

Scottish Community Alliance Response to Social Justice and Social Security Committee call for views on Third Sector Funding

The Scottish Community Alliance (SCA) welcomes the opportunity to respond to the Social Justice and Social Security Committee's call for views on Third Sector Funding.

SCA is a coalition of 28 national community-based networks and umbrella organisations. Our members span urban and rural Scotland and a wide range of sectors, from woodland and energy to transport and housing.

In 2023, we published *Our Vision for Scotland*:¹ a bold and ambitious plan to empower communities to tackle the nature and climate emergencies whilst addressing the crises in service and housing provision. We also published our *Manifesto for Action*² with over 80 recommendations for action by the Scottish Government and local authorities to deliver our vision.

We believe that communities throughout Scotland must be front and centre in delivering locally appropriate services and solutions; achieving this requires that community organisations are supported and enabled to play a full part in helping to deliver a resilient, sustainable Scotland.

Many of the issues that community organisations seek to tackle are deep seated, long-term and systemic; they will not be meaningfully addressed solely by short-term initiatives. Developing a long term, flexible, sustainable and accessible approach to funding would be a significant step towards this goal, providing security and stability, enabling community organisations to focus on their core mission, and delivering quality outcomes for people and communities across Scotland.

As a coalition of 28 networks whose respective, and significant, membership spans across sectors, it would be remiss of us not to highlight the importance of national community based networks in supporting and representing third sector organisations across the country. Networks and umbrella organisations play a critical role in the development, guidance, support and representation of the third sector, offering tailored services and a trusted resource. In addition, our membership directly supports Scottish Government deliberation, development and implementation of policy which offers a strategic and cost effective mechanism to supporting the ambition of community empowerment, community wealth building and the move towards a wellbeing economy.

As such, networks should be recognised as an enabler which supports Scotland's third sector to grow, connect, develop and thrive, and therefore funding sources should be available in order for them to continue their substantive role.

¹https://scottishcommunityalliance.org.uk/wp-content/uploads/2023/10/SCA001_The-Vision_8pp_A4_S5_V2.pdf

²https://scottishcommunityalliance.org.uk/wp-content/uploads/2023/11/SCA002_The-Manifesto_18pp_S4_V1.pdf

In the absence of networks and the range of services currently available to our community organisations, there would inevitably become a sizeable gap in provision; one that could not be undertaken by statutory bodies, and one that should be avoided.

1. Longer-Term Funding Impact: What are the benefits of providing longer-term funding arrangements of three years or more for third sector organisations

Longer-term funding arrangements for third sector organisations, including those in the community sector represented by SCA, would provide a wide range of benefits for the organisations, their employees and volunteers, and for the communities they serve.

Under the current norm of one-year (or less) funding settlements, employers are unable to provide secure employment, offering only fixed term contracts of a year or less. Many find themselves in an annual cycle of issuing redundancy notices, rescinding them if funding is granted, or losing skilled and experienced staff, only to re-recruit when funding becomes available.

Recruiting staff with specialist skills can be very difficult in these circumstances, particularly in rural areas where the pool of employees is small and a one-year contract is not a sufficient inducement to relocate.

Retaining staff is also challenging, as staff in short-term posts may seek more secure employment in the public or private sectors (often with better pay and/or terms and conditions).

Likewise, in this short-term, project-focussed environment, there is little scope for training and developing staff. These funding arrangements ensure that work and services can only be planned for the short-term, and that an inordinate amount of organisational time and energy is directed to securing funding for the next cycle of work.

This is exacerbated by the demand to “innovate”: to devise new projects to gain the attention of potential funders. It can be very difficult to get funding for tried and tested models with known positive outcomes; longer term funding would enable organisations to deliver successfully without the need for constant rebranding.

Longer term funding arrangements would also have significant benefits for employees and volunteers, especially those involved in the governance of community organisations.

The job security provided by longer term contracts would be a huge boost to morale, removing uncertainty and allowing staff members to feel valued and to focus on the job in hand rather than seeking more secure employment. It would provide much greater scope for training and development, improving both performance and job satisfaction.

The annual scramble for funding and the general uncertainty over an organisation’s future, is a major cause of stress for those volunteers in governance roles, and a significant disincentive to many to get involved.

The benefits of providing longer term funding to community organisations would also be felt by the communities they serve. Organisations with secure funding will be more mission-

focussed, able to concentrate on the work they were established to do, rather than being distracted by the annual struggle for survival.

It would also promote a better match of work to needs: longer term projects have more scope to cover more complex activities, and to build in monitoring and project development allowing organisations to learn and projects to evolve based on the needs of the beneficiaries.

2. Longer-Term Funding Impact: What are the challenges in providing this and how could these be overcome?

There are clearly challenges for government in providing longer term funding, however we do not believe these are insurmountable and any costs would be more than compensated for by the multiple benefits outlined above, which would greatly increase the impact of government funding.

There are some potential pitfalls for community organisations, but we consider these are outweighed by the benefits, and could be mitigated by careful planning, management and information provision (see more detailed comments about accessibility below)

As with all funding, there is a need to ensure fairness between different types and sizes of organisation. Information about upcoming funding rounds must be shared as early and as widely as possible to ensure all organisations have sufficient time to react to these opportunities. Long term funding cycles will need multiple “entry points” so those who miss out in the first round are not excluded for several years.

It will be important to ensure that recipients do not become over-reliant on a single source of funds, so clear information on the potential for continuation funding and support to organisations throughout the final year in terms of identifying other funding opportunities and applying to them will be beneficial.

3. Flexibility and Core Funding Needs: What are the benefits of providing flexible, unrestricted core funding to third sector organisations?

Flexible, unrestricted core funding would provide stability and security to third sector organisations, enabling them to plan ahead and offer secure employment.

Core costs, whether basic overheads such as rent and insurance, or core staff, often comprise a significant proportion of the expenditure of third sector organisations. These functions are crucial to the long term security of the organisation - these are the team members who are likely to identify opportunities, apply for funding and keep the organisation going - but are the most difficult items to cover when grants are restricted to the delivery of specific projects or outcomes.

Additional benefits of flexible, unrestricted core funding to third sector organisations include:

- Cover for statutory redundancy payments (applicable after two years of employment)

- Funding for pay awards, learning and development, including mandatory training and pension contributions
- Facilitating staff redeployment if a crisis or new need arises, or to cover staff sickness.

Providing more flexible/unrestricted funding will enable community organisations to develop more dynamic projects that directly meet the needs of beneficiaries. Unrestricted funding can be less prescriptive as to how the work is carried out, focusing more on outcomes than processes, allowing organisations to apply ongoing learning and modify approaches to better achieve desired outcomes. This is particularly important for community based organisations who take a “bottom up” community development approach, where the needs of a community often emerge in the course of the project, and processes can evolve to best deliver desired outcomes.

4. Flexibility and Core Funding Needs: What are the challenges in providing this and how could these be overcome?

Key issues for providing greater flexibility and meeting core funding needs are ensuring fairness across the third sector and delivering value for money.

Almost every third sector organisation in Scotland will express a need for greater flexibility and core funding, but given the huge disparity across the sector in turnover, staff numbers and income, these needs are equally varied.

Deciding which organisations will benefit from new arrangements will be a significant challenge, and it will be important to ensure that competitive advantage isn't created.

One of the great advantages of the community sector, well demonstrated during the COVID-19 pandemic, is its local-rooted nature which enables a quick and nimble response.

As noted above in our response to Q3, providing greater flexibility in funding will facilitate a different type of project, focussed more on outcomes than processes. This will require a degree of adjustment of application and reporting mechanisms. However, as long as it is clear what the overarching aims of the project are then appropriate reporting processes can be designed.

5. Sustainable Funding and Inflation Adjustments: How might including inflation-based uplifts and covering full operating costs influence the overall effectiveness and sustainability of the third sector?

SCA considers that sustainable funding practices, including inflation based uplifts and support for the Real Living Wage, are essential for the effectiveness and sustainability of the sector.

Most third sector organisations pride themselves on being responsible employers and staff satisfaction is directly related to having a true living wage and being able to cover (rapidly increasing) costs of living.

Multi-year funding should include inflationary adjustments and small annual increases to cover the organisation's rising core costs. Salary uplifts based on both inflation and experience are widely awarded in both the private and public sectors (including the Scottish Government) and there is no reason why the third sector should be different. Fair compensation, including not only direct pay but also pensions, work from home allowance etc., is essential to retain high quality staff in the sector.

Funding allocations should not be based on "lowest price" alone as this suppresses salaries in the sector. Salaries are already generally lower in the third sector than elsewhere; and in the absence of annual uplifts, the value of funding awards, and of fixed salaries, is eroded by inflation, requiring organisations to cut services and damaging staff morale.

6. Sustainable Funding and Inflation Adjustments: What are the challenges in providing this and how could these be overcome?

Building annual uplifts into multi-year funding awards has obvious cost implications for funders and it will be difficult to predict the necessary size of any uplifts given the variability of inflation. Nonetheless, even a standardised uplift would be a welcome advance on the status quo.

Care will be needed to ensure that funding is distributed fairly throughout the third sector. SCA's view is that community-based and led organisations, should be prioritised.

7. Real Living Wage Commitments: What impact do you think the ability for third sector organisation to pay their staff the Real Living Wage has on their services?

SCA considers that paying the Real Living Wage should be a minimum requirement for all staff, including paid internships. Organisations should not be penalised or lose out on funding if they pay more than this: in practice in order to attract and maintain staff with appropriate skills and experience it is necessary to pay significantly more.

Grant awards will need to take account of living wage adjustments, so that community organisations are not compelled to, for example, reduce working hours to manage budgets.

8. Real Living Wage Commitments: What are the challenges in providing this and how could these be overcome?

Paying the Real Living Wage should not be seen as a challenge but as a minimum requirement for any projects funded by the Scottish Government; to ensure community organisations are empowered to achieve this, grants and contracts need to cover full costs which include Fair Work First practice currently written into Scottish Government funding conditions.

9. Efficiency in Funding Processes: How could the process for third sector organisations making funding applications, reporting, and receiving payments be more efficient and consistent?

SCA believes that consistent and proportionate approaches to accessing funding, and application processes which meet committed timescales for awards and payments, are essential for the efficient operation of the sector and its delivery of desired outcomes.

Information about funding opportunities must be shared well in advance and widely promoted: directly, via social media and news outlets and via alliances and membership organisations, to ensure it reaches all potential applicants.

Application and reporting processes should be proportionate to the scale of funding sought and the perceived risk, with “light-touch” processes instituted for grants below given thresholds. Ultimately, the more time and energy spent navigating complex funding, monitoring and reporting processes, the less time and energy is available for delivering quality services.

More generally, application processes should be focussed and streamlined, only asking what is necessary rather than taking an overly bureaucratic and defensive approach. The light touch approach taken during the COVID-19 pandemic demonstrated third sector organisations’ ability to make an impact and manage resources effectively and efficiently.

Experience from our work delivering targeted micro-grants shows when more flexible approaches to funding and reporting is applied, it is conducive to a positive experience for both the provider and recipient and offers opportunities to deliver and access activity that may otherwise be unachievable. When trust and open dialogue are part of the funding process, a culture of learning and more sustainable community led activity is created.

Clear timescales for awarding grants and making payments should be made and met: all too often community organisations experience delays in one or both, impacting both project delivery (especially when there are delays in recruitment of project staff because outcomes must be delivered in a shorter period of activity) and financial management: cash flow is a significant issue for many third sector organisations, and consideration should be given to upfront payment, shorter claims periods and faster processing of claims in order to ease these issues.

Specifically, funding arrangements should be finalised before the commencement of the funding period concerned. e.g. if the funding period is from 1 April, then the third sector organisation should have agreements in place by the end of February in order to be able to prepare for the financial year (or alternately, should be aware that funding will not be forthcoming).

As per our response to Q1 above, multi-year funding will bring significant benefits in recruiting, retaining and developing staff, and delivering services to communities.

There is a need for greater clarity around reporting expectations at the outset of the project, including what data may be requested by funders and how it should be presented or disaggregated. Significant time can be lost mid-project when funders “move the goalposts”.

10. Efficiency in Funding Processes: What are the challenges in providing this and how could these be overcome?

The major challenge in delivering more efficient funding processes for the third sector appears to be in ensuring that Scottish Government departments have the capacity to develop and deliver funding programmes to time.

If third sector funding is to be signed off and ready before the new financial year begins, the development of application processes needs to start the instant the budget is announced, if not before, especially if there is to be any kind of competitive process.

Similarly, much greater flexibility needs to be built into Scottish Government budgets and financial systems, e.g. to accommodate projects stretching over multiple financial years.

More information on the impact of complex and short-term funding processes on those delivering services to communities can be found here: <https://ruralsehub.net/the-third-sector-grind-social-action-inquiry-project/>