



SCVO briefing

# Social Justice & Social Security Committee Pre-Budget Scrutiny

September 2022

## About SCVO

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the voluntary sector (sometimes referred to as the third sector). We champion our sector's social and economic contribution, provide essential services, and debate big issues.

SCVO and our community of 3,000+ members understand that charities, social enterprises, and voluntary groups work with people and communities across Scotland to make Scotland a better place. Find further details about SCVO at [scvo.scot](https://scvo.scot).

Our [policy team](#) works closely with the voluntary sector, the Scottish Government, COSLA, and the Scottish Parliament on a wide range of issues relating to the voluntary sector's operating environment, including funding, partnership, and regulations.

## About our response

SCVO welcomes the opportunity to provide written evidence in advance of the oral evidence session with the Social Justice and Social Security Committee as part of the committee's pre-budget scrutiny. Our submission draws on evidence from:

- SCVO support services (funding, digital, membership support, and information).
- Parliamentary records and Scottish Government publications.
- SCVO policy submissions, engagement, and research with the sector throughout 21-22, including, '[Scottish Government funding of voluntary organisations: A case study of voluntary sector intermediaries.](#)'
- The [Scottish Third Sector Tracker](#)
- SCVO's [State of the Sector statistics 2022](#).

## Summary of our response

Scotland's voluntary sector plays a crucial role in challenging inequalities, with many organisations directly tackling the issue of poverty and thousands more addressing related issues. The positive contribution of voluntary organisations is felt by many more than those who access the sector's vital services and programmes. Voluntary organisations employ around 135,000 people – 5% of the Scottish workforce – and work with approximately 1.2 million volunteers annually. Voluntary organisations are also at the forefront of efforts to secure policy changes to create a fairer Scotland.

The voluntary sector in Scotland is an employer, a partner, and a vital social and economic actor. Voluntary organisations were already under significant strain before the pandemic following years of underfunding and poor funding practice. COVID-19, inflation, and the resulting cost-of-living crisis have all put enormous pressure on sector finances and increased demand for services.

Last December, [SCVO told the Social Justice and Social Security Committee](#) that the resilience of Scotland's voluntary sector must mean more than how able it is to survive a crisis. The pandemic needed to be a turning point. This meant tackling longstanding barriers to financial sustainability for voluntary organisations. Nine months on, despite another crisis, both the Scottish Budget and the Spending Review have lacked any meaningful progress on SCVO's key asks for fair funding that is multi-year, flexible, accessible, and sustainable.

SCVO understands the challenging outlook for Scotland's public finances and recognises the limitations on the Scottish Government from a fixed budget. We recognise that the UK Government must take major interventions to ensure the public and voluntary sectors can navigate this crisis and be part of a more resilient system in the long term. There is no simple solution, and all governments, funders, and parts of the service delivery landscape have a role to play.

Still, the Scottish Government can and must do more to address systemic failures in its existing funding of voluntary organisations. The cost-of-living crisis must be recognised as a long-term issue. To ensure a sustainable voluntary sector, the Scottish Government's 2023-24 Budget must commit

- to:
- fair funding that is multi-year, flexible, accessible, and sustainable to help voluntary organisations plan through the crisis
  - annual inflationary uplifts for grant funding and contracts to ensure organisations:
    - can meet rising costs to stay open
    - can pay the Living Wage as part of the expansion of the Fair Work First criteria
  - timely communication and prompt payments of funds to prevent funding gaps and uncertainty
  - transparent monitoring and reporting on public sector funding of voluntary organisations to enable SCVO and others to better understand how the sector is funded by government and public bodies
  - reforming public sector procurement to ensure, amongst other priorities, that social, environmental, and economic factors are on an equal footing with cost

## Our response

## The role of the Scottish voluntary sector in tackling poverty

Tackling poverty and inequalities, as well as addressing other systemic issues such as climate change and a just transition to a net-zero economy, is intrinsic to the work of charities, community organisations, and social enterprises, as are other significant policy directions, such as community empowerment and shifting to an inclusive wellbeing economy. All 45,000 voluntary organisations in Scotland contribute to realising the ambition set by Scotland's National Performance Framework (NPF). Scotland's voluntary sector makes a considerable contribution to the social, economic, and environmental outcomes within the NPF. With 89% of voluntary organisations recognised as local and 35% located in rural or remote areas, these groups are crucial to working towards the goals of the NPF and reducing inequalities in communities across Scotland.

Across the voluntary sector, charities, community groups, social enterprises, and credit unions are providing direct support to those experiencing poverty. Organisations of various sizes and localities provide financial advice and support services to those who need it, often with nowhere else to turn. People can access housing assistance from the sector to prevent or alleviate homelessness, credit unions can offer more affordable and accessible credit, and organisations provide digital equipment to lessen the impact of poverty on children's education. Community facilities supply meals, warmth, and connection, while foodbanks and other charitable collections provide essential supplies. The direct support the voluntary sector offers to those struggling financially in Scotland is invaluable, with an almost endless list of examples, most of which go unnoticed and are underfunded.

As SCVO's [Charities, Scotland & Holyrood: Twenty Years Delivering Change](#) details, the voluntary sector in Scotland has also been at the forefront of campaigning and influencing in areas with a direct or indirect impact on poverty alleviation. Whether the [abolition of tuition fees](#) or [free personal care for old people](#), or ensuring [affordable homes](#) and creating [debt arrangement schemes](#), voluntary organisations have played an integral role in both working with and challenging policy and decision makers to ensure that Scotland makes progress in its fight against poverty. Organisations across Scotland have campaigned for unemployment benefits to align closely with lost earnings, for housing as a welfare right, and for local transport solutions that give affordable access. Voluntary organisations often work with those living in poverty to amplify their lived experience within the Scottish Parliament. This can take the shape of local poverty and fairness commissions, experience panels, appearances before committees and cross party groups, and other initiatives such as [Get Heard Scotland](#), coordinated by the Poverty Alliance, which helps people affected by poverty be heard on the policies and decisions that most impact their lives.

In Scotland the voluntary sector had an annual turnover of over £8.5 billion in 2021 and worked with approximately 1.2 million volunteers. The sector is also a substantial employer, employing around 135,000 staff. This workforce is the same size as Scotland's digital and tech industry and larger than the financial services sector. Across the sector, the workforce is doing incredible things against the backdrop of the insecurities and anxieties caused by the barriers imposed by annual funding and a lack of inflationary uplifts. Often, these employees and volunteers are making invaluable efforts to help others out of poverty while facing personal financial pressures themselves. Recent [research by the Living Wage Foundation](#) has shown that 12.5% of voluntary sector workers in Britain fall short of the Living Wage.

The Scottish voluntary sector employs more women (64.5%), more part-time workers (37%), and more people with a disability (23%) than the public and private sectors. Women and people with a

disability are at greater risk of living in poverty, an inequality the Poverty Alliance stressed has deepened during the pandemic. The sector must be resourced and supported to pay our essential workforce the Living Wage and support them through the cost-of-living crisis.

Undoubtedly, the voluntary sector plays a crucial role in reducing and alleviating poverty across Scotland, providing direct and indirect support and extensive campaigning and influencing. And yet that same sector and its workforce face substantial threats. Simply put, there is no possible success in alleviating or eradicating poverty in Scotland that does not heavily involve the expertise, experience, and dedication of the voluntary sector and its workforce. However, despite the contribution that this workforce makes, it does so against a backdrop of the financial barriers caused by a lack of fair funding and support to ensure job security and pay the Living Wage.

## The barriers that voluntary organisations face

The operating environment in which the voluntary sector works has changed significantly over the past decade, not least due to austerity and the subsequent shrinking of public sector budgets creating an extremely tough funding environment, and more recently as a result of COVID-19 and the cost-of-living crisis. The voluntary sector has become accustomed to the public sector's greater emphasis on outputs over outcomes, competition ahead of partnerships, and the transfer of excessive risk to voluntary organisations. Voluntary sector leaders and their organisations feel squeezed, with little room to innovate and meet growing demand.

### COVID-19 & the cost-of-living crisis

Inflationary pressures impact both our sector and the communities we work with. Like households, voluntary organisations are affected by rising energy prices and other rising costs. But unlike households, there has been no energy price cap for voluntary organisations, leaving them completely exposed to the wholesale costs of energy on the market. The announcement of a six-month energy price guarantee for non-domestic properties is a step forward for voluntary organisations whose energy bills have rocketed in recent months. Unfortunately, the length of the freeze fails to give organisations the certainty they need, and nor will it be enough for many that are still struggling to pay these inflated bills.

In addition to this, people have less money to donate or spend in charity shops, while funding pledges, regular donations, and grants are devalued, and money held in reserve is at risk of losing value or is used to prop up already underfunded public services delivered by the sector. Voluntary organisations will also struggle to find additional resources to fund salary uplifts and to meet additional demand for their services as the cost-of-living crisis impacts people and communities across Scotland. 86% of organisations have reported rising costs since December 2021 ([Third Sector Tracker](#)). The most common rises reported are material and supplies (63%), transport costs (53%), staffing costs (47%), and energy costs (45%). This data was collected before the energy market collapsed, and we expect to see many more organisations reporting rising costs from May to July

(updated figures are expected shortly and we will be pleased to pass these to the committee).

Throughout the pandemic and the current cost-of-living crisis, charities and voluntary organisations have been at the forefront of efforts to support individuals, families, and communities across

Scotland. However, the sector has also experienced immense financial pressure during this period. The pandemic and the cost-of-living crisis have, and will continue to, reduce charity income at the same time as inflation drives up costs, meaning that grants and donations are worth less in real terms, creating a perfect storm for voluntary sector finances. Additionally, organisations find themselves in procured contracts that do not tend to include inflationary uplifts, compounding the situation as inflation escalates. Voluntary organisations will also struggle to find other resources to fund wage uplifts for the 135,000 people it employs – 5% of the Scottish workforce – and meet additional service demand as the cost-of-living crisis impacts people and communities across Scotland.

SCVO understands the challenging outlook for Scotland’s public finances and that is why we are calling for more funding from the UK Government to the Scottish Government. The cost-of-living crisis goes well beyond energy bills, with rising costs eroding available funding to deliver vital programmes and services. Thousands of voluntary organisations will need targeted support to cope with spiralling costs, which we hope to see in the UK Government’s and the Scottish Government’s emergency budgets.

## Funding

In the Spending Review Framework, the Scottish Government recognised that rising inflation and the resulting cost-of-living crisis will drive higher demand for public services and that the essential work of voluntary sector partners will require an increase in grant funding. We welcome this recognition and the engagement of the Scottish Government’s Third Sector Unit to identify priorities and solutions.

The Scottish Government must recognise that the annual funding cycle, and the need for yearly applications, causes additional challenges which distract and divert valuable resources from providing the services people and communities across Scotland rely on. This waste of resources is also felt by the Scottish Government and other funders who must assess applications and undertake decision-making processes every year. Multi-year funding is even more critical during this crisis, as it gives organisations additional predictability to plan their way forward. The voluntary sector is dominated by short-term funding, which creates uncertainty for voluntary sector projects and roles resulting in short-term contracts and frequent redundancy notices, particularly at the end of the financial year.

Short-term funding significantly impacts the effectiveness of the voluntary sector by creating ongoing uncertainty and insecurity on a scale unparalleled by any other sector. As a result, voluntary organisations:

- Struggle to plan for the long-term.
- Face barriers in recruiting, retaining, and developing staff and volunteers.
- Have trouble offering secure jobs, undermining Fair Work aspirations.
- Are trapped in a cycle of dedicating time and resources to sourcing funding.

Short-term funding severely undermines job security across the voluntary sector workforce of over 135,000 people and a lack of inflationary uplifts creates an unsustainable environment with organisations expected to provide the same support with fewer funds. Without such uplifts built

into funding, we risk an unsustainable environment with the expectation that voluntary organisations provide the same support with less money.

In SCVO's research, many organisations have reported having had no increases in local or national government funding for over ten years. One organisation reported no uplift for 13 years, a 27% cut in real terms prior to the recent escalation in inflation. Similarly, voluntary organisations struggle to uplift wages when the public sector and other funders do not uplift grants and contracts to keep pace with inflation. Rising inflation and the resulting cost-of-living crisis are exacerbating this issue, which significantly impacts on recruitment and retention. As the cost-of-living crisis bites, Fair Work for the Scottish voluntary sector's workforce must be a priority. SCVO has welcomed the Scottish Government's plans to become a Fair Work Nation by 2025 and to extend the Fair Work First criteria to include the Living Wage. However, years of underfunding, followed by COVID-19 and the current crisis, means that these ambitions cannot be achieved without additional resources.

To support organisations to pay the Living Wage, public grant funding and contracts should include a Living Wage uplift. An uplift will ensure the skilled and experienced voluntary sector workforce responsible for delivering public services and other essential support can be paid the Living Wage. SCVO continues to engage with the Scottish Government to get clarity on what the extension of the Fair Work First criteria to include the Living Wage means for voluntary organisations, and how this will be resourced and implemented, ensuring organisations will be supported.

It must also be recognised that delayed decision-making from the Scottish Government and other funders exacerbates these issues, creating unnecessary uncertainty that impacts organisations, staff, and volunteers, and the communities the sector works with. Staff experience job insecurity while organisations and the communities they support lose staff and volunteers with skills and experience.

### Procurement & partnerships

The voluntary sector is a significant partner in delivering essential procured public services across Scotland. SCVO recognises the challenging economic outlook and that the Spending Review describes the need for efficiencies in the Scottish procurement system. Efficiencies, however, should not result in a further drive to the bottom through cutting funding to procured services delivered by voluntary organisations. Cuts will cause further inequity with services provided by the public sector, with around 25% of income to the Scottish voluntary sector coming from public sector contracts. Even before COVID-19, the voluntary sector was fragile, with procured contracts often not adequately funded to meet at least minimally agreed contract standards and ensuring voluntary organisations could deliver on Fair Work principles. Social care intermediaries regularly report on organisations needing to hand back contracts because the funding does not meet the total costs and the offloading of financial risk to organisations that do not work the same way as public bodies.

SCVO member surveys in 2013 and 2019, which aimed to capture experiences of procurement processes, highlighted minor improvements in members experiencing good practice, but also highlighted that comprehensive procurement reform is urgently needed. Rather than cutting what is often inadequate funding, reform means prioritising people over cost with favourable contract

arrangements, including a Living Wage and inflationary uplift, multi-year funding, and full cost recovery.

Fair procurement is not only about providing the funding it costs to deliver a well-run service or programme, but also ensuring the processes that organisations follow to secure and continue to deliver contracts is efficient. We would point the committee to evidence SCVO and others provided to the former Economy, Energy, and Fair Work Committee's inquiry into the Procurement Reform (Scotland) Act 2014. One issue covered in evidence to the Committee includes the current competitive tendering system that creates undue strain and uncertainty to the voluntary sector and its workforce, and creates significant resource waste. One organisation SCVO spoke to recently told us how they had pioneered a service only for the local authority to put it back out to tender on reduced conditions not viable for that organisation. Another had to go through the tendering process again even though it was apparent they were the only organisation able to deliver such a specialist service.

SCVO welcomes engagement from the Scottish Government on procurement, including webinars and roundtables that allow voluntary organisations to discuss their concerns directly with civil servants, such as fairer access for new and smaller organisations and prompt payments within the current system. While this should continue, SCVO calls for reform of public procurement wholeheartedly, placing social, environmental, and well-being factors on a footing with cost to address these system challenges.

## Our views on the 2022 Scottish Spending Review

The 2011 Spending Review recognised voluntary organisations as specialists able to engage communities with flexibility and innovation. In 2011 the Scottish Government committed to “promoting the growth of the third sector” as part of public service reform and investing in the third sector to support best practice. While SCVO appreciates the economic context is very different and welcomes the inclusion of a sector representative on the advisory board for the National Strategy for Economic Transformation, the lack of recognition of the sector's contribution to Scotland's society and economy in the 2022 Spending Review was a missed opportunity.

In [our response to the Scottish Government's consultation on the Spending Review](#) earlier this year, we had called for the Spending Review to be used to visibly address the disparities that have widened over many years between services led by public bodies and those delivered by voluntary organisations, making the case that fair, flexible, and accessible funding – including multi-year funding with greater flexibility and in line with inflation – is a vital requirement of that. We believe that voluntary sector groups were let down by a lack of multi-year funding commitments in the resulting Spending Review, falling massively short of what is urgently needed by voluntary organisations across the country.

The Scottish Government's four-year plan was the opportunity to make good on repeated commitments to longer-term funding for the voluntary sector. Unfortunately, despite some development on longer-term funding within work to tackle health inequalities, there were no commitments to the largescale change that voluntary organisations so desperately need. It comes at a time when voluntary organisations are struggling to cope with the cost-of-living crisis and rapid

inflation, with a doubling in the number of organisations telling SCVO that rising costs are a major challenge in recent months.

The Spending Review lacks any real detail that indicates the Scottish Government's long-term support and commitment to Scotland's voluntary sector and the vital services and programmes our organisations deliver as we move from one crisis to another, all the while looking to improve the wellbeing of people and communities across Scotland. The same could be said of the latest Programme for Government, where none of SCVO's recommendations on multi-year funding, Fair Work and the Living Wage, and budget transparency were committed to. Although we recognise that the Programme for Government was severely cut back, [SCVO's statement](#) highlights our frustration there being little more than a commitment to a technical charity bill.

## What the sector needs

In the 2023/24 Budget, the sector will need support to adapt to the current and future societal and economic challenges created by rising inflation and the resulting cost-of-living crisis. To create a sustainable and resilient voluntary sector, voluntary organisations need the Scottish Government to commit to:

- fair funding that is multi-year, flexible, accessible, and sustainable to help voluntary organisations plan through the crisis
- annual inflationary uplifts for grant funding and contracts to ensure organisations:
  - can meet rising costs to stay open
  - can pay the Living Wage as part of the expansion of the Fair Work First criteria
- timely communication and prompt payments of funds to prevent funding gaps and uncertainty
- transparent monitoring and reporting on public sector funding of voluntary organisations to enable SCVO and others to better understand how the sector is funded by government and public bodies
- reforming public sector procurement to ensure, amongst other priorities, that social, environmental, and economic factors are on an equal footing with cost

Throughout our response, we reflect on the importance of a funding landscape that is fair, which means multi-year funding that is flexible, accessible, and sustainable, to ensure that organisations can provide the services and projects that are crucial to communities across Scotland.

We are calling for **multi-year funding** because voluntary organisations need longer-term funding models to provide security, plan effectively, and retain and develop staff. The time and resources that go towards the annual funding cycle, from organisations and funders alike, leads to vital capacity being wasted every year.

In calling for **flexible funding**, we mean that funding should, wherever possible, be unrestricted to allow organisations to meet core running costs, providing greater stability and allowing organisations to plan for the longer-term. Greater flexibility from funders, including the Scottish Government, in areas such as project and service design, and the setting of targets, is also necessary.

In calling for **accessible funding**, we mean that the sector needs standardised, streamlined, consistent approaches to funding and application processes to ensure a level playing field for all organisations. Providing clearer guidance, simplifying the approach to monitoring and reporting, and making timely decisions are crucial to ensuring no voluntary organisation is disadvantaged by the process.

In calling for **sustainable funding**, we mean that inflationary uplifts must be built into funding to avoid the all-too-common occurrence of organisations facing real terms cuts on an annual basis. Ensuring more opportunities for full cost recovery, enabling organisations to recover more of their overheads through adequate contributions to core costs, is also vital to ensure funding, and therefore the sector, is sustainable.

## Conclusion

Every day, the Scottish voluntary sector is providing essential services and vital support to communities across the country, including crucial efforts to alleviate the impact of poverty. But the sector and the services it provides are under pressure. COVID-19, inflation, and the resulting cost-of-living crisis has put enormous strain on sector finances and, for many, increased demand on services.

The 2023/24 Budget is an opportunity to provide security for staff, volunteers, and the many people and communities the voluntary sector works with. Our sector needs recognition, resources, and, crucially, new approaches focused on creating sustainable multi-year funding with built in uplifts. We hope that the Committee shares our aspirations for the sector and will urge the Scottish Government to act on these issues.

Together we can create a sustainable sector and support voluntary organisations to provide the projects, services, and quality outcomes needed to support people and communities across Scotland. Without a sustainable voluntary sector, there will be limited progress on poverty alleviation and reducing inequalities across Scotland. When voluntary organisations have security and sustainability, they can get on with the job of devoting their skills and expertise to tackling some of Scotland's biggest systemic issues.

## Contact

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