial flexibility they need to thrive. YouthLink Scotland adds that unrestricted funding is particularly important for youth organisations, which need to be agile in responding to the dynamic needs of young people and to provide holistic support that goes beyond the confines of specific projects.

Volunteer Scotland further explains that unrestricted funding is essential for sustaining volunteer-led initiatives, which often require the ability to pivot quickly in response to community needs. TSI Network Scotland adds that flexible funding would also help organisations manage the rising costs of operation.

"Work with the third sector/TSIs both nationally and locally to advance adequate and secure funding: Flexible, unrestricted core funding, inflation-based uplifts and full cost recovery." - TSI Network Scotland

To ensure that funding mechanisms are appropriately tailored to the needs of communities, several submissions advocate for a more collaborative approach between funders and third sector organisations. SCVO suggests that funding models should be co-designed with the voluntary sector to ensure they are effective and responsive to the needs of the communities they serve as well as monitoring. They argue that by involving organisations like TSIs in the design of funding mechanisms, funders can gain a better understanding of the challenges and opportunities faced by these organisations, leading to more effective and impactful funding arrangements.

"Intermediaries are essential sector infrastructure providing assets, systems, services, and networks upon which the wider voluntary sector relies. Our research highlights how unrestricted core funding supports these organisations – allowing them to feel more secure and plan for the long-term while responding quickly to a changing environment as we saw, for example, during the pandemic." – SCVO

YouthLink Scotland supports this approach, proposing that greater collaboration between funders and youth organisations would lead to funding mechanisms that are better aligned with the realities of service delivery. They argue that by working together, funders and organisations can develop funding models that are flexible, responsive, and focused on achieving the best outcomes for young people.

"In the spirit of that approach, funding principles should allow some flexibility on how funds are used so organisations can move quickly to unexpected challenges and meet the needs of those they support. This will enable organisations to adapt their plans to help their community's needs." – YouthLink Scotland

Volunteer Scotland adds that there is a need for funders to engage with Volunteer Scotland to develop "clear guidelines for organisations in identifying core volunteering costs which align with the [Volunteer Charter](#)" to ensure the unique needs of the volunteer sector are taken into account. TSI Network Scotland adds that a more collaborative approach to funding design would also help ensure that funding mechanisms are better suited to the needs of local communities, leading to more effective and sustainable outcomes.

"Public services should be working with local TSIs to understand the strengths, skills, relationships and value of their local third sector and to INVEST in the what the sector does well and what's needed locally. Grant making built on outcomes, collective impact, trusting relationships and on equal value is much better for communities and a sustainable third sector." – TSI Network Scotland

The submissions strongly advocate for a shift towards more flexible, unrestricted core funding that would enable organisations to cover their core costs and adapt to changing circumstances. They also stress the importance of a collaborative approach to funding design, which would ensure that funding mechanisms are appropriately tailored to the needs of communities and support the long-term sustainability of the third sector.

Members may wish to ask:

- 2. What specific barriers do you perceive within current funding arrangements that prevent funders from offering more unrestricted, flexible funding, and how might these be overcome?**

Theme 3: Sustainability and Inflation Adjustments

Highlighted Issues

"Too many organisations across Scotland have contended with years of real-terms cuts to their funding while being expected to deliver the same or enhanced services and support with less and less resource and increasing conditionality." - SCVO

Inflation has emerged as a significant challenge for third sector organisations, particularly given the static nature of many funding arrangements that fail to account

for rising costs. As inflation increases, the purchasing power of organisations diminishes, leading to a situation where the real value of funding erodes over time. This issue is especially critical for organisations that operate on tight budgets and are already struggling to cover their basic operational costs. Social Enterprise Scotland emphasises that without adjustments for inflation, social enterprises face the dual challenges of rising operational costs and stagnant income, which can severely limit their ability to sustain and expand their services.

YouthLink Scotland highlights that the cost of delivering youth services has increased significantly due to inflation. Without corresponding increases in funding, these rising costs are forcing youth organisations to make difficult choices, which could include reducing services or cutting staff. Volunteer Scotland adds that the impact of inflation is likely particularly acute for volunteer-led organisations, which often operate with minimal financial resources and rely heavily on donated goods and services.

TSI Network Scotland points out that the effects of inflation are compounded by the fact that many funding agreements are locked in at rates that do not reflect current economic conditions or that they would be expected to find saving over the course of the year. As a result, organisations are effectively experiencing real-terms cuts to their budgets, which undermines their ability to deliver services and support their staff. SCVO underscores this point, noting that the lack of inflationary uplifts in funding agreements has led to a situation where many organisations are unable to offer cost-of-living salary increases, making it difficult to retain skilled employees and meet their operational needs.

"Without uplifts, organisations may be unable to offer cost-of-living salary increases resulting in the loss of skilled employees and the experience and expertise that they provide." – SCVO

The submissions also highlight the challenges associated with meeting Real Living Wage (RLW) commitments in the absence of corresponding funding increases. The RLW is a critical benchmark for ensuring that employees are paid fairly and can meet their basic living costs. However, without additional funding to support wage increases, organisations are often forced to choose between maintaining financial viability and paying their staff a fair wage. Volunteer Scotland notes that this issue is particularly pressing for volunteer-led organisations that employ a small number of paid staff to coordinate volunteer activities. They go on to state the impact this could have on volunteers: "we are more likely to see a decrease in resource to support volunteers in some third sector organisations to cover increased staffing costs". TSI Network Scotland points out that the disparity between wages in the third sector and those in the public sector is widening, making it increasingly difficult for third sector organisations to attract and retain talent.

"Pay inequalities between similar roles in the public and third sector are now significant. It becomes almost impossible to offer any wage increase and whilst flexible working and other in-work benefits can be offered (e.g. reduced working weeks), at some point, these are not enough to retain talented/experienced staff." – TSI Network Scotland

SCVO adds that many organisations have been dealing with years of real-terms cuts due to stagnant funding, all while being expected to deliver the same or even enhanced services. This situation is unsustainable, as it places undue pressure on organisations to absorb additional costs without the necessary financial support.

“Without inflation-based uplifts, the Scottish Government will foster an unsustainable environment. Voluntary organisations cannot be expected to provide the same, or enhanced, support with less money.” - SCVO

Social Enterprise Scotland also highlights if an organisation’s ability to pay the real living wage is to be a condition of funding, then funding must be increased each time the RLW is increased rather than forcing organisations to adapt in ways detrimental to their organisation and service e.g. reduce working hours.

Proposed Solutions

To address the challenges posed by inflation, the submissions propose that all multi-year funding arrangements should include provisions for inflation-based adjustments. This would help ensure that organisations can maintain their service levels and meet wage commitments without having to cut back on essential services. Social Enterprise Scotland suggests that incorporating inflation-based uplifts into funding agreements would provide organisations with the financial stability needed to plan effectively and sustain their operations.

SCVO supports this recommendation, emphasising that without inflationary adjustments, many organisations will continue to experience real-terms cuts, which could ultimately threaten their sustainability. They point out that these uplifts are essential not only for maintaining current service levels but also for ensuring that organisations can invest in their future growth and development. YouthLink Scotland also advocates for inflation-based adjustments.

“Fair funding is a long-term, flexible, sustainable, and accessible approach to funding and central to a sustainable voluntary sector which can offer fair work, maintain and support the recruitment of youth work volunteers and help to meet demand and deliver quality opportunities for young people. This should also include inflation-based uplifts and funding that accommodates paying staff at least the Real Living Wage.” – YouthLink Scotland

Volunteer Scotland adds that inflation-based adjustments would be particularly beneficial for volunteer-led organisations, where there is a danger of “higher expectations” on volunteers to meet rising service demand if these uplifts are lacking.

The submissions collectively advocate for a funding model that fully covers the actual costs of service delivery, including core operating costs, necessary wage increases, and other expenses related to maintaining and expanding services. SCVO calls for funders to adjust their investment criteria to focus on outcomes for communities rather than solely on cost considerations. They argue that funding should be designed to cover the full costs associated with delivering effective services, including the ability to offer fair wages, invest in staff development, and maintain essential infrastructure.

Social Enterprise Scotland also emphasises the importance of aligning funding with real costs. This would be particularly important for social enterprises that operate in economically disadvantaged areas where the need for comprehensive support is greatest. They argue that funders should take a more holistic approach to funding, recognising that the lowest-cost option is not always the most effective or sustainable. YouthLink Scotland supports this approach, highlighting that funding should be designed to reflect the actual costs of delivering youth services, including the need to pay staff fairly and invest in the resources necessary to engage young people effectively.

TSI Network Scotland adds that a funding model that reflects real costs would also help address the disparities between the third sector and the public sector in terms of pay and conditions. By ensuring that third sector organisations have the resources they need to offer competitive wages and benefits, funders could help close the gap between the sectors and support the long-term sustainability of the third sector. Volunteer Scotland also advocates for a funding model that reflects the true costs of service delivery, noting that this would enable volunteer-led organisations to maintain their operations and continue delivering essential services to their communities.

The submissions highlight a need for funding arrangements that account for inflation and reflect the real costs of service delivery. By incorporating inflation-based uplifts and aligning funding with actual costs, funders can help ensure the long-term sustainability of third sector organisations, enabling them to continue delivering high-quality services and meeting their commitments to fair wages.

Members may wish to ask:

- 3. What would be the most effective way for funders to incorporate inflation adjustments into multi-year funding agreements to ensure the sustainability of third sector organisations?**

Theme 4: Inefficiencies in Funding Processes

Highlighted Issues

A recurring issue across submissions is the complexity and inconsistency in the current funding application and reporting processes. Many third sector organisations find these processes to be overly burdensome and time-consuming, diverting valuable resources away from service delivery and strategic planning. Volunteer Scotland highlights that smaller, volunteer-led organisations are particularly disadvantaged by these complexities. These organisations often operate with limited administrative capacity, meaning that the time and effort required to navigate complex funding processes can detract significantly from their ability to focus on their core mission. The administrative burden is exacerbated by the lack of standardisation across different funders.

SCVO points out that the reporting process should be proportionate to the amount of funding received with one respondent from an SCVO survey stating, “over frequent reporting tends to be too onerous both for the person receiving the grant, and for those administering it. Six-monthly reporting feels about right, so that there is a level

of assurance for the grant giver, but so that the grant receiver does not spend all the time in reporting.”

Social Enterprise Scotland highlights the issue of duplication, where organisations are required to submit the same or similar information to multiple funders, often with little variation in content but significant differences in format or emphasis. This duplication could increase the likelihood of inconsistencies in the information provided, which can undermine the credibility of the organisation's applications. They also highlight that the information required during applications should be proportionate to the size of the organisation.

Another concern raised in the submissions is the delays in funding decisions, which can have severe implications for third sector organisations. These delays can lead to significant operational challenges, including cash flow problems, project interruptions, and even staff redundancies. TSI Network Scotland describes how delays in confirming funding can create a ripple effect, disrupting service delivery and eroding trust with beneficiaries and partners.

“In one area, third sector organisations (including the TSI) made people redundant as the local authority would not extend funding or recommission until there was written confirmation of funding from the Scottish Government [and] in a number of areas, staff working in third sector employability focussed organisations moved on to more secure jobs with subsequent loss of knowledge and expertise.” – TSI Network Scotland

When funding decisions are delayed, organisations are often forced to put projects on hold, cut back on services, or use their reserves to cover immediate expenses, all of which can have long-term negative impacts on their sustainability.

Volunteer Scotland highlights that for volunteer-led organisations, funding delays can be particularly destabilising. Many of these organisations rely on small, time-limited grants to fund specific activities or projects. When these funds are delayed, it can lead to gaps in service provision or even force organisations to suspend operations temporarily. This unpredictability makes it difficult to maintain volunteer engagement, as volunteers may lose motivation or move on to other opportunities. Additionally, these delays can lead to challenges for organisations even if they are successful in receiving funding.

“A third sector organisation ... found out they were being funded for a project five months into the financial year. As a result, they had a year's budget to spend in seven months. The Local Authority awarding the funding would also not allow the organisation to use the surplus funds for anything other than the agreed funded activity. The inefficiency in this decision-making process, coupled with a lack of flexibility once the funding was eventually awarded, put this organisation in a very challenging position.” – Volunteer Scotland

SCVO emphasises that delayed funding decisions also affect the ability of organisations to retain staff. When funding is uncertain, organisations may be forced to issue redundancy notices or reduce staff hours, leading to a loss of talent and

institutional knowledge. This situation is particularly problematic in the third sector, where organisations often rely on the dedication and expertise of a small number of staff to deliver high-quality services.

Proposed Solutions

“The Scottish Government should ensure that funding processes are more accessible, particularly for smaller organisations, by simplifying forms, providing clear guidance in Plain English and standardising processes and reporting outcomes where possible.” – Volunteer Scotland

To address the issues of complexity and inconsistency, the submissions advocate for the development of more streamlined and standardised funding processes. Social Enterprise Scotland suggests that funders should collaborate to create a unified application process that can be used across multiple funding bodies. This standardisation would reduce the administrative burden on organisations, allowing them to submit a single application that meets the requirements of various funders. They argue that this approach would not only save time but also improve the quality of applications, as organisations would be able to focus on presenting their best case rather than adapting their message to fit different formats.

“While appropriate and robust processes must be in place to ensure public funding is spent wisely, the oversight of and requirements for third sector funding recipients should not be onerous. For small funding pots this should be very light touch, with requirements increasing in relation to the amount of funding. There should be standardised application forms and processes from all funders, to reduce repeated duplication of standard information. This should also apply to proportionate, standardised reporting and monitoring.” – Social Enterprise Scotland

SCVO supports this recommendation, proposing that a standardised application and reporting process should be implemented across all Scottish Government departments and other public funders. They argue that such standardisation would reduce duplication and ensure that all organisations, regardless of size or capacity, have an equal opportunity to access funding(SCVO). YouthLink Scotland suggests that reporting requirements should vary according to the capacity of the organisation.

“Funding requirements and conditions should be proportionate to the size and capacity of the organisation receiving funds, include timely decision-making, and ensure that funding opportunities are accessible to diverse organisations, including those representing minoritised communities.” – YouthLink Scotland

TSI Network Scotland suggests that funders could also improve efficiency by adopting a more proportionate approach to application and reporting requirements. Volunteer Scotland highlights the need for funders to consider the capacity of volunteer-led organisations when designing funding processes, suggesting that more flexible and less formal application processes could help these organisations to secure the resources they need without diverting too much time away from their core activities.

“Funding decisions should be made and communicated no later than December, and funds paid no later than the start of the tax year in April, in line with SCVO Fair Funding calls.” – Volunteer Scotland

Ensuring that funding is disbursed promptly is another critical recommendation across the submissions. TSI Network Scotland proposes that funders should establish clear timelines for funding decisions and disbursements. This would provide organisations with greater certainty and allow them to plan their activities with confidence, knowing that funds will be available when needed. They also provide a good practice example where funding was provided at the start of the first quarter upfront to support organisational cash flow.

Social Enterprise Scotland highlights the importance of speed in both decision-making and payment disbursement. They argue that delays in these areas can create significant operational crises, including the potential for staff redundancies, cash flow shortages, and the inability to meet contractual obligations. By ensuring that funds are released on time, funders can help organisations to maintain their financial stability and avoid the negative consequences of funding gaps. SCVO also emphasises the need for timely payments, noting that many organisations operate with minimal financial reserves and cannot afford to wait for extended periods before receiving their funding. They propose that funders should inform applicants of funding decisions “no later than December and funds paid no later than the start of the tax year in April”.

Volunteer Scotland suggests that funders should also consider the specific needs of volunteer-led organisations when designing payment schedules, ensuring that funds are made available in a timely manner to support the ongoing activities of these organisations.

The organisations call for a significant overhaul of the current funding processes to make them more efficient, transparent, and responsive to the needs of third sector organisations. By streamlining and standardising application and reporting processes, and ensuring that funds are disbursed in a timely manner, funders can help to reduce the administrative burden on organisations and support the delivery of high-quality services to communities across Scotland.

Members may wish to ask:

- 4. What specific aspects of the current funding application and reporting processes do you understand to be the most burdensome, and how would you suggest these could be streamlined?**

Theme 5: Fair Funding and Equality

Highlighted Issues

An issue identified as critical in the submissions is the significant pay disparity between similar roles in the third sector and those in the public sector. This wage gap has created substantial challenges for third sector organisations, particularly in their efforts to recruit and retain skilled staff. TSI Network Scotland highlights that the

widening gap between third sector and public sector pay has reached a point where it severely undermines the competitiveness of the third sector. Many skilled professionals are leaving the third sector for better-paying roles in the public sector, where salaries are often more reflective of the responsibilities and expertise required. This migration not only potentially leads to a loss of talent within the third sector but also erodes institutional knowledge and continuity, which are critical for the sustained delivery of effective services.

"We are a fair way from seeing the sector being valued properly; the power imbalance and inequality between the public and third sectors has never been greater. The sector is often the first to be cut yet charities, voluntary organisations, and communities are continually expected to do more with less and less." – TSI Network Scotland

SCVO adds that the lack of funding to support pay increases further exacerbates this issue. Many third sector organisations have experienced years of real-terms funding cuts, meaning that their ability to offer even minimal pay rises is constrained. This situation places these organisations at a disadvantage when competing with public sector employers, where wage increases are more likely to be built in.

The submissions also discuss the broader issue of sectoral parity, where the third sector is often viewed as less valued compared to mainstream public services. Despite the role that third sector organisations play in delivering services and supporting vulnerable communities, there is a perception that these contributions are not fully recognised or valued within the broader funding landscape. SCVO argues that this perception is reflected in funding practices, where the third sector is often treated as ["the poor relation" of public services, as stated by the Auditor General for Scotland](#). The submissions suggest that this undervaluation manifests in the form of chronic underfunding, which leads to financial instability and limits the sector's ability to scale up successful initiatives.

TSI Network Scotland adds that the power imbalance between the public and third sectors is growing, with the third sector increasingly being asked to do more with less. This expectation that third sector organisations can continually absorb cuts while maintaining or even expanding their services is seen as unsustainable and ultimately detrimental to the communities they serve. Volunteer Scotland highlights that this issue is particularly pronounced in volunteer-led organisations, which are often seen as a stopgap rather than a critical component of public service delivery. This perception leads to funding decisions that do not adequately support the infrastructure needed to sustain volunteer programmes over the long term.

Proposed Solutions

To address the issues of pay inequality and sectoral parity, the submissions call for a strong commitment from funders, particularly the Scottish Government, to adopt and implement Fair Funding principles. These principles include multi-year funding, inflation-based adjustments, and a focus on outcomes rather than the lowest cost. SCVO argues that aligning funding practices with the [Fair Funding](#) principles would help ensure that third sector organisations receive the financial support they need to offer competitive wages, invest in their staff, and deliver high-quality services. Their

suggestions are aimed at the Scottish Government but are relevant to all funders including local government.

TSI Network Scotland echoes this call, emphasising that the adoption of Fair Funding principles is essential for addressing the power imbalance between the public and third sectors. They argue that these principles should be embedded in all funding decisions, with a focus on ensuring that third sector organisations are not only adequately funded but also treated as equal partners in service delivery. YouthLink Scotland adds that Fair Funding principles would be particularly beneficial for youth organisations.

“Fair funding is a long-term, flexible, sustainable, and accessible approach to funding and central to a sustainable voluntary sector which can offer fair work, maintain and support the recruitment of youth work volunteers and help to meet demand and deliver quality opportunities for young people.” – YouthLink Scotland

Volunteer Scotland highlights that Fair Funding principles should also include provisions for supporting volunteer-led organisations, which play a critical role in delivering services but often operate with minimal financial resources. They suggest that funders should consider the specific needs of volunteer organisations when designing funding mechanisms, ensuring that they are adequately supported to sustain their programmes and retain their volunteers. This sentiment is also supported by YouthLink Scotland. The submissions state that adopting Fair Funding principles would also help to address the broader issue of social inequality by ensuring that social enterprises and other third sector organisations have the resources they need to scale their impact and contribute to community wellbeing.

Another key recommendation across the submissions is the promotion of pay parity between the third sector and public sector. SCVO suggests that funding arrangements should include provisions that allow third sector organisations to offer pay increases that are in line with those in the public sector. This would help to close the wage gap and make the third sector a more attractive and competitive employer, which is essential for retaining skilled staff and ensuring the sustainability of services. They argue that without such provisions, the third sector will continue to lose talent to better-paying roles in the public sector, which will ultimately undermine its capacity to deliver on its social mission.

“Funding that accommodates paying staff at least the Real Living Wage and pay uplifts for voluntary sector staff on par with those offered in the public sector.” – SCVO

The submissions highlight the urgent need for funders to address the issues of pay inequality and sectoral parity within the third sector. By committing to Fair Funding principles and promoting pay parity, funders can help ensure that third sector organisations have the resources they need to attract and retain skilled staff, deliver high-quality services, and achieve long-term sustainability.

Members may wish to ask:

- 5. What actions would you recommend to the Scottish Government to ensure that Fair Funding principles are not only adopted but also effectively implemented?**

**Kelly Eagle, Senior Researcher, SPICe Research
31 August 2024**

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