

The national intermediary and network for voluntary health organisations in Scotland

Consultation Response



Third Sector Funding Principles - Voluntary Health Scotland Response

16 August 2024

Please rank the following in order of importance for third-sector organisations (where 1 is least important and 5 is most important):

Receiving funding for three years or more: 5

Flexible, unrestricted core funding: 3

Funding that includes inflation uplifts and covers all costs: 4

Funding that enables organisations to pay their staff at least the Real Living Wage:
2

A streamlined and consistent process for making funding applications, reporting,
and receiving payments: 1

Please select ALL sources of funding your organisation currently receives:

UK Government

Scottish Government

Local Government

Private donations/fundraising

National Lottery

Other (please specify)

This response will summarise the views and experiences of both Voluntary Health Scotland (VHS) as an individual organisation, as well as the views and experiences of our member organisations.

VHS is the national voice, intermediary and network for voluntary health organisations in Scotland. We're passionate about what the voluntary health sector can achieve for people's health and wellbeing. We work with our members and others to address health inequalities, to improve health related policy, systems and partnership working, and to help people and communities to live healthier and fairer lives.

As an individual organisation, VHS currently receives funding for our core work from the Scottish Government. We are also funded separately by the Scottish Government to deliver the Scottish Community Link Worker Network. In addition to this, we have also received funding on a one-off basis from research commissions, universities and other third sector organisations, for example, for various pieces of partnership working and research.

VHS' members receive funding from all of the sources listed above.

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

A shift to longer-term funding of three years or more would support VHS to focus on the delivery and impact of our work. Existing procurement and commissioning processes are inefficient and currently require our organisation to reapply for funding on an annual basis. The time saved from this annual application process could be better spent working towards our organisation's strategic priorities.

Many of our members are also funded on a yearly basis. Often, this now covers less than a year's worth of work, as more and more time is taken up by increasingly strict reporting requirements and reapplication processes. [A recent SCVO survey](#) found that the third sector is increasingly being asked to devote more of their time to monitoring and reporting, with 39% of the 621 third sector organisations surveyed stating that the conditions of their funding have become more demanding over the last year.

Longer-term funding would allow VHS and our members to focus on longer-term planning and partnership activity.

Longer-term funding would also provide greater stability to VHS and our members, as well as the staff we employ. [A recent survey conducted by the ALLIANCE in March](#) found that 59% of their members were yet to agree their funding for the current year. Furthermore, 49% of the ALLIANCE's members described their finances as insecure. The impact of this insecurity was demonstrated by [a subsequent survey](#), which found that 60% of the ALLIANCE's members have found it difficult to retain and recruit staff.

Finally, longer-term funding would create greater trust between the third sector and the statutory partners with whom we work. As an example, many community link workers are employed by third sector organisations. Their roles depend upon

trust and relationship building. Without the security that comes with longer-term funding, it is difficult for community link workers to carry out their vital roles.

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

For the most part, there would be few challenges associated with transitioning to a longer-term funding model. Doing so would require less reporting and would free up time and energy that is currently spent on procurement and reporting.

However, some risks do exist.

Longer-term planning would require accurate budget planning over three years or more. It would also be crucial to include inflation-based uplifts in any longer-term funding model. Our members have repeatedly stressed the importance of this, particularly with the impact of inflation in recent years.

Our members also expressed concern at the increased competition that may come with longer-term funding of three years or more. This could result in applicants having to wait three years to reapply for particular sources of funding if their application has been unsuccessful, which could be devastating for third sector organisations.

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.

VHS is currently funded on a yearly basis. Practically, this means that there is an annual risk of closure which leads to a great deal of stress and anxiety for both management and staff.

As a result of our lack of longer-term funding, VHS has to be cautious with our finances. This restricts the amount of money that we are able to spend on staff development, for example.

Furthermore, when our funding has been renewed, notification of this decision has often been delayed. Our members have shared with us that this is currently a common occurrence across the third sector, as evidenced by [the aforementioned ALLIANCE survey](#).

The lack of longer-term funding certainty at VHS has also had an impact upon staff recruitment and retention, with our members reporting a similar effect across the third sector. Our members are concerned that the third sector's inability to attract and retain high quality staff could impact upon the momentum of our work as well as the people that we support.

Given the vital role that the third sector plays delivering important public services and supporting Scottish Government policy, our members strongly believe that the sector deserves far greater recognition and respect.

Many community link workers, for example, are employed by the third sector. Although the funding for their individual roles may not be affected if they are funded via the Primary Care Improvement Plan, the organisations they work within and the organisations they refer people onto may be vulnerable. Many of the community link workers within our Scottish Community Link Worker Network have shared that the current funding model makes them feel unappreciated as it does not offer them long-term security.

A lack of longer-term funding also impacts upon our members' ability to leverage further funding. For example, it is much easier for organisations with stable core funding to then leverage further support from other sources. Our members have reported that more notice of funding decisions is crucial for organisations who rely upon multiple sources of income, to allow them time to find alternative arrangements.

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

Flexible, unrestricted core funding would allow VHS and our members to focus more on organisational development and renewal. It would allow us to invest in a systems infrastructure that is fit to support a modern organisation.

Furthermore, our medium-term financial planning would be made easier, as would the management of our financial reserves.

Our members have shared with us that greater flexibility would allow them to focus on more longer-term issues. The third sector is able to punch above its weight and has used this ability to make an immense contribution to the tackling of longer-term issues in Scotland, playing a vital role in our efforts to tackle health inequalities as well as our move towards early intervention and prevention. However, addressing Scotland's longer-term issues will take more than a year. With longer-term, flexible funding, the third sector would be capable of having an even greater impact.

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

VHS and our members do not foresee any challenges with regard to transitioning towards such a funding model and would welcome greater flexibility.

However, as an organisation, we recognise the importance of focusing on the right deliverables to demonstrate our impact.

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.

At VHS, our funding has been fairly flexible. However, some of our members have shared very different experiences.

As stated earlier in our consultation response, [a recent SCVO survey](#) found that the third sector is increasingly being asked to devote more of their time to monitoring and reporting. Our members believe that we should move away from prescriptive approaches such as this towards a more flexible way of working, where a dialogue with funders can develop. Doing so would allow third sector organisations to focus on what is working well and what can be built upon.

It was recommended by one VHS member that Scottish Government grant makers consider Evaluation Support Scotland's [Principles for Positive Partnership](#). This provides practical guidance to help achieve positive funding relationships with third sector grant holders.

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

Inflation-based uplifts and full cost covering, including core operating costs, are incredibly critical to the third sector. If costs increase but our funding does not, VHS and our members will have to be more selective about the work that we do. Due to the effects of inflation, running costs have also skyrocketed for third sector organisations, which has led to their core activity being impacted as a result.

[The Scottish Government's Cost of Living Crisis in Scotland analytical report](#) found that third sector organisations currently face 'a deeply challenging combination of increasing needs among the communities they work with, rapidly rising operating costs and reductions in fundraising income.'

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.

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

Without inflation adjustments, VHS is less able to have impact and serve our members.

It is also a challenge, without these adjustments, to retain staff. Particularly when taking into account the higher salaries on offer in other sectors, as is outlined in our response to the previous question.

With the effects of inflation, many organisations are currently having to make difficult decisions about what they can and cannot do. Inevitably, it will be the people that the third sector supports who bear the brunt of these effects.

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.

VHS has not received an inflation-based uplift to our funding for a decade. This has meant that money has had to come out of other parts of our budget, impacting upon aspects of our core work, as well as our ability to invest in organisational development.

Many of our members have also reported that their funding has stagnated for several years. This is a particular issue with longer-term grants, which often do not include inflation-based uplifts. In instances such as this, organisations often have to dip into their financial reserves or, alternatively, scale back on the work that they are able to deliver. Our members have shared with us that this can then lead to anxiety when it comes to the reporting stage, as they have not been able to fully deliver on elements of their work programme.

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

As VHS acts as an intermediary and network for voluntary health organisations in Scotland, we employ a very small team but therefore require very experienced staff. As a result, we do not employ any staff who are paid less than the real living wage.

However, we are aware from discussions with our members that this is a challenge for other third sector organisations who would like to be able to pay

the real living wage, but who would struggle to do so without negatively impacting upon the services that they are able to provide.

The [2023 Annual Survey of Hours and Earnings](#) found that not for profit organisations are more likely than private organisations to pay their employees the real living wage, but less likely than the public sector. However, it is notable that the proportion of not-for-profit employees earning the real living wage has fallen by 4% over the last year.

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

For the reasons outlined in our previous answer, this would not have a direct impact on VHS as an individual organisation. However, it would greatly benefit our members.

It is important that third sector organisations are given the funding required to ‘future proof’ our commitment to the real living wage, projecting what the real living wage will look like in three years’ time, for example. VHS and our members firmly believe that there is a moral need to fully resource this commitment.

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

Longer-term funding would greatly benefit VHS, as an individual organisation. This would make the funding system much more efficient, as a result of the time saved on our current annual application process.

However, the greatest risk to VHS is delayed payment of agreed upon funding. This has become an increasingly common occurrence for VHS, as well as our members, and must be urgently addressed. It presents a major risk to the survival of vital organisations, who are forced to rely upon their reserves whilst in limbo. Third sector organisations without generous reserves are not able to navigate such periods of financial uncertainty.

For this reason, it is crucial that payments are made to third sector organisations on time and in advance of any work carried out. This would also allow time for organisations to notify employees of any funding decisions that have been made.

In terms of the current reporting process for third sector organisations, many of our members have reported that this is currently overly onerous. We would recommend that funders consider what is necessary and reduce the burden to something more reasonable, avoiding ‘reporting for reporting’s sake.’ Our members have reported that they are often unaware of how, or if, the data they

collect is being used. It is vital that any reporting is impactful, meaningful and purposeful.

About Voluntary Health Scotland

We are the national voice, intermediary and network for voluntary health organisations in Scotland. We're passionate about what the voluntary health sector can achieve for people's health and wellbeing. We work with our members and others to address health inequalities, to improve health related policy, systems and partnership working, and to help people and communities to live healthier and fairer lives. [Join us now.](#)

Contact

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