The Health and Social Care Alliance Scotland (the ALLIANCE)

ALLIANCE
HEALTH AND SOCIAL CARE ALLIANCE SCOTLAND
people at the centre

Pre-budget 2025-26 scrutiny - Third sector funding principles ALLIANCE response

16 August 2024

Introduction

The Health and Social Care Alliance Scotland (the ALLIANCE) welcomes the opportunity to inform the Social Justice and Social Security Committee's pre-budget scrutiny for the 2025-26 Scottish Budget[1]. We are pleased that the Committee have chosen to put Scotland's third sector at the centre of their pre-budget scrutiny this year.

The ALLIANCE have consistently called on the Scottish Government to deliver on its commitments to fairer funding for the third sector, which makes an invaluable economic and social contribution to Scotland. For example, work by the ALLIANCE to describe our contribution to the wider economy found the associated health and wellbeing benefits to amount to £5.39 for every £1 received in core grant funding, with an overall £7.7 million gross value added to the Scottish economy and supporting 160 jobs.

As the ALLIANCE is a national third sector intermediary, some of our answers reflect what we have been told by our member organisations in addition to our own direct experiences.

Question 1: Please select ALL sources of funding your organisation currently receives

- Scottish Government
- Local Government
- Other

The ALLIANCE receives smaller amounts of funding from SGN as part of a partnership scheme with our Community Links Worker (CLW) programme[2]. This partnership supports CLWs to deliver one-to-one energy advice, provide emergency fuel or food vouchers for households in crisis, and two dedicated Energy Efficiency Outreach Workers. Although other small amounts of one-off funding come from other sources, our primary income is derived from public sector funders.

Question 2: Longer-Term Funding Impact: How would a shift to longer-term funding of three years or more support your organisation?

In September 2023, the ALLIANCE published our 'Stretched to the Limit: Scotland's Third Sector and the cost of living crisis' report, which investigated the challenges facing the sector[3]. The overwhelming majority (88%) of members who responded to the survey we circulated to inform the report said that they 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.

In the past, the ALLIANCE had three year rolling funding agreements with a public sector funder, which has since been reduced to annual agreements, with no guarantee of renewal. The possibility of reduced funding therefore must be planned for every year, to meet our legal obligations as employers (for example ensuring staff have notice periods and statutory redundancy pay). This adds to financial pressures through the need to maintain adequate reserves, and operational/finance management pressures.

A consistent application of longer-term funding would provide greater financial stability and ability to plan and prepare realistic budgets. Third sector organisations would be able to focus more on delivery rather than seeking, applying for and managing funding, and to properly prepare for the end of programmes and succession planning rather than terminating them abruptly.

It would offer more capacity for third sector organisations to grow, supporting them to make necessary investments such as in technology and resources that would have a positive impact on their work. Organisations would similarly be able to offer longer-term contracts to suppliers, for example in IT, which are cheaper overall than short-term contracts and offer better value for money for them and funders.

In addition, there is a broad range of workforce benefits associated with longer-term funding. It allows organisations to offer better job security rather than short-term contracts. This in turn supports staff retention and reduces the need to go through recruitment and training processes and the costs associated with these. A more secure workforce has more opportunity for continuing professional development, and organisations have more scope to consider supporting alternative routes into employment such as apprenticeships.

Some organisations have indicated that where they or organisations they knew of had been given longer-term funding, there was an expectation that they should be “grateful” for it or view it as laudable generosity on the part of funders. This was felt to be an unhelpful attitude, especially given that funding was often being distributed in the name of achieving the funder’s own policy commitments.

At an engagement event organised by Voluntary Health Scotland to discuss third sector funding, some attendees pointed out that there are sources of public funding beyond the Scottish Government directly, including the NHS and local government. It is therefore important that any move towards fairer funding principles and longer-term funding applies across the public sector and is not limited to direct Scottish Government funding.

It was also pointed out at the same event that inequalities cannot be addressed within the span of a single year. Scotland’s health and socioeconomic inequalities are unfortunately deeply rooted, and it takes concerted, long-term effort to resolve them. The third sector plays a key role in reducing inequalities, but that is put at risk by short-term funding arrangements which can disrupt or end programmes before they have had time to make a lasting impact.

It is worth emphasising at this point the significant economic contribution made by third sector organisations. The contribution of the third sector to Scotland’s people, society and economy remains unrecognised and undervalued. According to the most recently available figures from the Scottish Council for Voluntary Organisations (SCVO)[4], there are over 46,500 third sector organisations in Scotland, with an estimated combined annual turnover of more than £9.2 billion. The sector is also a major employer, with SCVO estimating that more than 133,000 paid staff work in Scotland's voluntary sector.

The ALLIANCE enjoys good relationships with our funders and sponsors and is a valued and trusted bridge between the public sector, the third sector and people who access health and social care services. We have recently undertaken analysis to better describe our contributions. In 2022 alone, the ALLIANCE generated[5]:

- health and wellbeing benefits of at least £26.6 million (£5.39 for every £1 received in core grant funding)
- cost savings of at least £0.8 million
- £7.7 million gross value added (GVA) to the Scottish economy and supported 160 jobs
- tax contributions of £1.0 million from staff wages

Question 3: Longer-Term Funding Impact: What specific challenges do you foresee in transitioning to such a funding model?

The primary challenge the ALLIANCE can foresee with longer-term funding arrangements is ensuring that it includes appropriate inflationary uplifts. We have heard from many organisations, in a range of different forums, that even where they have been awarded multi-year funding or at least have successfully applied for recurring one-year funding their settlements have been flat in cash terms. This translates to real terms cuts, which makes it difficult for organisations to maintain levels of service, offer employees pay uplifts, and cover their operating costs.

We would also emphasise the importance of organisations and funders having a shared responsibility for fair endings for funding and programmes. Even with longer-term funding arrangements, if funding is ended or reduced after a given funding period it may still lead to particular projects being ended at short notice. In addition to the measurable organisational impacts in terms of finance and employees, this can also cause less quantifiable but no less problematic damage to the relationships with and trust between organisations and people accessing services and support. Longer-term funding therefore has to be flexible enough ensure stability for both organisations as a whole and individual programmes and workstreams.

Question 4: Longer-Term Funding Impact: If relevant, please provide any specific examples of how your organisation has been affected by a lack of longer-term funding certainty.

A lack of longer-term funding contributes to uncertainty about the future of third sector organisations, if they cannot rely on funding to keep the organisation operating into the future. More management and support time and resource are taken up with attempting to secure funding and completing reporting, rather than delivery and innovation. In cases where funding appears to be at risk, organisations may choose to begin winding programmes down, and then when funding materialises struggle to rebuild the lost momentum.

Our 'Stretched to the Limit' report[6] found that amongst ALLIANCE members who responded to the survey, 61% had reported a reduction in their grant funding. Despite this, 84% were experiencing higher demand for services, 76% facing higher bills, and 48% felt unable to give their employees pay uplifts. As a result, organisations were taking difficult decisions about what services they offered; one respondent quoted in the report said they refused to reduce the quality of their services, so reduced the number of sessions delivered instead.

With regards to employees, a lack of longer-term funding can also lead to problems with recruitment and retention. High turnover results in workforce gaps that impact on delivery or require other employees to work more hours to cover the demands. This can have further implications on the mental health, wellbeing and work-life balance of those employees. It also limits the ability to meet Fair Work principles, which are increasingly a requirement of some public sector funders, leading to short-term contracts and unstable employment, as well as the loss of talent and key staff.

Question 5: Flexibility and Core Funding Needs: In what ways would flexible, unrestricted core funding enhance your organisation's operational effectiveness and governance?

The ALLIANCE believe that flexible and unrestricted core funding has significant benefits, especially in terms of workforce management and development. It would allow employees to work across different programmes and focus on the areas of greatest need at any given moment, delivering better value and better outcomes.

It would allow for greater pooling of resources for, for example, communal training budgets to benefit everyone, rather than limiting access to specific teams. Additionally, it would help support the independence of third sector organisations, allowing them to take decisions about how best to manage their resources to deliver on agreed outcomes, rather than following a highly restricted approach.

It also reduces the need to cost employees and their time to specific sources of funding. At present, this can be very inefficient if a programme is cut but only accounted for part of the working time of some employees, whose hours therefore either have to be reduced or alternative funding identified. Again, this currently consumes a lot of management time on administration, when it could be better spent on delivery of programmes.

Question 6: Flexibility and Core Funding Needs: What specific challenges do you foresee in transitioning to such a funding model?

The ALLIANCE does not foresee any challenges in transitioning to such a funding model. We consider our accounting procedures, systems and policies to be adequately prepared to manage a longer-term funding model.

We are however aware that there may be some unintended consequences of a move to longer-term funding, particularly for smaller organisations. At an engagement event hosted by Voluntary Health Scotland to discuss third sector funding, one participant stated that they knew of organisations who had applied for but not been awarded a three year grant.

As a result, they were left in the difficult position of having to plan for three years without that funding, rather than having the possibility of being able to re-apply the following year. This should not be seen as a reason not to work towards multi-year funding settlements as a norm in the future, but instead a reminder of the importance of taking funding decisions in a timely manner, with adequate notification to allow organisations to plan ahead.

Question 7: Flexibility and Core Funding Needs: If relevant, please provide any specific examples of how your operational effectiveness and governance have been affected by a lack of flexibility in your core funding?

Inflexible funding can impact on core services as overheads and management fees are often not high enough to meet shared resources such as technology, training and development. This means that investing in new systems and technology comes with the risk of becoming unaffordable in the longer term.

The ALLIANCE also feel that inflexible funding can contribute to inequality across departments based on which have more funding allocated to them. In addition, depending on the structures of the funder, it can be the case that departmental budgets at that level create siloed investments which can make it difficult to see the big picture.

Rather than considering the work of the funded organisation in the round, different departments may only consider the areas they have funded or that are within their remit. Most of the ALLIANCE’s outcomes are contributed to by different programmes, but siloed funding makes it hard to fully demonstrate this to funders.

Question 8: Sustainable Funding and Inflation Adjustments: How critical are inflation-based uplifts and full cost covering, including core operating costs, to the sustainability of your organisation?

Inflation based uplifts are essential for all third sector organisations. Many organisations have reported that their funding has been flat in cash terms for a number of years, which is a cut in real terms, and comes in the context of constantly increasing costs. Without uplifts, the ALLIANCE and other organisations may be unable to offer inflationary pay increases, diminishing the disposable income of our employees, which in turn impacts on the wider economy. As noted throughout this response, this negatively impacts on the ability to recruit and retain employees, whilst adding to the costs of recruiting and training new employees, and the burden on other employees having to fill the gaps.

Similarly, full cost covering is critical. As not-for-profit organisations have limited options for income generation, funding can only be adequate if it fully covers costs. Where additional income is possible, it shouldn't be required just to make ends meet, but be available for innovation, research and development. Without full cost covering, the organisation will incur a deficit, which must then be filled through, for example, unrestricted reserves which are finite.

Question 9: Sustainable Funding and Inflation Adjustments: What impacts have you observed or anticipate without these adjustments in your funding?

The impacts of inadequate and unsustainable funding have been outlined throughout our answers to other questions. In summary, it leads to greater employee turnover; short-term contracts for employees; corresponding impacts on staff wellbeing; reduced ability to fund development, innovation and technology; a greater need to focus on identifying funds and reporting rather than delivery; the need to plan for contingencies and difficulty ensuring fair endings for programmes; and a risk to the organisation's future.

In addition, the ALLIANCE and many organisations across the third sector feel that the highly competitive nature of funding stifles collaboration. Whilst there are many fruitful partnerships across the sector, organisations nonetheless have to compete with one another for funding, rather than being able to collaborate in ways that would deliver better outcomes overall.

Question 10: Sustainable Funding and Inflation Adjustments: If relevant, please provide any specific examples of how your organisation's sustainability has been affected by a lack of inflation uplifts and/or full cost covering.

As noted in our response to earlier questions, 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.

Question 11: Real Living Wage Commitments: What challenges does your organisation face in ensuring all staff are paid at least the Real Living Wage?

At present, the ALLIANCE is able to pay the Real Living Wage. However frozen funding, which amounts to a real terms cut, may make this unsustainable in the longer term. The Real Living Wage, rightly, increases every year, but if annual inflationary pay increases cannot be given due to frozen funding it will eventually become impossible to keep pace with the Real Living Wage.

The ALLIANCE have heard from several members and other organisations about the particular challenge of competing with other sectors in terms of pay. For example, as part of our 'Stretched to the Limit' report[7], we heard that some third sector health and social care organisations find it hard to compete with public sector providers including the NHS, even where employees are doing equivalent roles. We are also aware that third sector social care providers have problems recruiting employees because they cannot compete on salaries with roles in the private sector, including retail and hospitality based roles.

At the Voluntary Health Scotland engagement event on third sector funding, some attendees referred to a "flattening" of the pay scale in some organisations. Tight funding arrangements combined with the Real Living Wage, which most if not all organisations strongly support, were felt in some cases to be leading to a narrower range of pay grades, limiting the scope for meaningful career progression within the sector. Some organisations also felt that "fewer people, paid better" was an approach that was becoming more common.

Question 12: Real Living Wage Commitments: How would improved funding arrangements support your organisation to meet this commitment?

Knowing that there was a commitment from funders over longer periods, which include inflationary uplifts and full cost covering, would allow for better planning and budgeting. This would include being able to allocate resources more efficiently and afford pay uplifts for employees in line with the Real Living Wage.

Question 13: Efficiency in Funding Processes: What improvements in the application, reporting, and payment processes could make the funding system more efficient for your organisation?

The ALLIANCE and many other organisations across the third sector have been frustrated by extremely short notice given on funding decisions in some cases. A survey of our organisational membership in March found that 59% of respondents still had not finalised agreed funding for the year ahead[8]. Earlier negotiations that identify funding levels with at least three month's notice would make it easier for organisations to plan ahead. Where funding has decreased, this would also prevent organisations from being in the situation where they struggle to meet requirements for notice periods.

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. Payment in advance rather than arrears and for the full year or funding period, whichever is shorter, rather than monthly or quarterly drawdowns would similarly improve flexibility of funding.

As touched upon directly in relation to fair endings in our response to an earlier question, and indirectly throughout this response overall, there needs to be recognition of shared responsibility on the part of funders. 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 economic contribution of the third sector, which was outlined in more detail in response to earlier questions, is often undervalued and underappreciated. Adequate funding should be seen as an investment in Scotland's economy and workforce, in addition to the benefits to wider society from a thriving third sector. The ALLIANCE have long argued that the third sector plays an essential role in health and social care especially, and without it, the statutory sector would be in significantly greater difficulty[9].

There is also a need to be realistic about reporting. 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.

About the ALLIANCE

The Health and Social Care Alliance Scotland (the ALLIANCE) is the national third sector intermediary for health and social care, bringing together a diverse range of people and organisations who share our vision, which is a Scotland where everyone has a strong voice and enjoys their right to live well with dignity and respect.

We are a strategic partner of the Scottish Government and have close working relationships with many NHS Boards, academic institutions and key organisations spanning health, social care, housing and digital technology.

Our purpose is to improve the wellbeing of people and communities across Scotland. We bring together the expertise of people with lived experience, the third sector, and organisations across health and social care to inform policy, practice and service delivery. Together our voice is stronger and we use it to make meaningful change at the local and national level.

The ALLIANCE has a strong and diverse membership of over 3,500 organisations and individuals. Our broad range of programmes and activities deliver support, research and policy development, digital innovation and knowledge sharing. We manage funding and spotlight innovative projects; working with our members and partners to ensure lived experience and third sector expertise is listened to and acted upon by informing national policy and campaigns, and putting people at the centre of designing support and services.

We aim to:

- Ensure disabled people, people with long term conditions and unpaid carers voices, expertise and rights drive policy and sit at the heart of design, delivery and improvement of support and services.
- Support transformational change that works with individual and community assets, helping people to live well, supporting human rights, self management, co-production and independent living.
- Champion and support the third sector as a vital strategic and delivery partner, and foster cross-sector understanding and partnership.

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[1] Scottish Parliament Social Justice and Social Security Committee, 'Budget scrutiny 2025-26 - Third sector funding principles' (June 2024), available at: https://www.parliament.scot/chamber-and-committees/committees/current-and-previous-committees/session-6-social-justice-and-social-security-committee/business-items/budget-scrutiny-2025-26

[2] SGN, 'ALLIANCE Scotland', available at: https://www.sgn.co.uk/about-us/vcma/alliance-scotland

[3] The ALLIANCE, 'Stretched to the Limit' (September 2023), available at: https://www.alliance-scotland.org.uk/blog/news/stretched-to-the-limit/

[4] SCVO, Facts and Figures, available at: https://scvo.scot/research/facts-figures

[5] The ALLIANCE, 'The economic role of Scotland's third sector in shaping health and social care' (February 2024), available at: https://www.alliance-

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[6] The ALLIANCE, 'Stretched to the Limit' (September 2023), available at: https://www.alliance-scotland.org.uk/blog/news/stretched-to-the-limit/

[7] As above

[8] The ALLIANCE, 'ALLIANCE member survey highlights continuing pressure on third sector finances' (March 2024), available at: https://www.alliance-scotland.org.uk/blog/news/alliance-member-survey-highlights-continuing-pressure-on-third-sector-finances/

[9] The ALLIANCE, 'The economic role of Scotland's third sector in shaping health and social care' (February 2024), available at: https://www.alliance-scotland.org.uk/blog/opinion/the-economic-role-of-scotlands-third-sector-in-shaping-health-and-social-care/