

SCVO response to the Finance & Public Administration Committee: Scotland's public finances in 2023-24 - the impact of the cost of living and public service reform

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.

Our [policy team](#) work 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 respond to questions 3-4 and 6-8 of the [Finance and Public Administration 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.
- The [Scottish Third Sector Tracker](#)
- SCVO's [State of the Sector statistics 2022](#).

Summary of our response

The Scottish voluntary sector is an employer, a partner, and a vital social and economic actor. Our sector manages an annual income of over £8.5 billion,

employs over 135,000 paid staff, and works with more than 1.2 million volunteers to support communities across Scotland.

The voluntary sector and the services our sector provides are under pressure. Covid 19, inflation and the resulting cost-of-living crisis have put enormous strain on sector finances and, for many organisations, increasing demand.

SCVO understands the challenging outlook for Scotland's public finances and recognises the limitations experienced by Scottish Government. There is no simple solution, and all governments, funders and parts of the public service landscape have a role to play, including the need for greater levels of funding from the UK Government to the Scottish Government in the 2023/24 UK Budget.

SCVO is working with our sister councils in other parts of the UK to influence UK Government levers to reduce the immediate burden of rising energy costs through taxation. However, wholesale energy costs remain the primary issue in the absence of an energy price cap.

Many voluntary organisations receive no government support and rely solely on sales from charity shops and online, or on public donations. The UK Government must provide more support to households understandably rethinking their outgoings to make ends meet.

Our funding team is engaging with independent funders to consider the contribution that they can make, building on the crucial role they played during Covid 19. SCVO's support services have also secured expert advice for our members in partnership with Utility Aid.

Dramatic increases in energy prices are leading to a crisis in the cost of running an organisation and the First Minister has rightly recognised that voluntary organisations are an essential part of the solution to support households, as well as being impacted themselves.

Years of underfunding and poor funding practices have left voluntary organisations vulnerable and exposed to shocks. SCVO and colleagues across the sector were already seeking to change how the public sector funds voluntary organisations. SCVO welcomes the engagement of the Scottish Government's Third Sector Unit in this work.

The UK and Scottish Governments must recognise the cost-of-living crisis as a long-term issue likely to be with us for years, not months. Public service reform is vital in giving voluntary organisations the security they need to deliver essential services. SCVO encourages the Committee to recommend that the Scottish Government's 2023/2024 Budget commits to:

- fair, flexible, and accessible multi-year funding to help 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 that social, environmental, and well-being factors are on an equal footing with cost
- support for the sector to transition to net-zero and reduce the impact of future shocks from the energy market.

Our response

Question 3: How should the Scottish Government respond to inflationary pressures and the cost-of-living crisis in its Budget 2023-24?

Inflationary pressures impact on both our sector and the communities the sector works with. Like households, voluntary organisations are affected by rising energy prices and other rising costs. Still, unlike households, there is no energy price cap for voluntary organisations, which leaves them completely exposed to the wholesale costs of energy on the market.

86% of organisations reported rising costs between December 2021 and April 2022 (Third Sector Tracker). The common rises reported include material and supplies (63%), transport costs (53%), staffing costs (47%), and energy costs (45%) (Third Sector Tracker). This data was collected before the energy market collapsed, and we expect to see many more organisations reporting rising costs from May to July.

As inflation rises, this poses a threat to cash flows to the sector:

- people have less money available to donate or spend in charity shops
- funding pledges, regular donations, and grants are devalued
- money held in reserve (a legal requirement for charities) is at risk of losing value and being used to prop up public services.

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.

The sector will need support from the 2023/2024 Budget to adapt to these challenges that will be with us for years, not months. To support a sustainable and resilient voluntary sector, organisations need the Scottish Government to commit to:

- fair, flexible, and accessible multi-year funding
- annual inflationary uplifts for public grant funding and contracts
- a Living Wage uplift in public grant funding as part of expanding the Fair Work First criteria.

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 welcome the engagement of the Scottish Government's Third Sector Unit at this time to identify priorities and solutions.

The Scottish Government should also recognise that the annual funding cycle causes additional challenges which distract, and divert valuable resources, from providing the services upon which people and communities across Scotland rely. For example, the wasted capacity of navigating funding application and reporting processes annually. The annual processes and resulting wastage also impact on the Scottish Government and other funders who must assess applications and undertake decision-making every year. Multi-year funding is even more critical during this crisis, as it gives organisations additional predictability to plan their way through.

To continue to provide essential services and support the voluntary sector workforce, inflationary uplifts are needed. Without inflationary uplifts, we risk an unsustainable environment with the expectation that voluntary organisations provide the same support with less money. In SCVO's research, many organisations 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. 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.

The Scottish Government's plans to extend the Fair Work First criteria to include the Living Wage, while welcome, have the potential to put further financial pressure on voluntary organisations. To support organisations to pay

the Living Wage, public grant funding and procured contracts should build in a Living Wage uplift to ensure organisations delivering public services are able to pay the Living Wage. This will support the voluntary sector workforce, 135,000 people, which includes 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.

Question 4: The Spending Review identifies key areas of reform over the lifetime of the Parliament to support its priorities in the Spending Review, including delivering efficiency savings across the public sector. How should the Scottish Government approach each of these areas to achieve efficiencies while also maintaining effective public services?

Digitalisation

The Scottish Government is increasingly moving services online. The digitalisation of public services can simplify and integrate services. Delivering better digital public services is also essential to meeting the public's expectations in the current world. The people most likely to be supported by public services are also those most likely to be digitally excluded. Online public services must be accessible to all. Initiatives to ensure everyone can use and access digital services must be part of the drive to digitalise public services.

Digitisation should not solely be seen as a way to realise cost savings. If framed in this way, it may lead to the development of business cases which do not fully consider the needs of those who are digital excluded. As a result, services may become less accessible to the most vulnerable in society and/or necessitate expensive alternative solutions further down the line. A robust assessment of the impact of digitisation on digitally excluded people, and the development of effective alternatives, should be considered at the outset of every project.

Maximising revenue through public sector innovation

The 2011 Spending Review recognised voluntary organisations as specialists able to engage communities flexibly and innovatively, which is critical during this cost-of-living crisis. The government also committed to "promoting the growth of the third sector" as part of public service reform and investing in the voluntary sector to support best practices. SCVO appreciates the economic

context is challenging. However, the lack of recognition of the contribution of our sector to Scotland's society and economy in the 2022 Spending Review was a missed opportunity. Since then, SCVO has welcomed the Scottish Government's inclusion of a voluntary sector representative on the National Strategy for Economic Transformation Advisory Board as a positive step forward.

Investing in the voluntary sector benefits people and communities, our sector's workforce and volunteers, and Scotland's economy and society. Cost-effective outcomes are delivered by organisations across the sector receiving public grant funding. Similarly, growing investment in the capacity and sustainability of voluntary organisations is proven to pull greater funding in from other sources to vital services. Added income generation (e.g. from other funders and donors) and services aimed at prevention and early action also reduce costs and improve lives.

Long-term funding provides financial sustainability to organisations that need to plan long-term and drive funding from other sources into services. SCVO's [thought-leadership blog series](#) highlights the economic return on investment generated from public funding, which is crucial when the Scottish Government operates from a fixed budget.

Reform of the public body landscape

The Spending Review explains that the Scottish Government will ask public bodies to deliver recurring annual efficiencies of at least 3%, including through “effective procurement and grant management”. Such efficiencies often impact on the funding of voluntary organisations and the vital services our sector provides. While SCVO appreciates the challenging economic outlook, the Scottish Government and other public bodies should focus on working with the sector to maximise our sector’s resources and contribution rather than focus on unobtainable, short-term efficiencies that will fall on those that need our support.

Voluntary organisations are experiencing both rising costs and additional demand for their services, with only half of voluntary organisations able to deliver their planned services between January and April ([Third Sector Tracker](#)). Funding security is essential for a sustainable voluntary sector which can support people through the cost-of-living crisis, deliver quality outcomes, and offer Fair Work.

The Scottish Government can maximise the sector’s resources by committing to:

- a longer-term funding model for the voluntary sector across all Scottish Government departments.
- timely communication and prompt payments of funds

- monitoring and reporting on the Scottish Government and other public sector funding voluntary organisations receive (see our response to question 8).

As has been discussed, growing investment in the capacity and sustainability of voluntary organisations is proven to pull funding from other sources. SCVO is working with partners to consider further work to articulate the Gross Value Added through public investment in the voluntary sector.

Organisations with the security to plan long-term can recruit and retain staff in dedicated fundraising roles and are more consistently able to source and generate funding from other sources. In contrast, organisations that struggle with the uncertain and repetitive nature of annual funding tend to have limited capacity to source additional funding. Multi-year funding also creates efficiencies by reducing the time and resources committed to funding processes and delivering better outcomes for the sector's workforce and the communities our sector works with. Improvements to processes and systems can be made at minimal cost and ultimately create efficiencies for both voluntary organisations and the Scottish Government.

Improving public procurement

The voluntary sector is a significant partner in delivering essential procured public services across Scotland. SCVO recognises the challenging economic outlook described in the Spending Review and the need for efficiencies in the procurement system. Efficiencies, however, should not result in a further drive to the bottom and cuts to funding for procured services. Doing so will only cause further inequity with services provided by the public sector, such as but not limited to being unable to pay the Living Wage on secured contracts.

Around 25% of income to the Scottish voluntary sector comes from public sector contracts. Even before COVID, the voluntary sector was fragile, with procured contracts often not providing adequate funds to meet agreed contract standards and ensure voluntary organisations can deliver Fair Work. Social care intermediaries regularly report organisations handing back contracts as funding does not cover the cost of providing services. In these cases, the public sector offloads significant financial risk to voluntary organisations that cannot withstand the levels of risk that their public counterparts can.

SCVO member surveys in 2013 and 2019 that focused on voluntary organisations' experiences of procurement processes revealed that while the Scottish Government and other public bodies have made minor improvements to procurement practice, comprehensive procurement reform is urgently needed. Procurement contracts should:

- place social, environmental and economic factors on a level footing with cost in contract arrangements
- include resources to pay the Living Wage and an annual inflationary uplift
- offer multi-year funding
- guarantee full cost recovery.

Fair procurement should provide the funding it costs to deliver a well-run service or programme and ensure that the processes that organisations must navigate to secure and continue to deliver contracts are accessible to small and medium sized organisations. Those accessing services should have choices available to them that suit their needs, and this is more likely to happen when voluntary organisations are at the heart of public service delivery. Employment from contracts should also support Fair Work principles, including payment of the Living Wage.

SCVO and others provided significant evidence to the former Economy, Energy, and Fair Work Committee's inquiry into the Procurement Reform (Scotland) Act 2014. The Committee provided no further reports or recommendations, likely due to the timing in 2021. Our evidence described a competitive tendering system that creates undue strain and uncertainty for the voluntary sector and its workforce and significant wasted resources. One organisation SCVO spoke to recently pioneered a service only for the local authority to put it back out to tender on reduced conditions not viable for that organisation to bid for. Another needed to repeat the tendering process despite being the only organisation able to deliver 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 encourages the committee to challenge the Scottish Government to reform public procurement to ensure that social, environmental, and well-being factors are on an equal footing with cost to address these systemic challenges, as reflected in evidence to the former Committee's preliminary inquiry.

Question 6: What impact will the Spending Review priorities have on the delivery of national outcomes in the National Performance Framework?

SCVO is not best placed to comment on the specific priorities of the spending review relating to the various National Outcomes, whether that is to do with housing or child poverty. However, all 45,000+ voluntary organisations in Scotland contribute to realising the ambitions set by Scotland's NPF. We focus our submission on securing and enhancing that contribution.

SCVO and others in the sector have provided significant evidence to the committee on how the NPF can be improved, specifically its implementation. We look forward to the Committee's report on this matter and being part of the Scottish Government's external group for the upcoming NPF review, specifically aspects relating to implementing the NPF in practice. There should be a visible link between policies, programmes, and services to the NPF and other tools such as the new Scottish Government's Wellbeing Economy Monitor.

Scotland's voluntary sector contributes considerably to social, environmental, and economic outcomes within the NPF. The contribution stretches well beyond the 135,000 people the sector employs. The NPF and the outcomes within it belong to the whole of Scotland, not just Scottish Government. The voluntary sector makes a substantial contribution to achieving all of the outcomes, and investment in sustaining and developing that contribution will have a positive impact, creating a fairer, greener, more equal country.

Question 7: How should the Scottish Government target spending in its budget to achieve net zero targets?

Voluntary organisations across Scotland help people and communities to understand and adapt to the impacts of climate change. Our sector provides consumer advice, education, nature solutions, place-based community solutions, lobbies for climate justice, and plans for and delivers emergency responses. SCVO encourages the Committee to consider the responses from voluntary organisations with experience and expertise in this area.

Our sector, like the private and public sectors, is responsible for mitigating climate change by reducing our carbon footprint. There is little data available to demonstrate the sector's climate impact or the support voluntary organisations need to achieve net zero by 2045. However, research by SCVO and Senscot in 2021 suggests that many organisations without an environmental charitable purpose struggle to prioritise climate change, particularly after the stretching of resources by Covid 19, rising inflation, and the cost-of-living crisis. Despite this:

- 68% of survey respondents expressed an interest in measuring their organisation's carbon footprint
- 28% had environmental policies
- 13% had set a carbon neutral target.

More work is needed to identify the number of voluntary organisations with net-zero goals and encourage others to follow suit.

As statutory funders introduce climate requirements, such as Changes to the Single Procurement Document (SPD) to Incorporate Climate Criteria, more

must be done to support the sector to understand what action can be taken and meet the costs involved. Respondents to our survey found carbon footprinting time consuming and difficult and carbon measurement tools challenging to use.

Small charities (income of under £100k) make up 78% of the charity sector in Scotland. In 2020/21, 40% of charities spent more than their income in 2020/21, with that rising to 46% of smaller charities. Funding and support will be needed to prepare the sector for any changes to funding requirements and to make buildings more energy efficient, particularly as many voluntary organisations will work from poorly insulated buildings and listed buildings. Support for transition to net zero should also recognise and reduce the impact of future shocks from the energy market on voluntary organisations.

SCVO appreciates that there is some funding available to support organisations towards net-zero. This funding landscape is, however, challenging to navigate and a lack of transparency makes it difficult to get a clear picture of what's available (see our response to question 8). A recent research report into net zero provision for voluntary organisations in Scotland by CEiS highlighted a very complex system of support services with no pathway for voluntary organisations.

In December, the Economy and Fair Work Committee wrote to the Scottish Government on support for business in the move to net zero, calling for a clear roadmap for businesses, particularly smaller businesses, backed by practical support and non-loan-based funding in next year's budget to encourage decarbonisation. The Scottish Government recognised the need for information, advice, and support and committed to working with the business community to identify and tackle barriers to sustainable growth domestically and internationally. Voluntary organisations face similar challenges and would benefit from similar commitments.

Some of the ways that SCVO is supporting the sector towards net zero include:

- hosting **webinars** to introduce organisations to net zero
- providing **guidance** to voluntary organisations on how to start their journey to net zero
- offering free **climate emergency training** in partnership with Keep Scotland Beautiful through funding from Paths for All and CCLA Investment Management
- introducing the Scottish Charity Awards **Climate Conscious Award**
- being an active member of the **Third Sector Net Zero Strategy Group**.

Question 8: How has the Scottish Government reflected its commitment to fiscal transparency in the Spending Review and how can it best ensure that spending in the Budget 2023-24 can be properly identified and tracked?

Access to transparent data is essential for voluntary organisations to assess the positive, negative, or neutral impact of Scottish Government spending decisions.

Without the tools to measure the impact of budget increases, decreases and preventative measures, it's difficult to understand the actions taken by the government and how and why funding flows from the government to the voluntary sector in the way it currently does.

For example, the 2022/2023 Scottish Budget reduced the Third Sector Budget Line by £800,000, to £25.8 million. This budget line funds infrastructure support across the voluntary sector, including the Volunteering Action Plan, the Social Enterprise Action Plan, and the Strengthening Collaboration partnership. Beyond this, SCVO and colleagues across the sector do not have access to information about the projects, programmes, and organisations it funds. The impact of the budget reduction is therefore unclear. The same applies to the forecast increases to this budget line up to £27.2 million in 2027. If this reflects additional funding, then the increase is welcome, but it may simply be existing money being moved across lines.

This is just one small example where funding transparency would support voluntary sector intermediaries, such as SCVO, and others to:

- understand Scottish Government decisions
- assess the impact of budget changes
- understand any Scottish Government action to mitigate risk and the extent to which these actions are successful.

To enable colleagues across the voluntary sector to understand spending decisions and assess their impact, the Scottish Government should:

- collect information across all government departments to get an accurate picture of how much funding flows to the voluntary sector and from which budget lines.
- calculate and publish its total direct funding of voluntary organisations for grants and procured contracts.
- produce a breakdown of which Scottish Government budget lines provide funding to the voluntary sector.

Small-scale change could be made relatively quickly by holders of budget lines. The Third Sector Unit should have a role in gathering this information and publishing an accurate picture of how their budget line – the Third Sector Fiscal Resource Budget Line – flows to different projects and organisations.

The Social Renewal Advisory Board's Third Sector Circle recommendation that Scottish Government funding of the voluntary sector across all Scottish Government departments and local government be published on the 360 Giving platform - a platform where organisations openly publish grants data- should also be implemented. The Scottish Government published its emergency funding awards on 360 Giving during the pandemic, and the Scottish Government and other public bodies should roll this out across budget-lines. The Scottish Government could link these actions to its existing commitment to Fiscal Openness and Transparency in the Open Government Action Plan.

Improvements to fiscal data and information accessibility are already underway involving key Scottish Government experts in the Scottish Exchequer. This work covers public spending, procurement, fiscal transparency, and the budget. Enhancing the accessibility of information relating to the Scottish Government's voluntary sector funding fits with the Scottish Government's existing commitment to budget improvement – its Fiscal Transparency Programme – including a Fiscal Portal and its development of the Procurement Management Information Platform. We believe the Third Sector Unit and Scottish Exchequer must work together to deliver joined-up practical solutions.

Transparent, accessible data would also highlight the Scottish Government's significant investment in voluntary organisations. Ministers and civil servants regularly use SCVO estimates to underline the scale of Government funding for the voluntary sector - an estimated £500m a year. The use of these figures suggests official figures from the Scottish Government are not available. Addressing this significant gap in the Scottish Government's understanding of funding flows to the voluntary sector is essential for the spending in the 2023-24 Budget to be appropriately identified and tracked.

Conclusion

The Scottish voluntary sector is an employer, a partner, and a vital social and economic actor. Our sector and the services it provides are under pressure. Covid 19, inflation and the resulting cost-of-living crisis have put enormous strain on sector finances and, for many, increased demand on services. Without additional support and starting the process of long-term change to how the public sector and other funders fund voluntary organisations, they will have to make difficult decisions, such as redundancies, reducing the number of days they operate or even shutting their doors.

In response to the Committee's call for views, we have shared clear actions that the Scottish Government could take to create a more sustainable voluntary sector. The Scottish Budget is an opportunity to provide greater security for staff, volunteers, and the many people and communities the voluntary sector work with. Our sector needs recognition, resources, and, crucially, new approaches focused on creating a fairer funding environment. Not all of our calls involve additional costs; we put forward those that incur additional costs with the recognition of a very tough economic outlook. The UK Government must provide additional support in the upcoming budget to the Scottish Government to deliver all of these actions.

These challenges and solutions are not new but essential to secure the vital services our sector provides for the months and years ahead. We know that the Committee shares our aspirations for the sector, and we hope it will urge the Scottish Government and, importantly, the UK Government to act on these issues. SCVO is here to work with the Scottish Government, Scottish Parliament, and COSLA to create a sustainable sector, support voluntary organisations to provide Fair Work, and deliver quality outcomes for people and communities across Scotland.

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