



The Health and Social Care Alliance Scotland (the ALLIANCE)



Stretched Beyond Limit:
How the third sector funding crisis is
impacting ALLIANCE members

16 December 2025

Summary

“I’ve worked in the Third Sector for over 30 years and, although finances have often been tight, the current financial situation is unprecedented.” – ALLIANCE Member

Scotland’s third sector is facing a severe financial crisis. As Scotland’s third sector intermediary for health and social care, the Health and Social Care Alliance Scotland (the ALLIANCE) are deeply concerned about the challenges facing our members and the people and communities they support. Our research of third sector members has found that:

- 64% reported being financially insecure, up from 49% in March 2024.
- Only 3% reported there was no pressure on their finances.
- 60% of members reported experiencing cuts to their core grants, almost all of whom (55%) said this was having a major impact on their operations.
- 25% of members reported experiencing cuts to contracts, of whom a majority (18%) said this was having a major impact on their operations.
- 57% reported unsustainable reliance on reserves and difficulty to offer pay uplifts to their employees.

If Scotland’s third sector was stretched to the limit in 2023, by 2025 it is being stretched beyond that limit. The current financial situation is unsustainable and increasing risks to essential public services, jobs, and wellbeing. It is therefore essential that the Scottish Government and other public bodies that fund the third sector make rapid progress towards fair funding principles¹. In August 2025, the ALLIANCE and the Coalition of Care and Support Providers in Scotland (CCPS) coordinated a joint open letter - signed by over 200 of our third sector members – that contained four key asks for the Scottish Government:

- An immediate, substantial cash injection in the upcoming Scottish Budget and Spending Review, including full cost recovery for employer National Insurance Contribution increases



- A medium-term, fully funded recovery plan for the sector, to address decades of underinvestment, developed in partnership with us
- Multi-year funding arrangements adjusted for inflation, to ensure stability for organisations
- A firm commitment to fully include the sector in planning and meaningful decision-making.

The 2026-27 Scottish Budget must deliver on these asks and ensure that third sector health, social care and wellbeing services are securely funded for the year ahead, whilst laying the groundwork for longer term recovery.

Introduction

In September 2023 the ALLIANCE published our “Stretched to the Limit” report, highlighting the impact the cost of living crisis was having on Scotland’s third sector². At this time, we heard that many of our members were at the limits of what they could manage: rising energy bills, increased demand for services, and a lack of parity with the statutory sector were all contributing to crisis.

We also heard how rather than being a standalone crisis, this was simply deepening existing issues. Long-standing problems had already been exacerbated by the COVID-19 pandemic, when the third sector went above and beyond to keep people safe and supported. The cost of living crisis then arrived before most organisations could return to normality. Our follow-up survey in March 2024 found that almost half (49%) of members responding felt their financial situation was insecure³.

Since then, the situation has continued to deteriorate. In August 2025 the ALLIANCE published a joint letter with CCPS and over 200 organisations to the First Minister⁴. This letter called for immediate action to address the current crisis facing the health and social care sector more broadly, including investment in third sector organisations that deliver essential services as part of and in support of that system.



The ALLIANCE subsequently undertook a further survey of our third sector membership to gather additional evidence in relation to their financial challenges. These members cover a wide range of different roles, services and activities⁵. This includes direct delivery of health, wellbeing, and social care services, advice and advocacy, self management programmes, and influencing and informing the design and delivery of national and local policy.

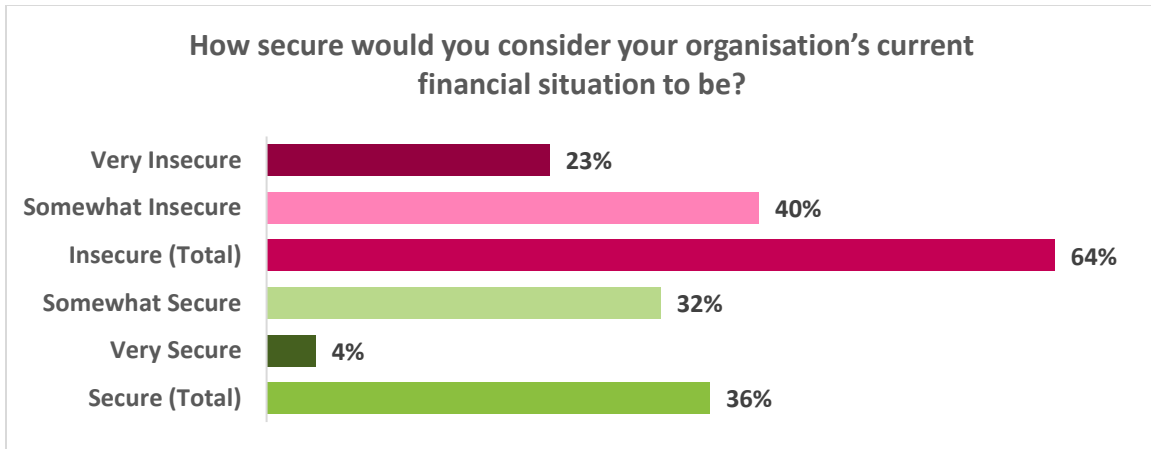
Our members work for and with diverse groups of people. This can include disabled people, people living with long term conditions, and unpaid carers in general, or offering support to family, friends or employers. Others may work for and with specific population groups like members of the LGBT+ or minority ethnic communities. Some operate at a national level, others locally, and they access public funding and contracts through a variety of sources, including the Scottish Government, NHS or Integration Joint Boards (IJBs), and local councils.

This survey ran throughout October into early November, providing a snapshot of the situation prior to both the UK and Scottish budgets for 2026-27. At the time of circulation, the ALLIANCE had 382 standard (third sector) members and received 99 responses. This represents a 26% response rate, a statistically significant sample of our membership. Note that each of the quotes cited in this report come from a different organisation.

Financial Insecurity

“With rising costs, 6% rise in real living wage and employers National Insurance increasing – all of which will need to be paid out of donations and reserves – the organisation and staff are at breaking point. It is no longer sustainable in its current format despite an ongoing increase in demand for support.” –
ALLIANCE Member





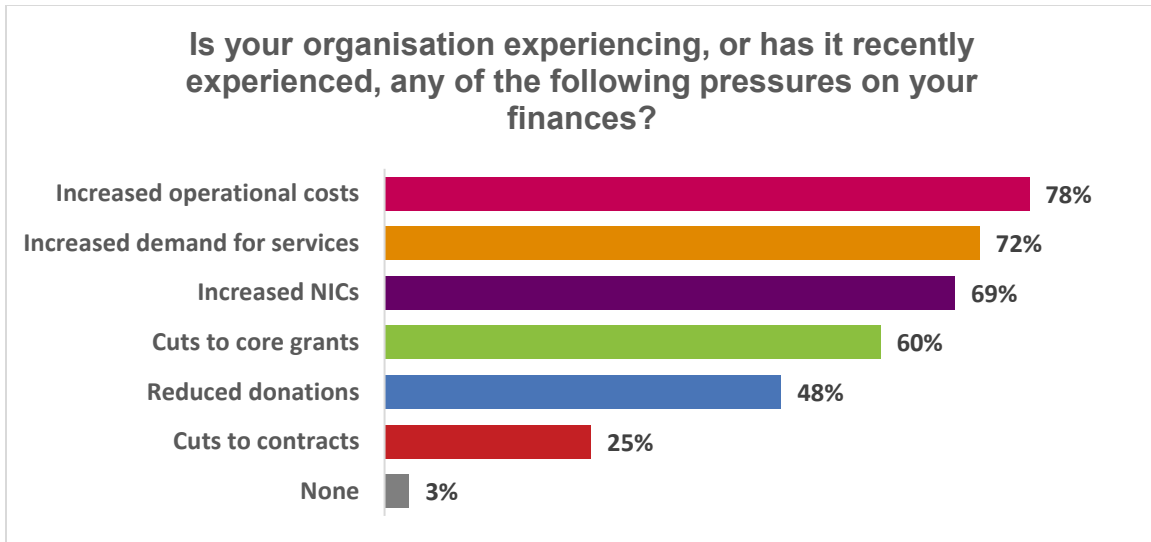
Nearly two-thirds (64%) of survey respondents reported their organisation's financial situation was insecure. This is a significant increase compared to the roughly half of members who described their circumstances as insecure 18 months previously. In total, 4 in 10 respondents felt their finances were "somewhat" insecure, compared to nearly a quarter saying they were "very" insecure.

By contrast, although slightly more than one-third (36%) of respondents felt their finances were secure, only 1 in 25 said they were "very" secure, versus 1 in 3 who said they were "somewhat" secure. This suggests that even where organisations are not currently experiencing unmanageable pressure, it may not take much to push them into a much more difficult situation.

Causes of financial pressures

"As an organisation we have restructured, reduced our costs, and changed work practices to become more efficient. We cannot do anything more without reducing services or staff. The rise in employer National Insurance Contributions was a major financial contribution and needs to be reversed." – ALLIANCE Member





When asked to identify which factors had contributed to financial pressures, four were selected by a majority of organisations. Over three-quarters (78%) reported increased operational costs (such as rent and bills) whilst just under three-quarters (72%) were experiencing increased demand for their services. Over two-thirds (69%) noted the increase in employer National Insurance Contributions, and 6 in 10 said there had been cuts to core grant funding.

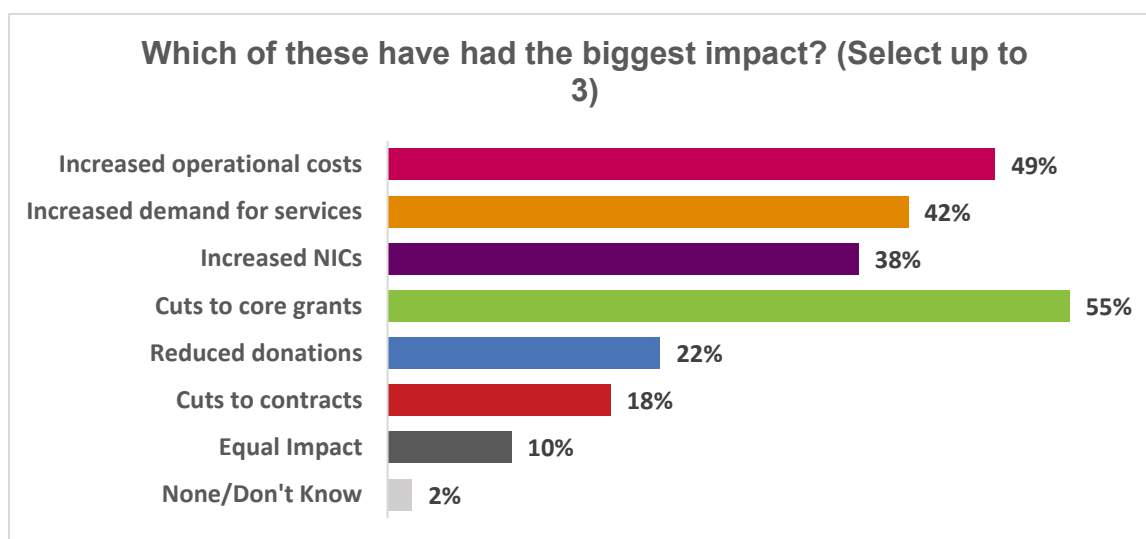
Uncertainty and insecurity around core grant funding is of particular concern to many third sector organisations. This represents the baseline funding that supports their day to day operations and administration, without which the organisation could not function. A reduction in core grant funding will therefore impact on frontline service provision, for example by shifting more of the reporting and administration function onto staff that would otherwise be focused on delivery. It can also lead to services no longer being affordable for organisations to deliver.

In addition, almost half (48%) were experiencing reduced donation income, and a quarter (25%) had contracted funding cut. The reduction in charitable donations in Scotland has been driven by the pandemic, the cost of living crisis, and ongoing economic uncertainty. Research by SCVO indicates that by 2023 income from individual giving constituted 15% of the sector's income, down from 20% in 2018⁶.



Only 3% had not experienced any of these funding pressures, emphasising that even organisations whose finances are currently secure are nonetheless facing pressure.

“The financial situation feels more precarious than ever, with the IJB considering reviews to commissioned services mid-contract which, along with cuts elsewhere in the HSCP, is increasing demand whilst putting current funding arrangements at risk.” – ALLIANCE Member



When asked to select up to three that had the biggest impact, over half (55%) highlighted cuts to their core grants. A common theme throughout written comments was that organisations had not received any real-terms increase in the value of grant funding for many years. Even though the cash value had remained the same, this constitutes a substantial cut in funding when considering inflation and the increased operating costs, which were themselves identified as having a major impact by just under half (49%) of respondents.

Roughly 4 in 10 respondents said that either increased demand for services (42%) or the UK Government’s increase in employer National Insurance Contributions (38%) were amongst their biggest problems. Although almost half of organisations had said they were experiencing

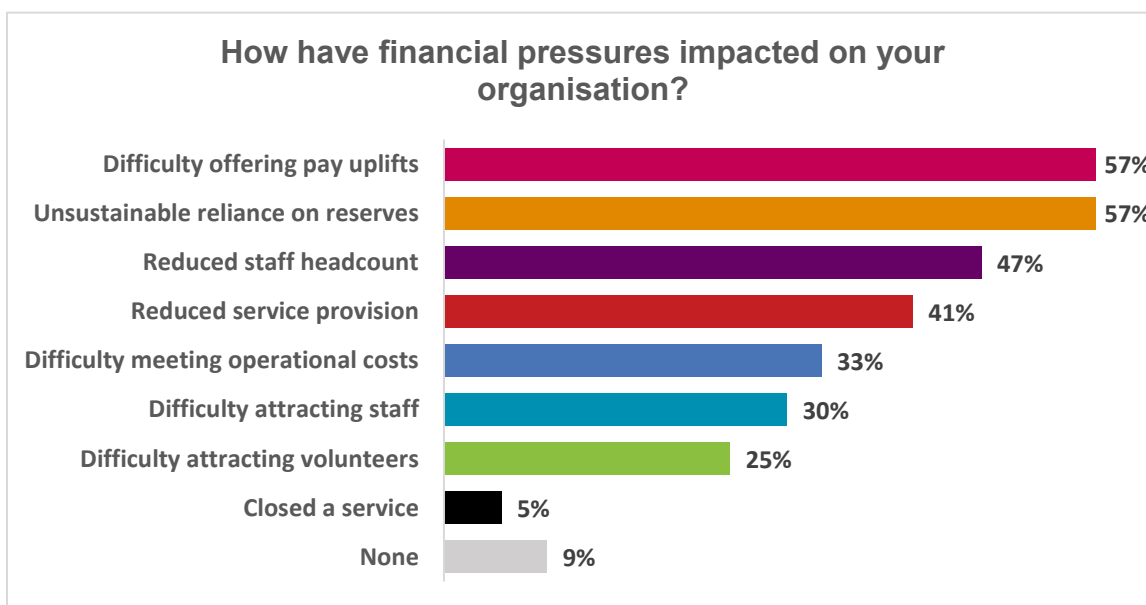


reductions in donations, less than a quarter (22%) said this was a top three financial pressure.

Fewer than a fifth (18%) of respondents said cuts to contracts was one of their biggest pressures, but this represents nearly three-quarters of those who identified it as an issue they were facing. Meanwhile, 10% of respondents said they had been equally impacted by all of these issues.

Impacts of financial pressures

“To announce to staff they will get no salary uplift due to funding and then seeing announcements about (not insignificant) pay rises for statutory colleagues is an extremely bitter pill to swallow.” – ALLIANCE Member



The impacts of these pressures have been extremely severe for many organisations. A majority (57%) of respondents told us they had difficulty offering pay uplifts to their employees, and that their organisation was now unsustainably reliant on reserves. The issue of fair pay for employees, and a lack of parity with the statutory sector, was a common theme amongst written responses. This was clearly identified as a contributing factor for the 30% of organisations who said they have had difficulty recruiting and



retaining staff. In addition, a quarter (25%) of organisations were having similar difficulties recruiting, retaining and supporting volunteers.

Almost half (47%) of organisations told us they had reduced their staff headcount through measures such as redundancy or eliminating roles after vacancies arise. Regardless of the reasons for losing employees, several respondents told us that this meant a loss of experience and knowledge from their organisation that risked negatively impacting on service delivery. Worryingly, 4 in 10 (41%) organisations had reduced their service provision, for example by offering services less frequently or in fewer locations, though only a small minority (5%) told us they had closed a service entirely.

Reductions in vital third sector services pose several risks to the people who rely on them. Their conditions can deteriorate more rapidly without support, their ability to live an independent life can be drastically reduced, and they can face increasing isolation with resulting impacts on their mental health and wellbeing. We have also heard from some members about toll on the emotional wellbeing and mental health of staff and volunteers (current and former) who worry that the people they work for and with will no longer have enough support.

Just under a tenth of respondents (9%) said they hadn't felt any of these impacts. This is significantly lower than the 36% of respondents who described their financial circumstances as secure, emphasising how in some cases financial security has only come about because of measures such as redundancies and service cuts.

“Although we haven’t had a cut to grant funding it’s remained the same for many years – effectively being felt as a cut. We have had to absorb the costs of NI increase and operational costs. This has led to overreliance on our reserves and ultimately to current restructuring which is leading to redundancy and elimination of roles.” – ALLIANCE Member



Conclusions

“As a minority group we are feeling increasingly marginalised as decisions on funding and service provision become increasingly delayed and withdrawn. It is not sustainable nor appropriate for charities to 'fill this gap' in statutory provision. Many of us working in this space are forming the view that a deliberate strategy is being employed here as we witness reductions in funding for families locally and reductions in public service provision too: ‘it's ok to cut back on this funding and these services as charities will pick this up, they always do.’” –
ALLIANCE Member

Overall, the response to the latest round of ALLIANCE third sector member research demonstrated a rapidly worsening crisis in third sector funding, with financial insecurity increasing substantially since early 2024. Amongst the written responses we received, several people with decades of experience in the sector described the current situation as the worst funding crisis they had ever seen.

At the same time, many respondents also told us that they felt that the third sector was expected to step in and fill the gaps left by the statutory sector, contributing to increased demand on their services. Yet despite this, statutory bodies such as the Scottish Government, HSCPs, IJBs and local authorities were also identified as contributing to cuts to those same third sector services they were expecting people to fall back on.

Some respondents raised concerns that good quality prevention work was being lost, counter to the Scottish Government and COSLA's ambitions on population health, creating costlier problems in the future. The ALLIANCE's third sector members have been actively engaged in recent Scottish Government work in this area, including the Population Health Framework and Service Renewal Framework, yet risk not being around to deliver on the aspirations without sustainable funding.

“Cutting proactive, community based preventative interventions to save money in the short term and expecting overrun, reactive



crisis services to pick up the pieces is a recipe for disaster. But it's a recipe statutory funders are relying upon heavily at the moment. It's only a matter of time before the disastrous consequences start piling up” – ALLIANCE Member

The difficulties in paying, recruiting and retaining staff were a recurring theme in written responses. In other recent ALLIANCE work we have heard how some organisations consider it deeply unfair that many public sector employees benefit from commitments to no compulsory redundancies, whilst public bodies make cuts to third sector funding that necessitates redundancies. Similarly, additional employer National Insurance Contribution costs to the public sector have been at least partly compensated for by increased funding, but the lack of similar compensatory uplifts for the third sector is felt to be unfair. Some organisations also had concerns about their ability to meet Fair Work commitments because of cuts.

“Commissioners have to appreciate that if we are to uphold Fairer Working practices and deliver to the level required the payment for this needs to adjust to meet this. We need multi annual funding and payments made on time. We need inflationary uplifts built in and an end to flat rate payments.” – ALLIANCE Member

As this report has shown, if Scotland’s third sector was stretched to the limit in 2023, by 2025 it is being stretched beyond that limit. The current financial situation is unsustainable and increasing risks to essential public services, jobs, and wellbeing. It is therefore essential that the Scottish Government and other public bodies that fund the third sector make rapid progress towards fair funding principles⁷. The ALLIANCE’s four key asks to the Scottish Government are for:

- An immediate, substantial cash injection in the upcoming Scottish Budget and Spending Review, including full cost recovery for employer National Insurance Contribution increases
- A medium-term, fully funded recovery plan for the sector, to address decades of underinvestment, developed in partnership with the sector



- Multi-year funding arrangements adjusted for inflation, to ensure stability for organisations
- A firm commitment to fully include the sector in planning and decision-making.

The 2026-27 Scottish Budget must deliver on these asks and ensure that third sector health, social care and wellbeing services are securely funded for the year ahead, whilst laying the groundwork for longer term recovery.

About the ALLIANCE

The Health and Social Care Alliance Scotland (the ALLIANCE) is the national third sector membership organisation for the health and social care sector. We bring together over 3,500 people and organisations dedicated to achieving our vision of a Scotland where everyone has a strong voice and enjoys the right to live well, with dignity and respect. Our members are essential in creating a society in which we all can thrive, and we believe that by working together, our voice is stronger.

We work to improve the wellbeing of people and communities across Scotland by supporting change in health, social care and other public services so they better meet the needs of everyone in Scotland. We do this by bringing together the expertise of people with lived experience, the third sector, and organisations across health and social care to shape better services and support positive change.

The ALLIANCE has three core aims.

We seek to:

- **Empower people with lived experience:** we ensure disabled people, people with long term conditions, and unpaid carers are heard and that their needs remain at the heart of the services and communities.
- **Support positive change:** we work within communities to promote co-production, self management, human rights, and independent living.



- **Champion the third sector:** we work with, support and encourage co-operation between the third sector and health and social care organisations.

The ALLIANCE is committed to upholding human rights. We embed lived experience in our work and aim to ensure people are meaningfully involved at every level of decision-making.

Working together creates positive, long-lasting impact. We work in partnership with the Scottish Government, NHS Boards, universities, and other key organisations within health, social care, housing, and digital technology to manage funding and develop successful projects. Together, our voice is stronger, and we can create meaningful change.

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¹ SCVO, “What is Fair Funding?”, available at: <https://scvo.scot/policy/fair-funding-procurement/fair-funding/what-is-fair-funding>

² The ALLIANCE, ‘Stretched to the Limit: ALLIANCE report highlights cost of living pressures on the third sector’ (September 2023), available at: <https://www.alliance-scotland.org.uk/blog/news/stretched-to-the-limit/>

³ 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/>



⁴ The ALLIANCE, ‘Open letter to the First Minister signed by over 200 organisations’ (August 2025), available at: <https://www.alliance-scotland.org.uk/blog/news/open-letter-to-the-first-minister-signed-by-over-200-organisations/>

⁵ The ALLIANCE, ‘Our Members’, available at: https://www.alliance-scotland.org.uk/blog/our_members/

⁷ SCVO, “What is Fair Funding?”, available at: <https://scvo.scot/policy/fair-funding-procurement/fair-funding/what-is-fair-funding>

