Social Justice and Social Security Committee
Thursday 12 September 2024
23rd Meeting, 2024 (Session 6)

Budget scrutiny 2025-26 - Third sector funding principles – Evidence Session Two

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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 witnesses:

Panel 1:

Raj Majumder – Trustee – Edinburgh Voluntary Organisations Council

David Wood – Chief Executive Officer – Voluntary Action North Lanarkshire

Hayley Mearns – Chief Executive Officer – Voluntary Action Angus

Lynn Tulloch – Executive Officer & Company Secretary – Voluntary Action Shetland

Panel 2:

Allan Faulds – Senior Policy Officer – Health and Social Care Alliance Scotland: The ALLIANCE

Rachel Cacket – Chief Executive Officer – Coalition of Care Support Providers

Euan Leitch – Chief Executive – Scotland's Regeneration Forum: SURF

Dr Judith Turbyne – Chief Executive – Children in 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 by 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 Governments Fairer Funding principals, they suggest that there is a lack of clarity surrounding what progresses 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 in on the Committee's webpage.

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.

Theme 1: Multi-Year Funding

There was widespread support among respondents to the call for views for multi-year funding models, with many organisations stressing the benefits such funding brings in terms of financial stability, more effective long-term planning, and reduced staff turnover. Multi-year funding agreements were seen as essential for the sustainability of third-sector organisations, particularly in terms of retaining skilled staff and maintaining high service delivery standards. Without secure, long-term funding, organisations often face a precarious financial situation, leading to significant operational challenges that prevent them from fully focusing on their core missions.

This need for financial certainty was underscored by Children in Scotland, which highlighted how multi-year funding would have a transformative effect on their ability to concentrate resources on service delivery rather than on constantly reapplying for funding. One Children in Scotland member shared, "It would have a huge impact - increasing the proportion of our time and resources able to be focussed on delivery, strengthening and consolidating the positive impact of our work with children and families in the short and long term". This sentiment reflects the broader experiences of third-sector organisations that are constantly caught in a cycle of short-term funding applications, leaving little room for strategic, long-term planning.

TSI Network Scotland noted that this funding instability is particularly detrimental to smaller, community-based organisations, which are most vulnerable to fluctuations in funding streams. These organisations often operate on very tight budgets and have limited capacity to weather financial uncertainty. As the TSI Network Scotland pointed out, "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".

In 2023, the ALLIANCE published our 'Stretched to the Limit: Scotland's Third Sector and the cost of living crisis' report. This showed that "the overwhelming majority (88%) of members who responded to the … believed they would benefit from longer-term funding. A follow up survey in March this year found an almost even split between respondents in how financially secure they felt, with 51% describing their finances as secure versus 49% who said they were insecure".

Additionally, the ALLIANCE highlighted a variety of workforce benefits associated with longer-term funding including better job security increased staff retention which reduces the need to go through recruitment and training processes and the costs associated with these.

Short-term funding cycles not only create financial instability but also divert significant amounts of time and resources away from the actual delivery of services. Responses to the call for views highlights the perpetual need to apply for new funds forces organisations to dedicate staff to fundraising rather than service provision. This is particularly concerning for organisations working to address long-term, complex social issues, such as poverty, youth engagement, and social care. These issues require sustained efforts over time, and short-term funding prevents organisations from engaging in meaningful, long-term strategic planning.

Theme 1: Members may wish to ask:

- **For Both Panels:** What steps can be taken to increase the availability of multi-year funding for third-sector organisations, particularly for smaller and rural organisations?

Theme 2: Flexible Funding

In addition to multi-year funding, there was a strong call for more flexible funding models. The lack of flexible funding has a detrimental effect on the operational effectiveness of third-sector organisations. Without the ability to cover core costs or respond to unexpected challenges, many organisations find it difficult to maintain essential services, particularly during times of crisis. TSI Network Scotland emphasised that the rising costs of operation, coupled with a lack of flexible funding, are forcing some organisations to deplete their reserves or, in more severe cases, face closure. This is especially true for organisations in rural and remote areas, where financial resources are even scarcer, and the loss of a single service provider can have wide-reaching effects on the community.

TSI Network Scotland argued "the increase in core costs for voluntary organisations is rarely recognised and that can require organisations to use of reserves, strategies to diversify income and – sadly – can place some at risk of having to wind up". Respondents noted that the availability of flexible, unrestricted funding would allow organisations to allocate resources where they are most needed, ensuring that they can adapt to changing circumstances and respond more effectively to emerging community needs.

However, while flexible funding is viewed positively, some respondents expressed concerns about the potential challenges it could present, particularly in relation to governance and oversight. Responses to the call for views noted that when organisations receive more flexibility in how they use funds, there is a greater need for robust management structures and clear guidelines to ensure that funds are used appropriately.

Several submissions also stressed the importance of a collaborative approach between funders and third-sector organisations in designing funding models. SCVO suggested that involving organisations like TSIs in the co-design of funding mechanisms would lead to more effective and impactful funding arrangements. SCVO argued that funders could gain a better understanding of the challenges faced by third-sector organisations by working directly with them, ensuring that funding models are tailored to meet the needs of local communities. TSI Network Scotland echoed this, calling for public services to work with local TSIs to better understand the strengths, relationships, and value of their local third sector, leading to more impactful grant-making.

There are strong advocates for a shift towards more flexible, unrestricted core funding that would enable organisations to cover their core costs, adapt to changing circumstances, and engage in long-term planning. They also emphasise 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:

- **For Both Panels:** In what ways can funders and third-sector organisations collaborate to design funding mechanisms that are better suited to the needs of local communities?

Theme 3: Inflation Adjustments

Inflation Adjustments

Inflation has emerged as a significant challenge for third-sector organisations, particularly because many funding arrangements remain static and fail to account for rising costs. This situation has created a financial strain for these organisations, especially those already operating on tight budgets. As inflation increases, the purchasing power of available funds diminishes, effectively reducing the real value of grants and donations. This erosion of funding severely impacts the ability of third-sector organisations to deliver services and cover essential operational costs, such as utilities, supplies, and wages. For instance, Volunteer Scotland highlights the acute impact of inflation on smaller, volunteer-led organisations, which often operate with minimal financial resources. Many of these groups rely heavily on donated goods and services, meaning that rising costs further limit their already restricted budgets.

TSI Network Scotland points out that inflationary pressures are compounded by the fact that many funding agreements are locked in at pre-determined rates that do not reflect current economic conditions. In some cases, funders even expect third-sector organisations to find savings throughout the year, which further exacerbates the problem. This expectation puts organisations in a precarious position where they face real-terms budget cuts, undermining their ability to deliver critical services and support their staff adequately. As inflation continues to rise, the gap between the available funding and the actual costs of service provision grows wider, creating an unsustainable environment for many third-sector entities.

Several submissions emphasised the importance of adjusting funding models to account for inflation. The ALLIANCE reported that organisations across the sector are facing increasing costs, yet their funding levels remain flat, effectively translating to real-terms cuts. This not only affects their ability to maintain service levels but also impacts their ability to offer competitive wages and cover other operational costs.

> *"A lack of sustainable funding has at times made it difficult to offer competitive salaries, which contributes to employee turnover. If an employee leaves for example six months into a one-year funding contract, by the time a replacement can be recruited, they may only be guaranteed employment for four months. This has cascading implications throughout the organisation and its work, negatively impacting delivery, increasing the workload on other employees, and limiting the ability to attract new talent." – The ALLIANCE*

Children in Scotland advocates for flexible funding to include inflation-based uplifts and full cost recovery, noting that many organisations are struggling with rising core costs that are not reflected in current funding models. These costs, which include wages, utilities, and general operational expenses, continue to rise due to inflation, but funding has not kept pace. Children and Scotland states that "fundamentally, this means that we are being asked to do more for less". Flexible funding that covers these costs would provide third-sector organisations with the financial breathing space they need to continue delivering essential services without compromising their long-term sustainability.

To address these challenges, many respondents recommended that all multi-year funding agreements include provisions for inflation-based adjustments. The ALLIANCE notes in their response that by incorporating these adjustments, funders could help ensure that organisations can maintain their service levels, meet wage commitments, and avoid having to cut essential services due to financial constraints.

Some funders who responded to the call for views recognised the challenges posed by inflation and indicated a willingness to consider inflationary adjustments in future funding strategies. This acknowledgement is a positive step, but Children in Scotland stressed the need for these adjustments to be implemented consistently across all funding bodies to create a more sustainable financial environment for third-sector organisations.

Members may wish to ask:

- **For Both Panels:** How can funding models be adapted to fully cover the actual costs of service delivery, including wage increases, inflationary pressures, and core operating costs?

Theme 4: Real Living Wage

The commitment to paying the Real Living Wage (RLW) was widely acknowledged by respondents as an important factor in ensuring fair compensation within the third sector. The RLW, which is higher than the statutory minimum wage, is designed to reflect the actual cost of living and provide workers with enough income to meet their basic needs. However, the call for views highlighted that many organisations face significant challenges in sustaining this commitment, particularly in light of limited funding that does not include corresponding increases to account for rising wage costs.

Without additional funding to support wage increases, third-sector organisations often find themselves forced to make difficult choices. Some must reduce staff numbers, cut back on services, or limit wage increases to remain financially viable. TSI Network Scotland, among others, emphasised that the disparity between wages in the third sector and those in the public sector is growing, 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*

The growing pay gap has created a situation where many skilled professionals are leaving the third sector for better-paying roles in the public sector, further undermining the capacity of third-sector organisations to deliver services.

One of the major challenges in meeting RLW commitments is the fact that many funding arrangements do not account for the need to raise wages in line with cost-of-living increases. As inflation drives up the cost of living, the RLW also increases, yet organisations receiving static funding often struggle to keep pace. TSI Network Scotland pointed out that pay inequalities between similar roles in the public and third sectors have become significant, with third-sector workers increasingly disadvantaged. Although flexible working and other in-work benefits can be offered to make roles more attractive, these measures are often insufficient to retain experienced staff over the long term.

To address these challenges, submissions collectively advocated 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. The ALLIANCE, for example, noted 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. Ensuring that organisations have the financial capacity to offer competitive wages would help close the gap between the third and public sectors and support the long-term sustainability of the third sector.

Moreover, TSI Network Scotland added that a funding model that reflects real costs, including inflationary adjustments and wage increases, would also help address the growing disparities between the third and public sectors in terms of pay and working conditions. Several responses to the call for views suggest that by ensuring that third-sector organisations have the resources they need to offer competitive wages and benefits, funders can help prevent further talent loss and support the continued delivery of essential services to communities across Scotland.

Members may wish to ask:

- **For Both Panels:** What role can government and funders play in supporting third-sector organisations to meet their commitments to the Real Living Wage while maintaining financial sustainability?

Theme 5: Application and Reporting

The administrative burden associated with funding applications, reporting, and payment processes remains a persistent challenge for third sector organisations, as repeatedly highlighted by respondents to the call for views. Many third-sector organisations, particularly smaller and volunteer-led entities, expressed concern over the complexity of these processes. As noted by Volunteer Scotland, these organisations typically operate with limited administrative capacity, meaning that the resources required to complete multiple complex applications can severely detract from their ability to focus on their core missions. The ALLIANCE, and others, emphasised that, for smaller groups, navigating the intricate web of differing application formats and criteria significantly reduces the time available for service delivery.

Additionally, Third Sector Interfaces (TSIs), which play a critical role in supporting local third-sector organisations, have underscored the challenges these smaller entities face in managing the administrative aspects of funding applications. TSIs across Scotland, such as those in the TSI Network Scotland, highlighted that the non-standardisation of application forms exacerbates these burdens. The ALLIANCE discussed the strain short application periods put on organisations.

> *“It would also be beneficial to have longer application periods, as four-to-six week long periods can put significant pressure on organisations who do not have dedicated bid writing teams.” – The ALLIANCE*

Multiple organisations who responded to the call for views emphasised that these issues are particularly detrimental to smaller organisations, which often lack the internal resources to dedicate to such tasks. As a result, the administrative demands on smaller charities—such as frequent reporting cycles, highly detailed metrics, and varying funder requirements—can become overwhelming. The ALLIANCE argued that funders need to better align reporting requirements with the capacity of organisations.

> *“Funders must be aware that impacts are not always immediate, yet it is rare for evaluation processes to allow for longer-term bedding in of programmes. At the same time, reporting itself should be streamlined and have a clear purpose. Large amounts of data are being gathered by organisations and funders from reporting, which takes up a significant amount of management time, but it is not clear that this data has any further use.* ***There should be***

> ***clarity over what is being reported upon, why, and how funders will use that information going forward**." – The ALLIANCE*

A key solution advocated in many submissions is the development of a more proportionate approach to the funding application and reporting process across different funding bodies. Social Enterprise Scotland, for instance, proposed that funders collaborate to create a unified application process. This would allow organisations to submit a single application that could meet the requirements of multiple funders, thereby reducing duplication of effort and administrative overheads. Such an approach would free up resources for more impactful work in communities TSI Network Scotland echoed this recommendation, adding that funders should adopt a more proportionate approach to reporting requirements, especially for smaller organisations that operate with fewer resources and limited capacity.

Members may wish to ask:

- **For Both Panels:** How could funders work with third-sector organisations, especially smaller ones, to create more proportionate reporting and application processes?
- **For Panel 1:** What role can TSIs play in advocating for and supporting the implementation of more streamlined and efficient funding processes across Scotland?

Theme 6: Delays in Funding and Payment Processes

Another recurrent issue raised by third-sector organisations is the timeliness of funding decisions and payments. Delays in receiving funding can have significant repercussions for organisations, particularly those with narrow financial margins. Many respondents shared experiences where delays in confirming funding decisions caused severe operational challenges, including cash flow problems and project delays. For instance, TSI Network Scotland stated in their response that organisations that had planned to launch community-based projects often found themselves forced to scale back activities or, in more extreme cases, suspend services altogether while awaiting funding confirmation. The delay in payments often leads to the use of organisational reserves to maintain operations, a practice that threatens the long-term sustainability of third-sector entities.

TSI Network Scotland described the ripple effect that such delays can have on service delivery and trust between organisations and their beneficiaries. In one documented case, a local authority delayed recommissioning services until they received written confirmation of funding from the Scottish Government, leading to job losses in local third-sector organisations.

> *"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*

As a result, organisations were unable to retain staff, many of whom moved on to more secure jobs, taking with them valuable knowledge and expertise. These disruptions not only affect the internal operations of third-sector organisations but also erode trust with service users, who depend on consistent and reliable service provision.

Children in Scotland similarly emphasised the importance of timely funding decisions. They noted that late confirmation of funding, particularly for long-term projects, forces the organisation to engage in short-term planning, limiting its capacity to deliver strategic and impactful programmes. For example, while Children in Scotland receives core funding for a two-year period, many of their projects, funded on an annual basis, face delays in confirmation, causing operational strain. This leads to the postponement of key projects and staffing uncertainties, which further undermines organisational stability.

The ALLIANCE highlights the power imbalance this creates between funder and fundee as they do not have a shared responsibility for the quality of service delivery.

> *"A lack of stable, sustainable funding for third sector organisations has negative impacts on service delivery, yet the role of funding in service quality hasn't been fully acknowledged. This reflects an unhealthy power imbalance, with funders often holding power over the third sector, when it should instead be a relationship between equals." – The ALLIANCE*

To mitigate these challenges, several submissions, called for earlier communication of funding decisions and changes to payment processes. The ALLIANCE suggested that funders to pay in advance rather than in arrears and for a full year or funding period rather than monthly or quarterly. Several call for view's submissions recommended that funders provide at least three months' notice before the start of the financial year to reduce the risks faced by voluntary organisations. Earlier notification would enable organisations to plan their budgets, staffing, and services with greater confidence, reducing the likelihood of project delays, staff redundancies, and service cuts. SCVO further stressed that proactive communication from the Scottish Government and other public bodies would alleviate the stress and instability that currently affect many third-sector organisations.

Members may wish to ask:

- **For Panel 1:** How do delays in funding decisions and payments affect the ability of local voluntary organisations to retain staff and maintain critical community services, particularly in more vulnerable or rural areas like North Lanarkshire and Shetland?

- **For Panel 2:** How do delays in funding confirmation for long-term projects impact the delivery of health, social care, and support services, and what specific steps could funders take to ensure more timely communication and reduce the risk of service disruption?

Theme 7: Fair Funding and Equality

An issue identified in the submissions is the substantial pay disparity between roles in the third sector and those in the public sector. This wage gap has created significant challenges for third sector organisations, particularly in their ability to recruit and retain skilled staff. According to TSI Network Scotland, the widening gap between third-sector and public-sector pay has reached a level where it severely undermines the competitiveness of the third sector. Many skilled professionals are leaving the sector for higher-paying roles in the public sector, where salaries are more aligned with the responsibilities and expertise required. This migration of talent has led to what is colloquially known as a ‘brain drain’, leaving third-sector organisations struggling to maintain institutional knowledge, which necessary for the sustained delivery of effective services.

TSI Network Scotland specifically noted that the power imbalance between the public and third sectors is growing. The third sector, often the first to experience funding cuts, is expected to continue delivering critical services with fewer resources. This dynamic has been exacerbated by increasing financial pressures and wage stagnation in the third sector. The perception that third-sector organisations are expected to do "more with less" has led to a situation where these organisations are stretched to the breaking point. The TSI Network explained that while public-sector employees receive regular wage increases and greater job security, the third sector is often left with inadequate funding to offer competitive wages or long-term contracts.

This inequality is further highlighted by the high demand for third-sector services, particularly as public services are reduced or cut. Children in Scotland, for example, reported that many local authorities have struggled to meet the demand for children and family services and have turned to third-sector organisations to fill these gaps through initiatives like the Whole Family Wellbeing Fund. The reliance on the third sector to step in when statutory services fail to meet community needs has become increasingly common, placing an additional burden on these organisations. However, despite their pivotal role in service delivery, the third sector continues to be underfunded and undervalued.

The submissions consistently call for fairer funding practices that would address the systemic inequalities between the public and third sectors. One of the central solutions proposed by respondents is the adoption of Fair Funding principles, which include multi-year funding agreements, inflation-based adjustments, and a focus on outcomes rather than the lowest cost. SCVO and TSI Network Scotland, among others, have argued that aligning funding practices with these principles would enable third-sector organisations to offer competitive wages, invest in staff development, and maintain high-quality services. Such measures would not only help alleviate the recruitment and retention challenges facing the third sector but also allow these organisations to operate on a more equal footing with their public-sector counterparts.

In particular, multi-year funding is seen as essential for providing third-sector organisations with the stability they need to plan for the long term. Children in Scotland highlighted that, without stable funding, organisations are often forced to operate on short-term contracts, leading to uncertainty for both staff and the communities they serve. The impact of short-term funding is particularly felt by smaller organisations, which lack the financial reserves to cushion against funding delays or cuts. Multi-year agreements would allow third-sector organisations to offer greater job security, which in turn would improve staff retention and reduce turnover—a significant issue in a sector where relationships with service users are critical to successful outcomes.

The issue of inflation-based adjustments also featured prominently in the submissions. Many organisations reported that flat funding settlements in recent years, combined with rising operational costs, have amounted to real-terms cuts. Without inflationary uplifts, organisations find it increasingly difficult to maintain service levels, pay staff adequately, and cover core operating costs. The ALLIANCE noted that, despite the increasing demand for services and higher operational costs, funding often fails to account for inflation. This has led to situations where third-sector organisations are unable to give their staff cost-of-living increases, further exacerbating recruitment challenges.

Furthermore, respondents emphasised the need to align funding with both the strategic goals of funders and the operational needs of third-sector organisations. Long-term, flexible funding models were repeatedly mentioned as essential for enabling organisations to set and achieve their long-term objectives. The submissions from SCVO and other organisations underscored that this alignment is key to ensuring that funding is used effectively and leads to sustainable outcomes. By moving away from short-term, lowest-cost funding models, funders can foster a more collaborative and strategic relationship with the third sector, enabling organisations to plan more effectively and innovate in their service delivery.

The submissions also made it clear that fair funding practices are not just about financial stability—they are crucial for ensuring that third-sector organisations are seen and treated as equal partners in service delivery. SCVO and TSI Network Scotland both highlighted that a shift towards Fair Funding would help address the power imbalance between the public and third sectors. They argued that the third sector's contributions need to be recognised and valued on par with public services, particularly given the vital role they play in supporting vulnerable communities.

> *"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*

Members may wish to ask:

- **For Both Panels:** What mechanisms could be introduced to provide third-sector organisations with more stability and predictability in their funding, particularly in light of the increasing demand for their services?

- **For Both Panels:** How can funders ensure that third-sector organisations are treated as equal partners in service delivery and not just as a “cheaper alternative” to public services?

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05 September 2024