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An t-Ionad Fiosrachaidh

Social Justice and Social Security Committee

Pre Budget scrutiny 2025-26: Third-sector funding principles – Call for Views – Summary Analysis

Contents

Introduction

This summary provides an analysis of key themes from the responses to the Social Justice and Social Security Committee's Call for Views on their Pre-Budget scrutiny 2025-26: Third-sector funding principles. The Call for Views ran from 19 June 2024 to 16 August 2024 covering seven weeks. The submissions are published online. Every year the Social Justice and Social Security Committee looks at what the Scottish Government could consider when developing its Budget. This year, the Committee investigated the funding difficulties within the 'third sector' in order to explore how the Scottish Government's strategy for fair and efficient funding can support the ongoing effectiveness of the third sector.

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

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

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

This analysis consolidates the feedback received, focusing on the following themes as highlighted by the sector:

- Longer-Term Funding Impact
- Flexibility and Core Funding Needs
- Sustainable Funding and Inflation Adjustments
- Real Living Wage Commitments
- Efficiency in Funding Processes

As highlighted by respondents, none of these themes exist independently therefore there may be some overlap between the thematic sections of this report where respondents used examples to emphasise multiple factors. This analysis explores the main themes, incorporating examples and quotes to illustrate respondents' perspectives.

Who responded

The call for views received 190 submissions: 20 from individuals and 170 from organisations. Of those respondents who were organisations, 151 reported being in the third sector and nine reported providing funding to the third-sector. A full list of responses can be found on the call for views website as well as an additional 15 written statements.

Longer-term funding impact

The responses from third sector organisations, individuals, and other organisations highlight the importance of longer-term funding arrangements, their potential benefits, and the challenges they address. Recurring themes include the value of financial stability, improved service delivery, and enhanced staff retention. However, concerns about practical implementation, flexibility, and inclusion were also raised.

Responses from funders highlight a shared understanding of the potential benefits of longer-term funding, including increased stability, efficiency, and enhanced outcomes for both funders and recipients. However, challenges such as flexibility, accountability, and the potential exclusion of smaller organisations were also raised.

Stability and workforce retention

The responses from third-sector organisations emphasised the critical role of longer-term funding in promoting workforce stability and addressing job insecurity. For many organisations, the inability to offer long-term contracts due to short-term funding cycles has led to high staff turnover, which directly impacts service delivery. For example, PKAVS Carers Centre stated: “I have lost count of the number of good staff we have lost as we haven't been able to confirm the funding for their post beyond 1 year before it is too late.” They highlighted that this uncertainty disrupts their ability to implement long-term projects or trial new services, as one-year funding “doesn't give anywhere near enough time for any new services to become established”.

Many responses stressed that longer-term funding directly impacts staff retention, recruitment, and professional development. Spartans Community Foundation noted “high turnover rates due to funding uncertainty can lead to a loss of experienced staff. For example, frequent staff changes can disrupt continuity of care and affect client trust and satisfaction.” They stated that “this can result in lower morale among remaining staff, increased recruitment and training costs, and reduced overall organisational efficiency”.

Similarly, Healing for the Heart pointed out that short-term funding creates significant stress for staff: “Unable to provide job security for staff resulting in high rates of stress for people.” This insecurity extends to practical challenges, such as finding and retaining premises for service delivery. As they noted, “most leases are for a minimum of 3 years which is impossible to guarantee with piecemeal, short term funding”.

The impact on service users is also seen as significant by respondents. Tweeddale Youth Action highlighted the relational nature of their work, explaining that “Our work is all relationship based and depends on the relationship between staff member and young person. Young people who access our service tend to be marginalised and distrustful of adults and these relationships can take a long time to build and become effective enough for us to affect change and offer meaningful support. Without continuity we are not as effective as we can be. Without longer term funding we can't maintain that continuity.” The lack of longer-term funding, they stressed, undermines this continuity, diminishing the effectiveness of their services.

Similarly, Third Sector Employability Forum explained that longer-term funding enables organisations to provide Fair Work conditions and job security, which enhances staff wellbeing, recruitment, and retention. This, in turn, leads to better outcomes for service users, particularly in fields requiring intensive, person-centred support.

Many responses from funders linked longer-term funding to improved workforce stability. Inspiring Scotland noted that sustained funding reduces uncertainty and promotes Fair Work practices, explaining, “Providing more certainty and enabling the Third Sector to move to a model of permanent employment would have a significant impact on employees’ mental health and emotional wellbeing, as well as a material practical impact on their ability to rent a home, obtain a mortgage and fund a family holiday."

The Gannochy Trust added that multi-year funding would alleviate "Going Concern" issues often flagged by auditors for organisations reliant on precarious annual grants. They also cited a successful partnership between the Gannochy Trust and Perth and Kinross Council, which demonstrated how long-term funding increased youth group memberships fivefold over five years.

Strategic planning and service development

Many organisations underlined the importance of longer-term funding for strategic planning and the ability to pursue systemic change**.** Carers Centres Network in Scotland noted based on their survey that: "The considerable staff time spent on applying for funding which takes key members of staff away from service delivery … As always, it would be preferable to have funding cycles for more than one year to allow for planning and staff stability." This sentiment was echoed by Wick Community Hub SCIO which stated: "It would allow us to have more time delivering the projects rather than just chasing small pockets of funding, especially as each funding application takes some time to fill out and then hear back from".

The ability to align funding with strategic objectives was particularly valued. Scouts Scotland explained: "Longer-term funding would allow Scouts Scotland to plan strategically beyond the immediate future. Our skills for life strategy comes to an end in December 2025 and we are working with colleagues and volunteers to launch a 9 year high level strategy with three x [times] three year work plans to launch in 2026." They emphasised that multi-year funding would enable them to set more ambitious goals, maintain programme continuity, and support innovative projects.

Another example comes from Community Food Initiatives North East, which described how longer-term funding "would allow for genuine, strategic, joined-up planning in the medium term, leading to better outcomes for individuals, families and communities we support." They added that the current short-term funding model creates "organisational stress, with management constantly seeking out new or varied funding to plug potential gaps in provision".

A dominant theme across responses was the critical role of longer-term funding in providing financial stability, allowing organisations to plan more strategically and effectively. Many respondents underscored the inefficiencies of short-term funding cycles, which often force organisations into reactive, rather than proactive, planning.

Community Transport Association highlighted that short-term funding arrangements can lead to low morale among staff and uncertainty for service users, adding, "The benefits of longer-term, multi-year funding arrangements would be to empower the third sector to improve the morale, wellbeing and productivity".

Aurora Segnan explained that longer-term funding would allow organisations "to plan ahead rather than surviving day by day," while SCVO noted that it would enable third-sector organisations to move away from annual funding cycles, which require substantial time and resources and often lead to inefficiencies.

Respondents frequently cited the link between longer-term funding and improved service delivery. Emma Vickerstaff stated, “longer term funding would provide better security for clients, services and staff and the stability and flexibility needed to maintain the high quality and efficient services we provide”.

The importance of sustained funding for vulnerable groups was also highlighted**.** Dr Jane Cullingworth noted that consistent funding allows for continuity in client relationships and builds trust, which is especially critical for long-term therapeutic or support services.

Many funders emphasised that longer-term funding arrangements enable third-sector organisations to plan more effectively, enhancing both service delivery and organisational sustainability. Shared Care Scotland described the potential “transformational effect” of three-plus year funding on the organisations they support, citing “increased stability”, “increased value for money”, and “increased collaboration”. They noted that longer-term funding allows organisations to focus on strategic objectives rather than short-term survival.

The National Lottery Community Fund highlighted that longer-term funding ensures sustainability for both projects and staff. They explained, “The security of confirmed three or more-year funding arrangements offers grant holders increased sustainability of staff and, consequently, project outcomes”. Respondents explain that this funding model enables organisations to retain skilled staff, reducing the costs and disruptions associated with turnover.

Efficiency and reduced administrative burden

Short-term funding cycles place a significant administrative burden on third-sector organisations, diverting time and resources away from core activities. Children in Scotland explained: “We currently spend a disproportionate amount of time and staff resources on annual and bi-annual proposals, rather than the direct delivery of projects and services. Longer-term support would allow us to develop longer-term workplans with certainty, helping us to more efficiently co-ordinate our work”. Respondents share that his could create inefficiencies, particularly for smaller organisations without dedicated fundraising teams.

Larkhall & District Volunteer Group echoed this concern, stating: “Longer-term funding would offer security and stability for the organisation as a whole. It would free up time to work on strategy and sustainability rather than constantly being on the funding treadmill.” Several funders pointed out the inefficiencies of short-term funding cycles, which consume significant resources in repeated application and reporting processes. In their response the Corra Foundation stated that according to The Law Family the UK third sector spends £900 million annually on applying for funding. They argued that transitioning to multi-year funding could free up substantial time and financial resources, enabling organisations to focus on delivery rather than administration.

Glasgow City Council highlighted that three-year funding arrangements, as implemented through Glasgow Communities Fund, have proven effective in enhancing project delivery and reducing administrative workloads. They stated, “The efficiencies of having one application covering three years benefit both the Council and the funded organisations".

Collaboration and partnerships

Longer-term funding was also identified as a critical enabler of collaboration and trust. Wick Community Hub SCIO stated: "It would be so important to allow our staff to also have some peace of mind when it comes to their contracts, which will benefit their mental health and financial wellbeing, also allowing them to settle down in the community more." This stability, they argued, fosters stronger relationships between funders and grantees, which is essential for collaborative planning.

Funders noted that multi-year funding facilitates deeper partnerships between funders and recipients. The National Lottery Community Fund stated, "Longer-term funding approaches are seen to partially fulfil a long-awaited transition towards funders placing trust in the expertise of charity groups who are providing frontline services and support in communities." They added that such arrangements support relational funding models, enabling co-delivery and partnerships.

Challenges and mitigation strategies

While overwhelmingly positive about the benefits of longer-term funding, respondents identified some challenges that need to be addressed:

PKAVS Carers Centre added that projecting costs into the future can be difficult, particularly given the current economic climate, where inflationary pressures are unpredictable.

Uncertain financial landscapes for funders themselves were cited as barriers to adopting multi-year commitments. SCVO referred to the Scottish Government's failure to fully deliver on its three-year funding commitment for the Investing in Communities Fund, where funding was temporarily reduced and provided on a month-by-month basis. They go on to explain that such reversals undermine the benefits of long-term funding and erode trust between funders and recipients.

Healing for the Heart expressed concerns about equity. They warned: "It's often the bigger charities which get the lions share and so smaller, more grass roots organisations may end up losing the little they have."

Several funders warned that multi-year funding could inadvertently disadvantage smaller organisations. Corra Foundation noted that competition for long-term grants often favours organisations with greater fundraising expertise, creating barriers for smaller groups. They stated, "When competition is high, it is likely that organisations with more expert fundraising capacity and skills will score highest on an assessment," which may widen inequities in funding.

Organisations including North East Wellbeing Solutions CIC stressed the importance of maintaining flexibility within longer-term funding models. They highlighted that funding agreements must allow organisations to adapt to changing community needs, which can be unpredictable over multi-year periods. They explained that “Things can change and emerge quickly and having some flexibility to move with "need" rather than try to "fit" into funding criteria would be helpful. At times we have perhaps missed or not predicted an expense and had to look elsewhere rather than be able to flex with what we have had granted”.

Funders acknowledged that longer-term funding could reduce flexibility in responding to changing needs. Dundee Health and Social Care Partnership highlighted the need for adaptable funding models to account for inflation and shifting priorities, stating, “governance arrangements of multi-year funding should allow services to be flexible and responsive to change, reviewed and terminated early if necessary.”

Recommendations from respondents

Respondents proposed several measures to maximise the benefits of longer-term funding while addressing potential challenges:

1. **Flexibility in Funding Models:** Respondents recommended that funding arrangements be adaptable to account for changing needs and external circumstances, such as economic shifts or emerging crises.
2. **Funding for Smaller and Marginalised Groups:** Respondents emphasised the importance of ensuring equitable access to multi-year funding, particularly for Black, Asian, and Minority Ethnic-led organisations. They suggested ring-fencing a portion of funds to support these groups. Respondents also raised concerns that multi-year funding might disproportionately favour larger organisations, potentially limiting opportunities for smaller or emerging groups. They recommended multiple entry points for funding and support during transitions.
3. **Clear Communication and Robust Management:** Respondents stressed the need for transparency and effective oversight. They suggested relationship-based fund management to ensure accountability while maintaining trust and collaboration.
4. **Balanced Funding Ecosystem:** Respondents cautioned against over-reliance on multi-year funding to the detriment of shorter-term grants, which remain critical for pilot projects and emergency responses.
5. **Accountability and Governance**: Respondents emphasised the need for robust monitoring and evaluation processes to ensure accountability and effective use of funds.

Flexibility and core funding needs

The respondents state that flexible, unrestricted funding is important for enhancing their operational effectiveness and governance. Many organisations highlighted the constraints imposed by restricted funding and underscored the transformative potential of a more adaptable funding approach. However, respondents also raised concerns about implementation, accountability, and equity. The responses also shed light on the challenges of transitioning to such a model and the importance of maintaining accountability while enabling flexibility.

Funders’ responses reflect both opportunities and challenges in transitioning to more adaptable and unrestricted funding models. While many acknowledged the potential benefits of core funding in promoting stability and strategic planning for third-sector organisations, others raised concerns about accountability, transparency, and the constraints of public sector funding frameworks.

Operational effectiveness and stability

Flexible funding was seen by respondents as an enabler of operational effectiveness. Organisations reported that restricted funding tied to specific projects limits their ability to adapt to changing needs and maintain essential services. For example, PKAVS Carers Centre shared: “The vast majority of our funding is restricted and has to be used for specific services. This can mean that popular services run out of funding quickly and often these services have to stop until further funding is sourced.” They explained the impact this had on their complementary therapy voucher programme, which was reduced from 12 to 6 sessions per individual due to limited resources, despite high demand. They concluded, “If we have flexible core funding we could re-direct funding from one other into this area so we could have kept the number the vouchers the same”.

Similarly, Community Food Initiatives North East stated, “operates on a cocktail of funding, much of it restricted to individual projects and outcomes... current levels of inflexibility means that creativity, innovation and collaboration is often stifled.” They highlighted how unrestricted funding could allow for better planning, innovation, and collaboration to deliver more significant social outcomes.

For smaller organisations, the impact of restricted funding is particularly acute. Just Dive In CIC described how project-specific funding forced them to discontinue a vital water safety course, which they noted was “highly impactful” and received “excellent feedback from schools.” The organisation explained that restricted funding has hampered their ability to respond to emerging community needs, such as increased demand for water confidence training after the pandemic.

Many funders recognised the importance of unrestricted funding in enabling organisations to operate more strategically and focus on their core missions. The Gannochy Trust stated, “Unrestricted funding allows them to change course/priorities provided these remain within general outcomes,” highlighting that flexibility can enable organisations to adapt to evolving circumstances without compromising on broader goals.

Similarly, The National Lottery Community Fund Scotland observed that core funding “frees [organisations] up to grapple with the key challenges and injustices they were set up to deliver in a more intentional way.” They also emphasised that flexible funding creates a more equitable and trust-based relationship between funders and grantees.

Many respondents emphasised that flexible and unrestricted core funding provides stability and resilience for organisations, enabling them to meet evolving community needs**.** Julie Christie stated that flexible funding allows organisations to avoid "jumping through admin/accounting hoops to at least cover overheads through project funding" and helps build trust between funders and recipients.

Community Transport Association described flexible funding as reflecting "greater levels of trust and respect for the expertise, value and judgement of third sector organisations." They argued that such funding enhances public value by ensuring organisations can invest in skilled staff, modern systems, and efficient operations.

Flexible funding was identified as essential for building resilience, particularly during crises. Several respondents noted the success of unrestricted funding during the COVID-19 pandemic, where organisations demonstrated agility in adapting to urgent community needs. They suggested that this model could be extended to provide long-term benefits.

Innovation and responsiveness

Flexible funding was identified by respondents as crucial for fostering innovation and enabling organisations to respond to emerging needs. Many organisations argued that the rigidity of restricted funding often stifles creativity and prevents them from addressing community needs effectively.

Carers Centres Network in Scotland pointed out that overly prescriptive funding conditions can “stifle innovation and prevent organisations from responding more flexibly to the needs of their service users.” They provided an example from the COVID-19 pandemic, during which inflexible funding conditions limited their ability to pivot services quickly to meet urgent needs.

Other respondents shared how unrestricted funding from two of their funders allowed them to react confidently to crises and experiment with new initiatives. Tweeddale Youth Action noted, “If more funders funded in this way, it would hugely improve the efficiency of third sector orgs”.

The ability to adapt to local needs was another recurring theme. Pamela Smith explained that core funding enables voluntary organisations embedded in their communities to respond dynamically to local priorities. They noted that flexibility reduces the pressure on organisations to "reinvent the wheel" with each funding application.

Flexible funding was also seen as a driver of innovation**.** Scottish Community Alliance explained that unrestricted funding allows organisations to develop more dynamic projects and adapt their services to better meet beneficiary needs. They noted that this adaptability was especially critical during the COVID-19 pandemic when organisations demonstrated their ability to pivot effectively.

Governance and strategic planning

Governance and long-term planning were also highlighted as areas that would benefit significantly from flexible funding. Restricted funding often limits organisations’ ability to engage in strategic decision-making or invest in governance improvements.

Money Advice Scotland explained how flexible funding could “improve our governance by allowing us to plan more strategically and sustainably.” They added, “This stability would facilitate better long-term planning, enhance staff morale and retention, and ultimately lead to more effective and efficient operations.” By enabling a proactive approach to risk management and organisational development, flexible funding would strengthen governance and sustainability.

Other respondents noted that flexible funding would increase their ability to respond to new developments in volunteering, an area that intersects with multiple priorities. They stated that improved governance practices supported by flexible funding would also encourage skilled individuals to join their boards, further enhancing organisational effectiveness.

Balancing flexibility with accountability was a key concern for many respondents. Third Sector Employability Forum suggested that ensuring good governance, alongside outcomes-focused and trust-based oversight, could alleviate concerns about misuse of funds. They advocated for building stronger relationships between funders and organisations to ensure mutual accountability.

Funders suggested that flexibility should be balanced with structured guidelines to ensure alignment with funder priorities. Glasgow City Council proposed that rather than providing unrestricted funding, funds could operate around broad themes, allowing organisations flexibility in delivery while maintaining alignment with strategic goals.

Capacity building and workforce development

The responses consistently emphasised the critical role of unrestricted funding in supporting core staff and addressing workforce challenges. Restricted funding often excludes essential operational costs, forcing organisations to stretch resources thinly or underpay staff.

Healing for the Heart highlighted these challenges, stating, “Lack of core funding means that, in particular, senior posts, because of the difficulty in funding them, remain underpaid and part-time because we can't afford anything else.” They added, “We want, for example, to pay our ops manager a salary which is commensurate with what he'd earn elsewhere but we simply do not have the funding to do that because he is not delivering a people facing service which we can articulate as a project, yet he is core to those projects being delivered.” Respondents emphasise this issue undermines morale, retention, and organisational stability. Several respondents also discussed how unrestricted funding would enable them to provide better training and support for their volunteers, while also allowing them to focus on strategic priorities.

Challenges of transitioning to flexible funding models

While there was strong support for flexible funding, several organisations raised concerns about the challenges of transitioning to such models. A primary concern was the need for funders to shift their approach and place greater trust in organisations.

Street Connect highlighted this challenge, stating that there is a need for “developing trusting relationships between funders and third sector organisations. This will only be achieved when funders accept that third sector organisations are, if not best placed, then at the very least better placed than the funders, to know the needs of those they support and how those needs can be effectively addressed.” Similarly, Committed to Ending Abuse emphasised the importance of balancing flexibility with accountability, suggesting that funders adopt realistic reporting requirements that focus on outcomes rather than outputs. They stated, “flexibility has to be managed accordingly and decisions made in the best interests of the organisation and its approved service delivery/project objectives and the purpose for which it is set up. Therefore, flexibility still has to be monitored appropriately and expenditure reported to ensure organisations are not utilising their grant in an inappropriate manner. Organisations must ensure transparency and have robust monitoring, reporting and auditing systems in place”.

Some respondents also noted the administrative adjustments required. RSPB Scotland states “demonstrating impact and value for money can be more complex with unrestricted funding. We may also face internal challenges in prioritising various organisational needs. And on a large-scale, it will likely demand more sophisticated long-term financial and strategic planning to ensure sustainable use of resources over time.” Additionally, Money Advice Scotland acknowledged that transitioning to flexible funding would necessitate updates to financial management systems and governance structures, which could require additional resources. However, they viewed these as “positive challenges,” reflecting an evolution in the funding model.

Funder challenges to providing flexible and core funding

Several funders raised concerns about maintaining accountability when funding is unrestricted. Dundee Health and Social Care Partnership argued that unrestricted funding “would sever the link between measurable outcomes and commissioning intentions for funded services and the actual cost of service.” They emphasised the importance of maintaining financial governance to ensure that funds are used appropriately and deliver value. East Lothian Council expressed similar reservations, noting that less control over spending could lead to uncertainty about the services delivered, particularly in a commissioning model.

Public sector funders highlighted structural limitations that make unrestricted funding challenging to implement. Glasgow City Council explained that public sector accounting practices require grants to be tied to specific financial years and evidenced against approved purposes, adding, “We would not offer grants on an unrestricted basis due to our accounting requirements and our corresponding procedures and systems. Our public sector accounting practices require grant funding to be accounted for each financial year. Organisations need to evidence spend against the approved purposes and allocated funds must be committed by 31 March for funds to be legitimately drawn down by awardees."

Several responses highlighted the need for clarity around definitions and expectations. Corra Foundation stressed that funders must establish clear parameters for what constitutes core and flexible funding. They noted that ambiguity in definitions can lead to misunderstandings about funder and grantee responsibilities.

Recommendations from respondents

1. **Clear Communication and Consistent Definitions**: Respondents suggest establishing shared definitions and expectations for flexible funding models. This includes clarity on reporting requirements, strategic outcomes, and accountability while enabling flexibility. Respondents highlighted the importance of combining core and project funding to balance flexibility with measurable outputs.
2. **Integration of Core and Flexible Funding**: Respondents suggested incorporating core and flexible funding elements in grant models, enabling organisations to cover operational costs while allowing room for innovation and responsiveness.
3. **Proportional Accountability**: Respondents emphasised aligning reporting requirements with the grant size, focusing on outcomes rather than outputs, to reduce administrative burdens.
4. **Trust-Based Partnerships**: Respondents called for a shift towards trust-based funding relationships to foster collaboration and impact. Similarly, they highlighted the need to foster trust through sensible checks and balances and by reducing micro-management of third-sector organisations.
5. **Sustained Investment in Infrastructure**: Respondents urged funders to prioritise sustained investment in the third sector's infrastructure and core activities, arguing that standstill funding limits long-term planning and innovation.

Sustainable funding and inflation adjustments

Respondents underscored the critical role that inflation-based uplifts and full cost recovery play in ensuring their sustainability. They explain that rising costs for staff wages, utilities, rent, and program delivery are eroding the purchasing power of stagnant funding, creating a situation where organisations must either dip into reserves, cut services, or shut down entirely. Many respondents highlighted that the current funding model exacerbates inequality between the third sector and public or private sector organisations, particularly when inflation-adjusted pay rises are applied unequally.

Responses from third-sector organisations provide a detailed view of the challenges posed by inadequate funding mechanisms in the face of rising costs. The absence of inflation-linked uplifts and comprehensive cost recovery is threatening the ability of organisations to deliver services, retain staff, and maintain financial sustainability.

Responses from individuals and other organisations reveal significant concerns regarding the impact of stagnating or shrinking funding amidst rising costs. Many responses emphasised the importance of inflationary uplifts and full cost recovery to support organisational sustainability, ensure fair work conditions, and improve service delivery.

Funders' responses highlight widespread recognition of the challenges facing the third sector in maintaining financial sustainability amid rising costs. While funders acknowledge the importance of inflationary uplifts and full cost recovery, they also emphasise the constraints posed by their own financial pressures and systemic limitations.

Sustainability and service delivery

Respondents highlighted how the absence of inflationary uplifts undermines their ability to sustain operations. Rising operational costs, coupled with stagnant funding, mean that many organisations cannot maintain service levels or reach as many beneficiaries.

For example, East Ayrshire Advocacy Services reported, "While our sector is resilient, the impact of rising costs on some organisations has been devastating, resulting in job losses, cuts to services, or closing their doors altogether." This experience is echoed by Shopper-Aide Ltd who described the impact of a lack of inflation uplifts and/or full cost covering. They noted, "we have come close to closure and have had to make one staff member redundant and reduce some staff hours which has had an impact on clients and pressure on staff". Another organisation shared the danger of relying on reserves. Family Journeys stated, "Further risk, particularly in the current financial climate of funding being cut, is that reserves have to used. An organisation can only borrow from reserves for a short period however without having to restore that borrowed. Dipping into reserves can create a slippery slope to liquidation and that is the stark reality for many small third sector organisations."

Sistema Scotland highlighted the unsustainability of relying on alternative funding to fill gaps caused by stagnant funding. They explained, "We have seen a significant impact and anticipate a continued impact on our future delivery and planning. Without inflation adjustments, we are facing a real terms cut on a yearly basis. This results in resources being stretched to source alternative funding to bridge the gap to remain static and prevents capacity for growth". SCVO reinforced these concerns, pointing out that some organisations are forced to subsidise public authority contracts with reserves, a practice they called "both unethical and unsustainable.

Additionally, unpredictable, and stagnant funding arrangements hinder organisations' ability to engage in long-term planning. Many described how financial uncertainty forces them to prioritise short-term survival over strategic growth and innovation. Just Dive In CIC highlighted the challenges of financial uncertainty, stating, "The lack of predictable, inflation-adjusted funding creates financial uncertainty, making it challenging to plan and invest in long-term initiatives".

Staff retention, recruitment, and morale

The sector faces significant challenges in retaining and recruiting skilled staff due to stagnant wages and the inability to match inflation-linked salary increases seen in other sectors. Respondents noted that this not only impacts morale but also affects service delivery and long-term organisational capacity. Venture Scotland explained, “Retaining skilled staff without recognising their increased costs of living is tough.” They added that the increased workload for remaining staff diminishes morale and service quality.

Shared Care Scotland emphasised the strain this place on recruitment:

> *“If our funding does not keep pace with inflation, we will not be able to maintain a sustainable, competitive salary offering for our dedicated and experienced staff team. This will undoubtedly lead to staff seeking employment elsewhere, difficulties in recruitment and the associated disruption to the effective delivery of our work which comes with turnover of staff”.*

Children in Scotland shared that they had to use reserves to provide pay increases to retain staff, describing it as a necessary but unsustainable measure. They warned, “The depletion of our financial reserves has left us more vulnerable as an organisation. The redundancies have also had a significant impact on staff capacity within the organisation.”

Respondents consistently linked the lack of inflationary adjustments to reduced staff retention, declining morale, and challenges in maintaining service quality. Third Sector Employability Forum noted that without inflation-based uplifts, third-sector organisations struggle to compete with public and private sectors in offering fair work conditions. They explained, “Many TSOs describe experiences of training staff up only for them to leave for the same role within a public or private sector organisation which has a higher salary (by the £000’s), pension and more secure T&Cs.” Other respondents describe similar experiences. Committed to Ending Abuse highlighted the cascading effects of limited funding on training and development, stating, “With limited funding comes limited ability for staff to improve their CPD and specialised training. This limits the opportunity for staff to develop appropriately in line with legislative changes”.

Rising costs and financial instability

Inflationary pressures on operational costs—such as energy bills, rent, and essential supplies—were a consistent concern. Many organisations reported that these increases, coupled with static funding, have created an unsustainable financial trajectory. Scottish Childminding Association explained how stagnant funding, when coupled with inflation, has reduced their purchasing power. They stated, “we have received a singular inflation-based increase of 5% in [Children, Young People and Families Early Intervention Fund] core funding since 2016 during which time cumulative inflation was 29.9%. Such a differential and erosion in real terms of the value of funding is not sustainable.” They added that this has eroded their financial capacity and led to greater difficulty in maintaining service levels. This is echoed by other respondents including Borders Community Action. They warned, “inflation erodes the purchasing power of money over time. Without inflation-based uplifts, the real value of funding diminishes, reducing our ability to cover costs and deliver programs effectively.”

Acknowledgment of inflationary pressures

Several funders acknowledged the necessity of inflationary adjustments to sustain the third sector’s capacity to deliver services. The National Lottery Community Fund Scotland stated, “The case for inflationary uplifts is relatively clear: it is a practical way of anticipating the annual cost increase. If no uplift is included, what is affordable in year one may not be in year 3 let alone year 5.” They highlighted that such uplifts provide financial security for staff and ensure the sustainability of funded projects. Similarly, Corra Foundation noted the importance of integrating inflationary adjustments into funding applications, explaining, “We expect applicants to demonstrate how they plan to manage funding over multiple years – this includes salary uplifts.” They added that full cost recovery, including central and management costs, plays a critical role in ensuring effective service delivery.

Sectoral inequality and disproportionate impact

A significant concern raised by respondents was the inequity between third-sector funding arrangements and those available to public sector organisations**.** Respondents describe the impact of this disparity as far-reaching, resulting in de facto pay cuts for staff and reduced service capacity for organisations. The explain that this imbalance not only threatens the sustainability of the third sector but also undermines its ability to retain skilled staff and deliver vital services effectively.

Respondents described the impact inflation-based uplifts would have in improving parity between sectors. Voluntary Health Scotland advocated:

> *“Inflation-based uplifts would help third sector organisations to keep pace with salaries on offer in other sectors. There is a widening gulf between the salaries on offer in the third and public sectors, for example, which has had a significant impact on recruitment and retention in the third sector. Our members would like to be able to match what is on offer in other sectors. However, with many organisations’ funding having stagnated for several years, they do not have the ability to do so.”*

Based on these inequities respondents suggest a need for systemic reform in how funding is allocated and structured to ensure that third-sector organisations are not disproportionately disadvantaged compared to their public sector counterparts.

Barriers to inflationary uplifts

Funders acknowledged the systemic challenges of providing inflationary uplifts consistently. Shared Care Scotland pointed to the real-terms cuts resulting from static funding levels. They stated:

“Projects are seeking increased funding (average of 10% grant amount requests in every round over the past few years) with inflation and decreased funding opportunities elsewhere. Out of necessity our funding is increasingly focusing in on projects of best quality and fit for our principles and those most likely to achieve the highest impact. This means that the success rate for the fund is falling and more organisations that have projects that fit the brief are going through a lengthy assessment process to have their request declined.”

Respondents highlight the growing gap between the funding available and the increasing costs faced by organisations. They emphasise that without inflationary adjustments, organisations are left struggling to sustain operations while managing rising expenses and growing demand for their services.

Similarly, Glasgow City Council described how reductions in public sector funding have exacerbated these challenges, directly impacting their ability to provide necessary uplifts. They noted that these financial constraints often result in funding reductions for third-sector organisations, further straining their capacity to deliver services.

Respondents discuss how these barriers underscore the need for structural changes in funding models to ensure that third-sector organisations can manage rising costs while maintaining service quality.

Full cost recovery

The importance of full cost recovery emerged as a recurring theme, with many funders recognising its role in addressing operational expenses. The National Lottery Community Fund Scotland shared that their fund actively encourages grant holders to include full cost recovery and inflation uplifts in their applications, and encourages applicants to do so. This practice allows organisations to manage rising costs without compromising the quality of their services.

Corra Foundation further emphasised the necessity of including central and management costs in grant budgets, explaining, “central costs play an important, if unseen, role in ensuring that work is delivered well. It is right that funders are prepared to contribute to them, along with direct delivery costs.” This acknowledgment highlights the role of core operational support in enabling third-sector organisations to function effectively while delivering impactful services as stated by respondents.

Balancing fiscal constraints and sustainability

Funders also discussed the challenges of balancing fiscal constraints with the need for sustainable funding models. The National Lottery Community Fund Scotland described their approach, which combines annual grants with longer-term commitments. They sated this model supports sustainability and enables organisations to plan for the future while managing economic uncertainty. However, they acknowledged its limitations, noting, “it allows organisations to know their project income is secure; they get the money annually well in advance and are never paid in arrears - it restricts funding to a specific set of activities, and therefore doesn’t support the organisation with its wider growth or to embed its impact. Other funders may have even less freedom where there is a finite pot of money, or they operate on annual funding cycles."

Angus Council shared insights into how sustainability is prioritised in procurement processes, with qualitative assessments of service provision playing a key role. They shared, "We tend to view inflation as an issue that has to be reflected in our planning and not a risk we pass on to Partners. If we can't afford to sustain things, then we look to make active decisions about what we need to de-commission." However, they noted that things can be more challenging when organisations cover more than one Local Authority stating, "There is a lack of consistency between local authorities and this is challenging for organisations covering multiple local authority areas."

Crisis response and flexibility

Flexibility in funding processes was identified by respondents as critical during times of crisis, such as the COVID-19 pandemic and the ongoing cost-of-living crisis. The National Lottery Community Fund Scotland highlighted how their fund adapted grant programmes to provide uplifts and streamline applications during these crises. They noted, "at the height of the CoL [Cost of Living] pressures, the Fund offered an uplift to grant holders and invested £3.5 million between August 2022 and October 2023. In its most recent iteration, this was awarded as a flat rate and came with few conditions because it was based on trust and recognised the capacity of frontline organisations to know what their communities needed. Secondly, the Fund amended an existing grant programme, rather than opening up a new one, to speed up funding availability and offer it to grant holders and external organisations. As a result, over £5.5 million was distributed to 138 organisations for CoL projects." This example illustrates how responsive and flexible funding models can mitigate the impact of economic crises and enhance organisational resilience.

Recommendations from respondents

1. **Incorporate Annual Inflation-Based Uplifts:** Respondents suggest ensuring all public grant funding and contracts include inflationary adjustments to prevent real-term cuts and reflect rising operational costs as this would enable third-sector organisations to sustain services and avoid financial instability caused by static budgets.

2. **Embed Full Cost Recovery Mechanisms:** Respondents suggest redesigning funding models that fully account for all associated costs, including salaries, overheads, and operational expenses. They state that full cost recovery could help ensure organisations can maintain service quality and cover essential expenditures without relying on reserves or fundraising.

3. **Address Sectoral Disparities:** Respondents recommend tackling inequities in funding between the third sector and public sector organisations by ensuring inflation adjustments are standard practice.

4. **Encourage Collaborative Approaches:** Respondents highlight the need for establishing collective commitments among funders, including the Scottish

Government, to align on inflation-linked uplifts and sustainable funding practices. They explain that standardisation across funding streams would reduce inconsistencies and better support organisational sustainability.

5. **Prioritise Smaller Organisations:** Respondents advocate for development of funding mechanisms that account for the unique challenges faced by smaller third-sector organisations.

6. **Support for Resilience and Adaptation:** Respondents also suggest that provide capacity-building resources could help organisations strengthen financial management and adapt to rising costs.

7. **Integrate Flexibility for Crisis Management:** Respondents raised a need for embedded flexibility in funding models to allow organisations to respond to inflationary pressures and economic crises effectively. They share examples of responsive funding practices, such as timely adjustments during cost-of-living increases, helpping organisations maintain stability during unpredictable times.

Real living wage commitments

Respondents highlight the widespread challenges, opportunities, and systemic issues related to fair pay. The implementation of real living wage (RLW) across the sector is seen as critical to fostering equity, retaining skilled staff, and delivering quality services. Responses also emphasised significant challenges such as underfunding, wage compression, and inequities in funding practices. However, many organisations emphasised the financial and structural barriers they face in sustaining this commitment.

Funders’ responses to questions on the implementation of the RLW for the third sector demonstrate widespread recognition of its importance for promoting fair work and staff retention. However, they also highlight practical challenges, including insufficient funding, wage compression, and the complexities of short-term funding models.

Respondents acknowledged the necessity of paying the RLW to staff. They saw this as essential to valuing employees, maintaining ethical employment practices, and achieving the Scottish Government's Fair Work agenda. For example, Community Food Initiatives North East stated, “By ensuring Real Living Wage commitments are championed and prioritised in funding allocations, this would incentivise fair work practices across the sector. Often the third sector is portrayed as a ‘voluntary’ endeavour, however effective outcome-focused projects require dedicated, experienced and skilled paid staff to deliver.”

Other respondents expressed their commitment to RLW. For example, Cyrenians shared that they do not accept contracts that do not enable them to pay this rate, underscoring the importance they place on integrating fair pay into organisational values.

Key benefits of the real living wage

Responses from funders acknowledged the importance of the RLW in improving employment conditions and aligning with Scotland's Fair Work agenda. The National Lottery Community Fund Scotland highlighted the value of RLW commitments, stating, "Salaries for third sector workers must adequately meet the needs of staff, especially pressing in the cost-of-living crisis." They described the RLW as essential to addressing wage disparities and improving workforce morale however do no require applicants to pay the RLW. This is because "where grant holders are funded by a variety of funders, varying wage requirements and funding principles could create an array of wages within a team."

In another example, Corra Foundation emphasised that the RLW is a necessary criterion for their grant programmes managed on behalf of the Scottish Government. They noted that ensuring RLW compliance helps organisations retain staff and ensures consistency across funding streams. They stated, "For grants to keep track with the real living wage, grants need to rise over time".

Responses highlight the positive impact of RLW commitments on recruitment, retention, and staff morale explaining how paying the RLW enhances the attractiveness of the third sector as a place to work.

Pamela Smith noted that paying the RLW can "bring some standardisation to salaries across the sector" and attract higher-quality applicants. The respondent observed that salary disparities, such as manager roles in one local authority ranging from £24,000 to £45,000 in similar-sized organisations, reflect the inconsistent funding levels across the sector.

The impact on staff retention was particularly emphasised. Richard Simpson described how RLW commitments reduced turnover in care homes. They explained, "In one organisation where i am a member we got this down to 17% but it rose when inflation rose in part because local businesses with whom we were competing put up their staff wages whereas funding for the care home did not increase (the residents are entirely LA [local authority] funded) turnover rose again to 30%."

Respondents saw paying the RLW as a way to value staff and improve morale. ACI Recovery Services noted that improved funding arrangements including meeting the real living wage would, "enhance staff satisfaction, retention, and productivity".

Respondents also noted that paying the RWL alone was not enough. The Community Renewal Trust explained, "We are fully committed to paying Real Living Wage but should note that ensuring recruitment/retention, delivery performance and team morale requires far more than the salary of the lowest paid staff. It requires progression opportunities and long term stability. It requires investment in building, equipment, ICT infrastructure, finance teams, HR support and good leadership/management."

Respondents also highlighted the broader societal implications of paying the RLW. Mandy Sheridan argued, "This is a human rights issue," and emphasised that paying the RLW empowers organisations to support their staff adequately.

Support for Fair Work Principles

Respondents highlighted the alignment of RLW with Scotland's Fair Work agenda and stressed that fair pay enhances the sector's contribution to poverty reduction and economic equity. Additionally, MCR Pathways suggest introducing a Living Pension alongside the RLW to "ensure that employees are able to meet the current and future cost of living."

Many funders stressed the importance of aligning RLW commitments with broader Fair Work principles**.** Glasgow City Council has integrated Fair Work principles into their funding requirements through the Glasgow Communities Fund. They reported that 91% of funded organisations currently pay the RLW or above, while 8% are working towards achieving this during the current funding cycle.

However, The National Lottery Community Fund Scotland cautioned that requiring RLW compliance could inadvertently create wage inequalities within organisations funded by multiple sources. They observed that varying funding principles and wage requirements can lead to "an array of wages within a team," potentially causing employee disputes and tensions.

Challenges in implementing real living wage

In addition to benefits respondents also reported significant challenges in maintaining the RLW standard due to funding limitations, wage compression, and operational pressures.

One barrier highlighted by respondents was insufficient funding to support RLW increases. Instant Neighbour noted that they rely on unrestricted income to "top up" wages to meet RLW requirements. They added that such reliance diverts funds from other essential activities, making it an unsustainable practice.

Responses from funders describe short-term funding cycles as another barrier to sustaining RLW commitments. Glasgow City Council noted that while organisations can meet RLW requirements in the short term, they face difficulties maintaining this standard due to the instability of their funding. They stated, "Challenges our third sector employers face has not been in paying the RLW but being able to commit to sustain employment because of their short-term funding".

Respondents highlighted the knock-on effects of RLW increases on internal pay structures. Scottish Childminding Association explained that as the RLW has risen, it has eroded pay differentials between roles, creating financial strain and challenges in retaining senior staff. They stated, "implementation of the Real Living Wage is having a wider effect than on just the lowest rates of pay and will also have a secondary financial impact and increase on pay budgets through creating upwards pressure requiring us to increase pay in positions above this which some Third Sector organisations may find challenging to absorb - particularly in the absence of inflation-based uplifts in funding from the Scottish Government."

Similarly, Ayr Housing Aid Centre, a Scottish Charitable Incorporated Organisation, described the impact on staff when organisations are unable to maintain pay differentials whilst implementing the RLW. They shared:

> *"We saw many organisations feeling they had no choice but to have admin and other support workers all on the same bottom scale which has caused many support workers to leave the sector. They feel undervalued and underpaid as previously were on a different scale than admin. When the minimum wage was increased this saw all those at bottom up to same level despite their skills, knowledge etc which has caused friction within organisations with no separation at the bottom."*

Many funders pointed out that enforcing RLW requirements without providing additional funding puts significant strain on third-sector organisations. Shared Care Scotland stated, "Flexibility in budgets is non existent for a lot of voluntary organisations and whilst they are very keen to support their staff it is a challenge for them to meet this requirement in the current environment." They described the situation as a "perfect storm" of reduced funding options, cost-of-living pressures, and increasingly complex service demands.

Glasgow City Council echoed these concerns, noting that smaller organisations may struggle to pay the RLW without compromising other areas of service delivery. They added, "feedback from some organisations has been that although in agreement with the provision of a Real Living Wage that having to pay this would be unsustainable."

Similarly, Community Transport Association explained that many smaller charities struggle with RLW commitments due to reliance on short-term grants that do not account for rising wage costs. They stated, "Fair Work First conditionality being attached to all public sector grants in Scotland is challenging for some Community Transport operators to meet in the short-term."

Recommendations from respondents

1. **Embed RLW in Funding Agreements:** Respondents suggest ensuring all public and third-sector funding agreements include RLW commitments, with inflation-based uplifts to maintain alignment with rising costs.

2. **Ensure Full Cost Recovery:** Respondents advise designing funding models that account for the full cost of service delivery, including salaries and overheads. Respondents also highlight that fair funding practices are essential for sustaining RLW commitments and broader fair work practices.

3. **Adopt Multi-Year Funding with Inflationary Adjustments:** Respondents endeavour to see funders provide long-term, stable funding agreements with built-in inflation adjustments to enhance financial stability and enable organisations to meet RLW commitments without exceeding budgets.

4. **Support Smaller Organisations:** Respondents suggest providing capacity-building initiatives and targeted funding to help smaller organisations meet RLW commitments without sacrificing service quality.

5. **Foster Collaboration Across Funders:** Respondents recommend aligning RLW requirements and funding practices across funders to ensure consistency and equitable support for organisations.

6. **Incorporate Flexibility and Proportional Accountability:** Respondents suggest enabling organisations to work towards RLW compliance through supportive approaches and proportional reporting requirements. Respondents share that this could ensure transparency while reducing administrative burdens and financial pressures.

Efficiency in funding processes

Respondents reveal a sector burdened by administrative complexity, inconsistent practices, and a lack of proportionality in application, reporting, and payment mechanisms. Respondents also emphasised that streamlining these processes would allow organisations to focus more on service delivery and less on bureaucracy.

Funders' responses highlight common challenges and proposed solutions for simplifying applications, reporting, and payment systems. The responses reflect a strong desire to balance efficiency with accountability while addressing the systemic inefficiencies that burden third-sector organisations.

Streamlined and proportional applications

Respondents highlighted a need for simplified application processes tailored to the size and scope of funding. They noted that many application forms are overly complex and repetitive, placing an unnecessary administrative burden on organisations. Street Assist Edinburgh emphasised, "Applications should be short and concise, not asking the same question but in a different way 10 times over." They proposed that applications should focus on outcomes and value, such as demonstrating a social return on investment. Similarly, Healing for the Heart highlighted the cost implications, stating, "It can take up to 30 hours to complete a funding application. That means each funding application that we place can cost up to £500 to complete." They urged funders to adopt simpler models used by organisations such as the National Lottery and Robertson Trust.

Respondents also suggested simplifying and standardising forms to save time and reduce administrative burdens. Pamela Smith praised the National Lottery's streamlined application model, noting that their process focuses on essential information and includes a conversation with applicants to clarify details.

A lack of transparency and consistency in funding decisions was highlighted as a source of frustration by respondents. There were calls for clear guidelines and timelines to avoid unnecessary stress and uncertainty**.** North East Wellbeing Solutions expressed concerns about opaque funding panel processes, stating, "Funding panels being secret/unknown... appears secretive and lacking in transparency.

Additionally, funders also advocated for simplified and consistent application processes. They identified unnecessary complexity and variation across funding bodies as major barriers to efficiency. The Gannochy Trust emphasised the need to “keep application forms simple and concise,” avoiding requests for overly complex or irrelevant policies and procedures. They also called for documentation to be proportionate to the level of funding sought. The National Lottery Community Fund Scotland highlighted the strain placed on applicants by lengthy and exclusionary application processes. They reported that their fund attempted to simplify these processes by offering an “Accessible Version” of application forms, but uptake was low, possibly due to fears of penalisation for using simplified methods. They noted, “All resources should be as straightforward as possible for applicants”.

Proportional and flexible reporting requirements

Reporting requirements were frequently described as disproportionate to the size of grants, with respondents advocating for proportional reporting standards. Organisations who responded suggested that smaller grants should require less frequent or detailed reporting. Broadford and Strath Community Company shared an example, noting that for one grant, their organisation had to submit over 100 documents as part of a single claim. They called for consistency and standardisation in reporting requirements to reduce administrative workload.

Respondents expressed concern that complex, and resource-intensive funding processes disproportionately disadvantage smaller organisations. These groups often lack the staff capacity to manage detailed applications and reporting. The British Association for Counselling and Psychotherapy emphasised the need for funding processes to accommodate smaller charities, which are often best positioned to deliver local impact but struggle to compete with larger organisations for funding. Volunteer Scotland added that 72% of Scottish charities do not have paid staff and it is therefore likely that “that trustees, as volunteers, have a key role in funding applications and reporting…so it is vital to ensure that funding processes are as efficient and accessible as possible.”

Respondents also advocated for reporting requirements to be proportionate to the size of grants and focused on outcomes rather than outputs. Many funders highlighted the burden that excessive reporting places on organisations. Shared Care Scotland suggested reducing reporting by focusing on relationships and data gathering through engagement rather than repetitive paperwork. They stated, “longer term funding commitments, greater trust between grant holders and makers, and less restricted funding. This would embed a much more efficient practise in funding processes.” Similarly, Inspiring Scotland recommended, “Proportionality in reporting and adequately funding groups to meet reporting requirements” and “Prioritising reporting on impact and how funding has made a difference or change for people”.

Respondents differed in their suggestions in regard to methods of preferred reporting. Some suggested a shift from output-focused to outcome-based reporting. This approach was seen as better aligned with the mission-driven nature of third-sector work and more reflective of the impact of funded activities**.** Other respondents described funder who accepted other methods such as annual reports and strategies rather than specific documents for their grant. Whereas some respondents were supportive of more quantitative and statistics-based reporting, others suggested other methods such as “story based reporting” could be beneficial**.** Getting Better Together highlighted the value of site visits by funders as an alternative to lengthy written reports, stating, “conducting visits instead of requesting long written reports is particularly useful. It allows us to demonstrate the actual support we provide, meet with our beneficiaries, and showcase the real outcomes of our work.”

Timely and predictable payments

Delayed payments were identified as a major issue, with respondents stressing the need for predictable schedules to support cash flow, operational planning and service delivery. Healthy Valleys described payment delays as “seriously damaging,” adding that making payments in arrears forces charities to use other funders' money to bridge gaps. Respondents shared their experience of receiving confirmation of grant funding shortly before, or after, the financial year began leaving them unable to make informed decisions about staffing and operations.

Community Transport Association noted that “delays in receiving payments are common across the third sector and can cause serious financial disruption for organisations.” They called for payments to be made promptly and in accordance with pre-agreed schedules. SCVO explained, “We know that timely decision-making, and subsequent issuing of funds, is crucial to ensuring no organisation is disadvantaged by the funding process. When decisions and notifications are delayed, organisations face uncertainty which can have hugely negative impacts on their ability to deliver services, retain staff, and plan ahead.”

Health and Social Care Alliance Scotland highlighted that “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”. Generations Working Together noted, “There have been instances in the past whereby funding announcements have been made so late, that we’ve had to prepare redundancy letters for staff – only to find out two weeks before their last day, that their funding has been extended. This is a tremendously time-consuming process, not to mention the unnecessary stress that it places staff under.”

Delays in grant payments and the prevalence of payment-in-arrears models were identified as significant challenges, particularly for smaller organisations with limited reserves. Glasgow City Council pointed out that payments in arrears “is not good for smaller organisations who may not have the ability to use their reserves.” Respondents also noted that payment delays often disrupt service delivery. Health and Social Care Alliance Scotland explained, “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.”

Standardisation across funders

The lack of consistency in application and reporting formats across different funders was another common concern. Organisations highlighted how variations in requirements lead to inefficiencies and additional work. Instant Neighbour pointed out that differences in online application forms often require applicants to copy and paste answers into different formats, adding unnecessary steps. They suggested that adopting standardised systems, such as those with login-based functionality and the ability to save progress, would greatly improve efficiency. Early Years Scotland called for “shorter, standardised application forms that focus on essential information” noting that this would save significant time and resources.

Funders highlighted the lack of standardisation in funding processes, which forces organisations to adapt to multiple application and reporting systems. This was seen as a significant barrier to efficiency. Scottish Borders Council suggested greater collaboration between funders to develop shared application templates and reporting frameworks. They described the current system as “shocking for public sector” and called for a unified approach.

The National Lottery Community Fund Scotland recommended adopting a single-entry point for applications to access multiple funding pots, reducing duplication and administrative burden. They noted that shared frameworks could also support trust and collaboration between funders and grantees. Inspiring Scotland advocated for centralised compliance reporting systems, allowing organisations to submit information once for multiple funding streams. They noted, “This would avoid multiple asks in different formats and the creation of new processes that don’t align with previous processes. Efficiency would also be improved with better long-term planning, building sufficient time into processes, clarity of time scales and meeting those timescales.”

Recommendations from respondents

1. **Standardise and Centralise Processes**: Respondents advocated for standardised application forms, reporting frameworks, and a centralised online system to reduce duplication, ensure consistency across funders, and improve efficiency.

2. **Proportional Requirements:** Respondents suggested aligning application and reporting processes with the size of the funding and organisational capacity, focusing on outcomes rather than extensive data collection.

3. **Timely Payments and Decisions:** Respondents recommended advance payments to address cash flow challenges and clear timelines to ensure funding decisions are made before the financial year begins, aiding planning and service continuity.

4. **Enhanced Collaboration:** Respondents encouraged funder partnerships to streamline processes, reduce duplication, and create shared tools such as portals for applications and reporting.

5. **Capacity Building:** Respondents suggested training and support be provided to smaller organisations to improve their ability to navigate funding processes and meet compliance requirements.

Annex A – Call for Views Questions

Questions for third sector organisations

1. Please select ALL sources of funding your organisation currently receives
2. Longer-Term Funding Impact: How would a shift to longer-term funding of three years or more support your organisation?
3. Longer-Term Funding Impact: What specific challenges do you foresee in transitioning to such a funding model?
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.
5. Flexibility and Core Funding Needs: In what ways would flexible, unrestricted core funding enhance your organisation's operational effectiveness and governance?
6. Flexibility and Core Funding Needs: What specific challenges do you foresee in transitioning to such a funding model?
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.
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?
9. Sustainable Funding and Inflation Adjustments: What impacts have you observed or anticipate without these adjustments in your funding?
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.
11. Real Living Wage Commitments: What challenges does your organisation face in ensuring all staff are paid at least the Real Living Wage?
12. Real Living Wage Commitments: How would improved funding arrangements support your organisation to meet this commitment?
13. Efficiency in Funding Processes: What improvements in the application, reporting, and payment processes could make the funding system more efficient for your organisation?

Questions for funders

1. Longer-Term Funding Impact: What are the primary advantages you foresee in transitioning to longer-term funding arrangements of three years or more for third sector organisations?

2. Longer-Term Funding Impact: What potential challenges do you foresee in transitioning to longer-term funding arrangements of three years or more for third sector organisations?

3. Flexibility and Core Funding Needs: What are the challenges you see in providing flexible, unrestricted core funding to third sector organisations and how could these be overcome?

4. Sustainable Funding and Inflation Adjustments: What measures do you currently have in place to ensure that the funding you provide includes inflation-based uplifts and covers full operating costs?

5. Sustainable Funding and Inflation Adjustments: How do you balance the need for sustainability with fiscal constraints and changing economic conditions?

6. Real Living Wage Commitments: What challenges have you encountered in incorporating the requirement for third sector organisations to pay staff at least the Real Living Wage into your funding decisions?

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

8. Efficiency in Funding Processes: What are the barriers to this?

Questions for other respondents

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

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

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

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

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?

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

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?

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

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?

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

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