



Social Justice and Social Security Committee

Budget Scrutiny 2025/26 - Third Sector Funding Principles

TSI Scotland Network Response

1. Introduction/Background

The TSI Scotland Network and Third Sector Interfaces (TSIs)

The TSI Scotland Network is a body of charities which supports community & voluntary groups, volunteering organisations & social enterprises across Scotland. These charities are Third Sector Interfaces (TSIs), and there is one in [every local authority area](#).

TSIs offer advice, information and practical support to help local charities and voluntary organisations to survive and thrive. The bulk of these are smaller, community focused groups often led by volunteers and with limited resources.

This support can include assistance with:

- Funding and fundraising, accessing national funds e.g. mental health;
- Setting up/developing/winding up a charity;
- Governance, trustees, day to day running of a charitable organisation;
- Volunteering – making it easier to access and more inclusive;
- Supporting social enterprise start-ups/development;
- Training, employment and financial support e.g. payroll;
- How to survive and respond to challenges such as the cost-of-living crisis.

Some TSIs may also deliver services such as Link Workers, social prescribing and digital champions and will ensure local charities are up to date with information on new policies and legislation.

TSIs also have an important role in managing and distributing funds to go out to community and voluntary organisations such as the Communities Mental Health and Wellbeing fund – [year 4 funds](#) are about to 'go live' across Scotland. TSIs can also be involved in managing [Community Led Local Development](#) and [Just Transition Funding](#), and UK Govt funds directed into local areas e.g. Levelling up and the UK Shared Prosperity Funds. ⁱ

TSIs are increasingly working closely with councils, HSCPs and local partners to support resilience and emergency planning. They also represent the third sector or support third sector representatives on many local, strategic bodies such as IJBs, Community Planning, Children's Services and Local Employability Partnerships.

This is resource intensive activity at a time when the demands placed on the sector have never been greater. ⁱⁱ

TSIs themselves are confronting the same challenges facing other charitable and voluntary organisations. Our purpose is to support and strengthen the third sector and that becomes harder to do when we also face payment delays, short term funding and budget erosion.

2. The Third Sector

The size and contribution of the third sector in Scotland has been well documented and acknowledged by the Committee, in Parliamentⁱⁱⁱ and by the Scottish Government^{iv}:

The majority of organisations are small, community based and often run fully by volunteers. Volunteering sits at the heart of communities across Scotland, and alongside over 130,000 paid staff, charities are:

- Responding to crisis as well as working alongside communities and people to develop resilience and to help them stay well and connected (prevention).
- Increasingly working with people who have multiple needs who present in complex situations^v.

The sector stepped up significantly across lifespan of the COVID pandemic; it has worked with people facing destitution as a result of austerity and the cost of living crisis. It is there at the frontline of the climate emergency; when people seek refuge from war and at different life stages. As public sector services withdraw or refocus, they look to or assume the sector will pick up gaps. The [Keep the Beat Alive](#) campaign has highlighted that 90% of the crucial projects run by local charities would not exist if the public sector was required to deliver them.

There is increased subsidy of public services by the third sector.^{vi} Over 70% of charities and community groups do not have paid staff – yet more is being asked of such organisations, at a time when fewer people are coming forward to volunteer.^{vii}

3. The Current Context – Funding, Stability, Parity

Despite the reach and impact of TSIs and the sector we are proud to support, we continue to face challenges that really precede the financial crash in 2008. From then on, these financial, staffing and recruitment issues have been exacerbated.^{viii}

Whilst we understand the current public finance difficulties, charities and community groups have, in reality, had to deal with standstill budgets, budget erosion, salary freezes and persistent job insecurity for far longer. The issue of parity for the third sector remains and inequality e.g. in pay levels has become worse.^{ix} This is leading to recruitment issues for voluntary and community organisations.^x

Add in the effects of inflationary and cost of living pressure, and evidence is mounting to show that the third sector faces unprecedented difficulties.^{xi} Staff are also exhausted as we move between health and cost of living crises, and consider how further global insecurity might affect us all.

Securing funding to cover core, running costs is a perennial challenge.

If the third sector is not secure or sustainable, communities lose out and people who need support in times of real crisis or to achieve the best life possible simply cannot access this. The gaps being left by the loss of community infrastructure are costly on many levels – for public services and for individuals who may already be struggling. It means that increasing demand and crisis are further embedded in our public discourse and service delivery.

The recent announcement of a freeze in all but essential spend and signals that point towards a tough Scottish Budget are deeply concerning to the [TSI Scotland Network](#).

We also await the UK Government budget on 30 October with some trepidation; it will impact on the work of the third sector in Scotland. The future of UK wide funds that have contributed significantly to community resilience (Shared Prosperity and Levelling Up) remains unclear.

We urge both the Scottish and UK Governments to engage with the TSI Network on both Budgets.

4. Our position on fair, secure and sustainable funding

The TSI Network has developed a number of documents which outline our position on funding, stability and equality for the third sector:

- [TSI Network Budget 24/25 – pre budget briefing and budget process commentary](#)
- [Local Fair Funding Charter](#)
- [Fair Funding and Fair Work: Scottish Council for Voluntary Organisations and TSI Scotland Network - SCVO](#).

In addition to the above and the points made in the Committee's 'scene setting' for this inquiry, we want to lay out some additional observations:

- 'Service' and 'contract' requirements of public bodies serve to increase risks and short termism in local service delivery and communities. We still see a "how many and for how much" approach to third sector funding, which drives insecurity for charities and local voluntary groups who have shaped their organisations to respond to and secure local contracts;
- As we face restrained public finances, it increases the urgency to work differently and to do that with communities. Too often, this is not the case. Public services should be working with local TSIs to understand the strengths, skills, relationships and value of their local third sector and to INVEST in the what the sector does well and what's needed locally. Grant making built on outcomes, collective impact, trusting relationships and on equal value is much better for communities and a sustainable third sector.

We are a fair way from seeing the sector being valued properly; the power imbalance and inequality between the public and third sectors has never been greater. The sector is often the first to be cut, yet;

- Charities, voluntary organisations and communities are continually expected to do more with less and less.
- Communities are consistently asked to do what public services themselves previously delivered. For example, taking on public assets pushes risks to communities and volunteers. Anti-terrorist legislation linked to venue management could place significant responsibility onto trustees who are not paid.
- The increase in core costs for voluntary organisations is rarely recognized and that can require organisations to use of reserves, strategies to diversify income and – sadly – can place some at risk of having to wind up;

- Pay inequalities between similar roles in the public and third sector are now significant^{xii}. It becomes almost impossible to offer any wage increase and whilst flexible working and other in-work benefits can be offered (e.g. reduced working weeks), at some point, these are not enough to retain talented/experienced staff;
- We're seeing increasingly stressful operating environments for charitable organisations who are working with people in situations of real crisis or with multiple and complex needs. The recent riots and unrest will have placed yet further pressure on frontline organisations.

Yet, important services are at risk of, or have been been lost e.g. [family support](#). We need to understand what's being lost and gaps in provision and assistance emerging as a result;

- At the same time, voluntary sector staff may themselves be coping with poverty, job insecurity and personal stress. It's unacceptable that this has been allowed to continue for so long.

There are areas of particular stress e.g. social care as outlined by the recent Accounts Commission report on Integrated Joint Boards.^{xiii} Within the eco-structure of charities surrounding health and care, there are well established, community-based services with a preventative focus that may be dealing with constant financial insecurity and challenges in recruiting vital volunteers. Ultimately, this leads to additional pressure on key public services, on the sector and on families and communities who themselves are exhausted.

We are pleased that the Cabinet Secretary for Social Justice is very openly committed to fair funding for our sector and we are doing all we can to support this vital work. But every aspect of Government and the public bodies working with the third sector must step up. And to echo points made by others submitting information to the Committee, long term funding cannot mean inadequate funding. That again sends a message to the voluntary sector that its contribution and frontline expertise are still not fully valued or respected.

5. Funding Challenges - Specific Examples

The TSI Network has been actively raising concerns about specific funding issues, both at national and local level. We endorse the submissions of other charities and community organisations highlighting their experiences to the Committee. We provide some specific examples below which illustrate our concerns:

Investing in Communities Fund: This Scottish Government fund was set up to run for three years, going to local projects that work with people in very real need and helping to address poverty and employability issues.

Despite Government commitments that its departments would have to confirm third sector funding before the end of March (2024):

- Organisations only heard in mid-June that funding was confirmed – and only for the first half of the financial year.
- On the 24 June they were then advised to expect month to month extensions.
- An extension to the end of October was confirmed on the 5 July.
- On 10 July, these organisations were told they would be funded until March 2025, but that they would need find savings of 5% over the year (an in-year cut).

TSIs have been contacted by local anti-poverty organisations to raise their concerns about how they manage this cut. The late notification leaves local groups having to make greater savings in the second half of this year – as we approach winter when people in poverty face increased hardship.

This cut is not fair, nor is it deserved – for charities, for their staff and volunteers and most importantly, for the communities and people they work alongside every day.

The TSI network and individual TSIs have written to Ministers calling on them to reverse the cut and to make a commitment to Year 3 of what was meant to be a multi-year grant.

Community Led Local Development and Climate Action funds: Where funding is being distributed to cover only one year or less, this:

- Increased the challenges in recruiting staff for important community projects;
- Meant an inability to offer any security of employment, affecting ability to recruit;
- Undermines community connections and resilience where projects are starting and stopping or continually under threat – families and communities often already hard hit by a multitude of negative forces are most likely to be affected.

Employability: No One Left Behind (NOLB) employability funding is currently distributed annually from the Scottish Government via Local Authorities. Local authorities are expected to consult and make decisions with an active Local Employability Partnership (LEP), although how that works varies across local authorities (LAs).

Approaches to commissioning, reporting and payments also vary significantly, with some areas of good practice as well as specific challenges.

Funding for the past two years has only been formally confirmed by the Scottish Government at least 3 months into the financial year, impacting on services, staff and the people seeking help to move back into work.

The **challenges** arising as a result include:

- Local authorities delaying local commissioning until grant confirmation. In one area, third sector organisations (including the TSI) made people redundant as the local authority would not extend funding or recommission until there was written confirmation of funding from the Scottish Government;
- In a number of areas, staff working in third sector employability focussed organisations moved on to more secure jobs with subsequent loss of knowledge and expertise;
- Delays in funding announcements have led to some areas only commissioning for 7- 9 months rather than a full year. And the annual nature of the funding means that some areas say clients are no longer able to access support once that funding has ended (no matter when they started);

- Variability in commissioning included a ‘payment by contact hour’ approach in one area which led to a local service losing valued staff due to income uncertainty; and very tight (less than ten day) turn around for commissioning requests. Organisations have ceased delivery in some areas as a result of commissioning models which are not deemed realistic or accessible;
- Other areas are using performance-related payment and payment by participant models which are highly insecure, especially when delivered on short-term contracts.

This insecurity and bad practice mean that the trust and relationships needed to help people furthest away from the labour market are less likely to be established. Staff turnover/loss of staff add to this. And such examples are the polar opposite of the Fair Work vision which the Government supports.

Other practice includes ‘in-housing’ of provision – in a small number of areas there appears to have been a reduction of funding going to the third sector whilst the local authority has expanded in-house delivery. This also highlights a potential conflict of interest.

Employability Good Practice:

- A small number of local authorities have made sure that the person in charge of commissioning services is not the same as the person in charge of internal delivery.
- Some local authorities have committed to 3-5 year funding arrangements for their employability provision. Payment methods also support provider cashflow e.g. paying first quarter upfront.
- Supportive reporting systems are appropriate to the scale of project and delivery.
- The third sector is treated as a key partner in delivering employment support and outcomes and strategy and commissioning models are developed collaboratively. Fair Work conditions can be embedded.

We also wish to highlight and support the Third Sector Employability Forum response to this Committee.

Health and Social Care: Several TSIs have engaged in discussions regarding cuts to third sector grants and service level agreements. In some areas, those cuts could be significant.

In turn, the challenges arising include:

- Community focused, preventative organisations losing most/all funding previously given by Health Boards and HSCPs, affecting key services focused on food provision, social contact, physical health etc.. In any case like this, the people who rely on these local services can be left without support, or the HSCP has to step in to provide formal care;
- Uncertainty about the future of long-term funding streams which deliver local community services; cuts to budgets over time equal to around 40%;

- Even with evidence of the positive impact of local voluntary organisations, cuts are implemented at a time when we see increasing premature mortality^{xiv}, as well as increased isolation and the effects of increasing poverty. The places additional pressure on local public and voluntary sector health, wellbeing and social care services.^{xv}
- The recent Accounts Commission review of the finance of Integrated Joint Boards highlighted the cost pressures on smaller third sector providers which are affecting financial sustainability.
- The Accounts Commission (and others such as CCPS^{xvi}) also describe the challenges in recruitment and retention for third sector services in the health and care ‘space’ – this is affected by insecurity, pay levels and insufficiency of contracts offered by IJBs to cover all providers costs. This latter issue is of particular concern for the sector in rural and remote areas.^{xvii}
- The inability of charities and community groups to compete with health and local authority pay and conditions for similar jobs.^{xviii}
- A focus on volunteering as a way to support the winter crisis situation in health and care – yet without the resources to support this. Volunteering is not cost free and requires a support infrastructure around it; moreover, we are concerned around the risk to volunteers of being in roles which are not appropriate. We actively support the Volunteer Scotland Charter^{xix} which makes clear that:

““Volunteers should not carry out duties formerly carried out by paid workers nor should they be used to disguise the effects of non-filled vacancies or cuts in services.””^{xx}

Other Local Examples:

- No awards of contracts despite local tendering – in one area, this applies to a crucial local transport service, which was still being run by a local charity without that funding;
- A local authority using UK Shared Prosperity Funding to deliver services to social enterprises and seeking partnerships with local third sector organisations involved in similar work after the money had been secured. There was no consultation at all before the bid;
- Local commissioning having a strong focus on reducing costs without analysis of how loss of community services will actually *increase* costs and demand for already stretched services;
- We’re seeing more funding ‘short-termism’ e.g. Three month rolling contracts in one area;
- Knowing that a grant is coming, but the amount is not confirmed and so charity boards must consider legal risks, how they try to keep experienced staff or give out redundancy notices;
- Using reserves to plug gaps in funds from Scottish Government and other sources as costs increase and after years of standstill funding.

6. Conclusion – What Can Be Done Differently

Our 2024/25 pre-budget briefing^{xxi} outlined a number of key asks linked to the Scottish Budget process. These still stand.

There must be questions asked about how the UK Government Budget has involved/will affect the third/community sector in Scotland. We hope that a longer term focus in UK Budget planning enables the Scottish Government to do the same.

There should be guaranteed 3-year (minimum) budget allocations for local authorities and other commissioning public bodies so that they can commission for the long-term with comfort. The National Care Service developments provide an opportunity to do something practically on this, reflecting back to the findings of the Feely Review.

We highlight again the TSI Network Local Fair Funding Charter^{xxii} and also urge the Scottish Government and public bodies to:

- Adopt these fair funding principles at Scottish level and locally – we’re aware of some localities where these are being taken into account;
- Work with the TSI Network, SCVO and others to disseminate good funding practice guidance and **minimum standards** – on commissioning, governance and payments which Local Authorities and other public bodies must adhere to when spending Scottish Government money;
- Work towards multi-year funding offers being the common standard rather than the exception - 3 years minimum. *We encourage the Committee to gather information on situations where this (and 5 years plus) contracting is being implemented;*
- Formally confirm budgets/grants to third sector at least 3 months PRIOR to the financial year starting (preferably longer) so that commissioning/planning/staffing activity can be taken forward with reduced risk to voluntary organisations;
- Ensure timely payments to organisations;
- Avoid conflicts of interest by making sure the same person is not in charge of both planning spend *and* internal service delivery; this can be done through grant letters/grant requirements;
- Work with the third sector/TSIs both nationally and locally to advance adequate and secure funding: Flexible, unrestricted core funding, inflation-based uplifts and full cost recovery;
- Consider strategic investment to create transparent; proportionate and accessible approaches to commissioning services with co-design involved;
- Put in place proportionate reporting requirements relevant to scale and focus of project – approaches which are based on trust and collaboration.

As the TSI Network outlined in its pre-Budget 24/25 briefing, the third sector cannot continue to be the lightning rod for public sector funding challenges.

Without TSIs and the third sector in the key decision making and planning spaces at all levels of Government and working closely with local public bodies, the road to economic and social recovery will be longer and bumpier.^{xxiii} The voices of those most affected by all that has happened over the last few years must be also be at the centre of Government planning, budgets and service delivery if we are to restore trust in politics and public services.

For more information:

www.tsi.scot

Contact lynn.williams@tsi.scot; tia.manavis@tsi.scot; ian.bruce@gcvs.org.uk

ⁱ [UK Shared Prosperity Fund \(UKSPF\) – TSI Experiences of Engagement \(Nov 23\) – TSI Scotland Network](#)

ⁱⁱ TSI Network Pre-Budget Briefing November 2023

ⁱⁱⁱ [The economic contribution of the third sector in Scotland : Royal Society of Edinburgh \(rse.org.uk\)](#)

^{iv} [The third sector is a major social and economic actor - SCVO](#)

^v Stretched to the Limit, Health & Social Care Alliance 2023

^{vi} [Charities subsidise public services by £2.4bn a year, say researchers \(civilsociety.co.uk\)](#)

^{vii} Volunteer Scotland Jan 2024 [Decline in Volunteering brief](#).

^{viii} [Third Sector, TSIs and Scottish Budget 2024/25 – TSI Network Pre Budget Brief – TSI Scotland Network](#)

^{ix} [Value, Respect and Parity. Fair Work in Scotland's Third Sector - Glasgow Council for the Voluntary Sector \(gcvs.org.uk\)](#)

^x [Scottish-Third-Sector-Tracker-Wave-1-6-report-draft_final.pdf \(scvo.scot\)](#)

^{xi} [The Scottish third sector tracker - wave 8 report \(Spring 2024\) - SCVO](#)

^{xii} [Funding Instability Creates Fair Work and Retention Challenges - Glasgow Council for the Voluntary Sector \(gcvs.org.uk\)](#)

^{xiii} [Integration Joint Boards' Finance and performance 2024 \(audit.scot\)](#)

^{xiv} [Changing life expectancy \(gcph.co.uk\)](#)

^{xv} Stretched to the Limit Health and Social Care Alliance 2023

^{xvi} [Staffing crisis deepens as 81% of providers report recruitment needs as higher or same as previous year | Coalition of Care and Support Providers in Scotland \(ccpscotland.org\)](#)

^{xvii} [Integration Joint Boards' Finance and performance 2024 \(audit.scot\)](#)

^{xviii} As above

^{xix} [Volunteer Charter - Volunteer Scotland](#)

^{xx} [Position Statement on Public & Third Sector Cuts and Volunteering – TSI Scotland Network](#)

^{xxi} [TSI Scotland Network Pre Budget Briefing 2023](#)

^{xxii} [Local Fair Funding Charter – TSI Scotland Network](#)

^{xxiii} [The Budget Must Protect and Value Scotland's Voluntary and Community Organisations – TSI Scotland Network](#)