



**Response to the Social Justice and Social Security Committee
Pre-budget 2025-26 scrutiny - Third sector funding principles**

August 2024

About Children in Scotland

Giving all children in Scotland an equal chance to flourish is at the heart of everything we do. By bringing together a network of people working with and for children, alongside children and young people themselves, we offer a broad, balanced, and independent voice. We create solutions, provide support, and develop positive change across all areas affecting children in Scotland.

We do this by listening, gathering evidence, and applying and sharing our learning, while always working to uphold children's rights. Our range of knowledge and expertise means we can provide trusted support on issues as diverse as the people we work with and the varied lives of children and families in Scotland.

Children in Scotland is pleased to respond to the inquiry into funding challenges faced by the third sector as part of the Social Justice and Social Security Committee's pre-budget 2025-26 scrutiny. As noted in the background information for this inquiry, the third sector in Scotland currently faces immense financial and operational pressures due to years of static funding, rising costs, recent high levels of inflation and the impact of the COVID-19 pandemic. The cost-of-living crisis and the COVID-19 pandemic have also resulted in an increase in demand for services provided by the third sector, placing an increased strain on third sector staff and resources.

We hope that the Committee's inquiry will help to progress our call for Fair Funding to ensure the Scottish Government's approach can contribute to the

continued effectiveness of the third sector.

Children in Scotland's response highlights our own experiences as a third sector organisation who manage and facilitate a range of projects and services funded by the Scottish Government. Our response also includes evidence from our wide member network. In our response, we have drawn from the following:

- Children in Scotland's membership network – Children in Scotland has over 440 members, a large proportion of which are third sector organisations. Our members regularly share details of the challenges they experience in relation to funding, including organisational stability, retention of staff because of low pay and short-term contracts and disproportionate reporting processes. Our response includes specific feedback from organisations in response to a recent member survey. This survey was created for smaller organisations who may not have the time or capacity to respond directly to the inquiry or for organisations who wished to provide anonymous feedback to the committee.
- Children in Scotland's services – we manage and deliver a range of Additional Support for Learning services. Two of these services, Enquire and My Rights My Say, are funded by the Scottish Government.
- Supporting the Third Sector Project – Children in Scotland hosts and manages the Supporting the Third Sector (STTS) Project. Funded by the Scottish Government, the STTS Project supports Third Sector Interfaces (TSIs) and third sector partners to become more involved and influential in local and national planning and decision-making related to improving outcomes for children, young people, and families. This includes facilitating the TSI Children's Services Network which includes TSI representatives from across Scotland and meets bimonthly. Children in Scotland staff delivering our STTS Project hosted a meeting of the TSI Children's Services Network which focused on sustainable and fair funding which helped inform this response.
- Children in Scotland's project work – Children in Scotland undertakes a wide range of project work to help achieve our vision that all children in Scotland have an equal chance to flourish. As part of this strand of work we deliver the National Suicide Prevention Youth Advisory Group and the Inclusion Ambassadors. These groups help to ensure the views of young people are included and heard in discussions about policy

development and policy implementation. Both projects are funded by the Scottish Government.

- Children's Sector Strategic and Policy Forum – Children in Scotland hosts the Children's Sector Strategic and Policy Forum which brings together sector leaders, to discuss issues of strategic importance for the children's sector and takes a pro-active and evidence-based approach to improving children's lives at a national level.

Children in Scotland's role within the children's sector means we are acutely aware of the issues third sector organisations are facing. Our 'Manifesto for 2021-2026'¹ includes a call for 'Sustainable funding for children's services across the statutory, third and private sectors, across all five years of the Scottish Parliament'. Despite this call, we believe that organisations delivering children's services are in a more perilous position than ever. Of these organisations, third sector children's organisations are often in the most insecure position and most of our submission will be focussed on that sector. While we understand the current financial pressures facing the Scottish Government, we believe that there are some significant steps that could be taken to help support third sector organisations and provide clarity for them in the challenging years ahead.

This includes a clear recognition of what the term 'fair funding' for the third sector means, and a firm commitment to deliver it. We have been working with the Scottish Council for Voluntary Organisations (SCVO) as they have developed their work on fair funding, outlining some clear principles to ensure better outcomes and impact from funds given to third sector organisations.

1. Please select ALL sources of funding your organisation currently receives:

- Scottish Government
- Private donations
- Fundraising
- Other: Funding to deliver project work from other third sector organisations and public agencies

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

¹ [Children in Scotland \(2020\), Manifesto for 2021-26](#)

The shift to longer-term funding would be a significant benefit to Children in Scotland and our third sector members and partners. This move would support longer-term planning, more efficient spending, greater organisational stability (including staff retention), and it would also positively impact staff wellbeing. Longer-term funding would help to deliver essential services that many children and families rely on, ultimately improving outcomes for children, young people, parents and carers.

Greater stability and support for longer-term, strategic planning

For Children in Scotland, longer-term funding would provide greater stability and certainty about our work. We currently receive core funding consisting of a grant for a two-year period. We also run a number of projects that are funded by Scottish Government, which are funded on a one-year basis. Some of these are long-running pieces of work, and confirmation of renewed funding often comes in very late.

This is also true of our services. In question three, we detail the pressures on our Enquire Service which is an advice service for additional support for learning. Although this has been funded by Scottish Government over a period of more than 20 years, for most of that time, it has been done on a yearly cycle.

Funding of three years or more would support Children in Scotland to plan and deliver our work more efficiently. We currently spend a disproportionate amount of time and staff resources on annual and bi-annual proposals, rather than the direct delivery of projects and services. Longer-term support would allow us to develop longer-term workplans with certainty, helping us to more efficiently co-ordinate our work.

Certainty of income would also help us to manage staff and workload across the organisation and commit to fair pay approaches across the organisation, with planned inflated-related uplifts for staff over a period of time.

These sentiments are echoed by Children in Scotland's members who have told us that longer-term funding arrangements would offer better opportunity for strategic planning of their work. They are very clear that a significant amount of time is spent in dealing with short-term funding demands, time which could be better used in developing work, sourcing other areas of support and investing in their work with children, families and their communities.

“It would have a huge impact - increasing the proportion of our time and resources able to be focussed on delivery, strengthening and consolidating the positive impact of our work with children and families in the short and long term”

(Children in Scotland member)

“It would ensure we could plan projects and address the wider issues rather than just short-term fixes”

(Children in Scotland member)

“This [longer-term funding] would enable more robust planning, and give peace of mind to the staff who's salaries are partly covered by Scottish Government funding”

(Children in Scotland member)

“The opportunity to plan longer term and ensure stability for the organisation lends itself to sustain gains for communities that are served.”

(Children in Scotland member)

Our work through the Children's Sector Strategic and Policy Forum and the Supporting the Third Sector Project have highlighted an increased high demand for third sector services, exacerbated by cuts to some statutory services. Some of the Third Sector Interfaces we work with have told us that some local authorities have not been able to meet service provision and have distributed services to the third sector through the Whole Family Wellbeing Fund to support the unmet needs of children and families. Since this funding is time limited, our contacts within the Third Sector Interfaces have questioned whether this is sustainable.

Last year, the Supporting the Third Sector Project published its Annual Survey on Third Sector Participation in Children's Services Planning² to help understand the extent of third sector's involvement in Children's Services Planning (CSP) arrangements in the 30 Children's Services Planning Partnerships (CSPPs) across Scotland. Within this survey, a number of Third Sector Interfaces shared that limited funding prevents the third sector from having the capacity to effectively carry out its role or to go beyond core

² Children in Scotland (2023), *Supporting the Third Sector Project Survey 2023: Third Sector Participation in Children's Services Planning*.

functions. One member told us:

“There are many strategic and layers of meetings with limited time to consult and actually deliver outcomes. Funding from Scottish Government does not allow for additional capacity to be built within the organisation.”

(Third Sector Interface, Supporting the Third Sector Annual Survey)

The Statutory Guidance for Children's Services makes specific reference to the Third Sector Interfaces and their role to facilitate broader consultation and planning processes, mediating or co-ordinating responses from across the third sector. Under the pressures mentioned already in this response, this is becoming increasingly challenging.

Staff recruitment, retention and wellbeing

The shift to longer-term funding agreements of three years or more would also support Children in Scotland to retain staff and to deliver on our fair work commitments. In recent years, we have seen employees leave the organisation because of a lack of certainty and stability within their roles. This can have a negative impact on keeping project timelines on track and can have an overall impact on staff morale.

Longer-term funding would be instrumental in allowing us to better plan our investment in staff. Our pay policy is to include an inflation-rated pay rise for staff every year but when funding is only secured on a yearly basis, this can put us in a difficult position in financial terms, as we have to reassure our board and our auditors that we are a 'going concern'. Without secured funding for ongoing work, it can make this planning very difficult. We have noted the Scottish Government's own approach to pay announcements committing to a 3% pay increase for staff each year in the 2024-25, 2025-26 and 2026-27 financial years. This is where we want to be as an organisation, but current funding models make it very difficult for us to deliver for our staff in this way.

Children in Scotland has also experienced challenges recruiting for specific roles that are offered on a short-term basis. We have found it can be particularly difficult to recruit to positions with a contract length of less than one year which is sometimes all that we can do when funding is particularly insecure across financial years.

Staff wellbeing is also significantly impacted by short-term funding contracts,

particularly in the run up to the end of a contract when staff are waiting to hear if funding will be renewed and if so, at what level. It often means that we have to consider starting redundancy processes with staff which can be extremely unsettling, even where we are relatively confident that this will not become a reality.

Our members have also told us about how staff retention can be impacted by short term contracts. The Third Sector Interfaces we work with have also shared that they experience losing staff nine months into a twelve-month contract because of the uncertainty of funding impacting their job security. They have highlighted the impact of losing staff during short-term contracts and have expressed challenges in recruiting for short-term vacancies to fill posts and training new staff. A number of our members have explained that they have to leave unfilled posts for months until new funding is confirmed.

“A shift to decisions being made in a timely manner and with longer term funding guaranteed, would be transformational for us. It would allow us to deliver our strategic plan effectively, knowing that we have the funding in place. We can recruit for roles, rather than currently leaving vacancies, as we are unsure of our funding going forwards. It gives confidence to our team and our partners that we work with.”

(Children in Scotland member)

“It would have a huge impact... strengthening and consolidating the positive impact of our work with children and families in the short and long term. It would enable us to strengthen the resilience of our core specialist team. It would enable us to give more focus to strategic development balanced with consolidation, staff development, evaluation, stake-holder consultation.”

(Children in Scotland member)

Changes in staffing can also have a knock-on impact on relationships with service users as trusted relationships are broken. Our members and partners within the third sector are often supporting some of the most vulnerable families in Scotland and regular changes in staffing can be difficult for these organisations to manage, as relationship-based practice is such a key part of their work.

Short-term funding can also impact the quality of staff third sector organisations can recruit to positions, impacting our competitiveness with

public bodies and private business. One member told us:

“Moving to longer-term funding would support organisations to achieve lasting change and attract top quality staff on contracts with a reasonable length of tenure guaranteed.”
(Children in Scotland member)

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

The current economic circumstances and the upcoming Scottish Government elections in 2026 may present challenges to developing and delivering this shift to multi-year funding.

Despite this, we do believe it is possible to make positive progress on this issue. Much of the work that Scottish Government is supporting is to fulfil policy ambitions with cross-party agreement, for instance combatting child poverty. It should, therefore, be possible to get cross-party agreement to support multi-year funding of the third sector in order to get the necessary impact in complex and important policy areas.

Children in Scotland believes there needs to be an urgent and radical rethink about the way the third sector is funded and the Scottish Government's relationship with them. Without this, many high-quality third sector organisations will simply not survive the coming years. Over the course of the pandemic, the Scottish Government relied heavily on the third sector and the important support they provide for families. Many third sector organisations felt this could have been a turning point for the way the third sector are funded, but now feel let down by the Scottish Government. One member told us:

“Now, in terms of Scottish Government funding and other public sector funding, where there's a lot of funding uncertainty... it's been articulated, certainly to me, as a sense of betrayal, and in some respects that the trust and positive relationship between statutory agencies and the third sector during the pandemic, a sense of us pulling together, has dissipated... something that was positive that could have been built on through the pandemic that hasn't been sustained.”
(Children in Scotland member)

4. Longer-Term Funding Impact: If relevant, please provide any specific examples of how your organisation has been affected by a lack of longer-term funding certainty.

CYPFEI & ALEC funding and CYPFAL

We have received CYPFEI funding from Scottish Government since 2014. Many of our members have also been recipients of this fund. This is core funding, and as such has been invaluable for organisations as it is often extremely difficult to find core funding from other sources. A well-run organisation needs sufficient investment in core functions such as finance, HR, IT, communications and so on if it is to be able to have the impact on the ground. The changing environment over the last two decades has increased the level of core resources required in order to be a high functioning organisation. For instance, the changing cyber environment and the need to keep up with that both in terms of culture and hardware, has meant we have had to put an additional investment in to keep our organisation safe and healthy.

While this funding stream continues to be of significant importance to us and we have valued our relationship with Scottish Government over that period, there have been some key challenges which we have shared directly with Scottish Government. Several of these have contributed to funding uncertainty.

Most important has been the fact that for much of this time, the agreement has been for a one-year period. We currently have a two-year agreement which is helpful, but still relatively short for an organisation that is investing in long-term change.

This has been compounded by the fact that during the time that we have been recipients of the fund, there have also been two attempts to launch new funds. We have therefore spent time submitting bids, which ultimately have not been used. This has been costly in terms of staff time.

These challenges of yearly funding have been compounded by some of the timelines for decision making. In 2022, there was a proposal to move from the CYPFEI & ALEC fund to a new fund, CYPFAL. Our funding through CYPFEI was coming to an end in March 2023 and decisions were expected in December

2022. Eventually it was decided not to go ahead with the CYPFAL fund and instead to extend CYPFEI & ALEC funding. The decisions were not communicated to organisations until late March 2023. This made it extremely difficult for us and our members to plan and meant that we had to postpone important internal changes because of the uncertainty. For some of our members, it was serious enough for them to have to push back their audits because of the possibility of them not being seen as a 'going concern' due to the delays. Ultimately, this meant short-term planning which ultimately undermined the longer-term stability of our and many other organisations.

The funding has been extremely important for our organisation, but the funding model has tended to undermine the impact and has created additional work not only for us, but also for the Scottish Government in their role as grant giver.

Delivering funded project work

Children in Scotland has been funded by the Scottish Government to deliver the **Supporting the Third Sector Project** (previously known as the National Third Sector GIRFEC Project) since 2018. This funding has been applied for and renewed on an annual basis, with funding often confirmed only several days in advance of the new financial year. In the 2023-24 financial year, we were initially only offered a 3-month contract extension for this project. It has proven incredibly challenging to recruit and retain a manager of the Supporting the Third Sector Project for this reason. Unfortunately, the regular changes in staff have had an impact on the effectiveness, efficiency and impact of the project.

Enquire is a service that is playing an essential role in delivering on the ASL action plan and has been funded for over 20 years by Scottish Government. However, over much of that time it has been on a yearly funding cycle. This has resulted in much staff time and energy going into servicing this intensive funding cycle. It is also very unsettling for staff, contributing to anxiety and worry across the staff team. This has been one of the factors that has led to valued members of staff leaving. The decision on funding has often come very late. As an organisation we do our planning in December to be ready to present to the board, however, decisions have often come in March and, on several occasions, into the next financial year. Every year, we have to consider whether or not to start formal redundancy processes, to minimise the risk to Children in Scotland as a whole.

This approach to funding can tend to have a limiting potential on the service and the way it could make an even bigger contribution to fulfilling the recommendations from the ASL action plan. Indeed, the demand for the service is already outstripping its capacity and this trend is likely to continue as the value of the grant has degraded over time because of lack of uplifts.

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

Unrestricted and flexible core funding is the best way to create maximum impact for money invested particularly when that is combined with multi-year funding. Although we have talked above about the challenges of funding received through CYPFEI & ALEC, there is a lot to appreciate about the model. We are able to use the fund to work towards clear outcomes that are in line with our strategic plan, we can use it to fund core costs and there is a level of flexibility as to how the funds are used.

This approach to funding ensures that more of the effort, energy and resources of an organisation can go to work on the ground.

This kind of funding rests on the development of trusting and respectful relationships between funders and funded, and this can have positive impacts on the monitoring and evaluation of the work supported by the organisation.

Financial sustainability

Children in Scotland is currently developing new approaches to financial sustainability. However, for any third sector organisation, this is a long-term journey. It has been challenging for us an organisation to generate sufficient core funding. Indeed, we have recently had to strip our core functions further, meaning that the organisation lacks the capacity required to invest the time, energy and resources into the necessary work to further develop our financial sustainability.

Flexible, unrestricted and multi-year core funding an established period would be an extremely helpful tool in allowing us to properly invest in this journey, including giving us a secure base that would allow us to seek social investment to support in our sustainability journey.

Our members have also described that often it is a challenge to find funding to cover core costs. They have told us that many funders do not support core costs and that funding opportunities do not recognise the necessity of maintaining core operations to ensure the charity can continue to run effectively.

This is a topic that has been discussed at the Children's Sector Strategic and Policy Forum. Members of the Forum recognise that charities are businesses with staff to look after and objectives to deliver and they must have the appropriate funding structure and governance to do so.

Our Third Sector Interface partners have similarly highlighted the need to change the notion that 'volunteers are free'. Good volunteering services need to have volunteer recruitment, training, support and supervision which are not free to provide.

Responding to the needs of families and communities

Organisations have told us the current approach of focused funding pots can lead to gaps in support, whereas unrestricted funding would mean organisations can adapt to address the needs in the communities they are supporting.

"Being able to offer agile, flexible approaches to meet the varying needs of services and families would transform our ability to respond and impact positively on outcomes."

(Children in Scotland member)

Our members also told us that a move to flexible, unrestricted funding would result in stronger, more robust organisations.

"Unrestricted core funding would enable us to provide the central operations function more effectively, providing scope and capacity to deliver a more effective level of support, improving processes and practice, and thereby improving governance of the charity."

(Children in Scotland member)

Ultimately, organisations felt that offering more flexible, unrestricted core funding would improve the lives of more children, young people and families.

to address the needs in their communities they are supporting.

“The ability to have unrestricted core funding allows us to have a strong operational structure to manage and support our unique engagement with children, improving the outcomes and opportunities for Children across Scotland.”

(Children in Scotland member)

Young people we work with have also told us about the value and importance of the third sector in providing them with support. Children in Scotland staff recently heard from members of the National Suicide Prevention Youth Advisory Group³ that more sustainable funding for the third sector would help ensure consistent staff for mental health services to create a continuity of support and a “feeling of safety and security” for young people accessing these services.

One member spoke about a support organisation who was struggling to recruit staff because potential applicants were concerned about short-term employment contracts linked to temporary funding. The youth advisory group also told us that inconsistent funding can result in services closing. One youth advisory group member said, “Where do people go when a service closes down?”. The group told us that more sustainable funding for these vital services would let young people “know that support will always be there...the organisation is not closing down next month”. Children in Scotland has heard similar comments about support services in our other work with children and young people, including on our Evaluation of the Home and Belonging Initiative⁴.

Supporting wider policy development and implementation work

The current funding model significantly undermines our capacity to engage in important policy development work with partners. Children in Scotland sits on a wide range of Scottish Government and external advisory groups, bringing an important third sector perspective to the development and delivery of children and families policy and services.

The way we are funded at present can tend to deflect our attention from

³ [National Suicide Prevention Youth Advisory Group](#)

⁴ [Children in Scotland \(2020\), Evaluation of the Home and Belonging Initiative.](#)

being able to fully engage in different groups and share our valuable learning as part of consultation responses and in policy development discussions. We understand that our members and partners across the third sector are experiencing similar staff capacity and resource issues.

Our members told us that flexible, unrestricted core funding would help them have greater capacity to engage in policy related discussions and consultations so we can develop and implement better policies and services that provide support for children, young people and families.

Recent research has highlighted the important role the third sector has in delivering improved outcomes for children, young people and families. The Children's Services Reform research published by CELCIS⁵ and the evaluation of the Whole Family Wellbeing Fund⁶, identify the challenges that exist in ensuring successful collaboration between statutory services and the third sector in terms of planning, developing, and implementing effective services for children and families. Many of these issues stem from third sector capacity, recruitment and retention issues within the third sector, and challenges with purchasing and commissioning processes.

Trusting the Third Sector

Children in Scotland members have told us that the focus on new and "innovative" approaches within Scottish Government is too great. A culture of 'the next big thing' exists, which often leads to short-term projects, pilot projects and limited funding pots of money that by their very nature will have limited impact on the children and families they are designed to support. Sometimes these projects are supported for two or three years and then discontinued, leaving families struggling to fill the void.

An example from Children in Scotland is the Scottish Government's Early Learning and Childcare (ELC) Inclusion Fund. This supported children with additional support needs to full access their funded ELC entitlement by supporting settings to purchase equipment, train staff or make physical adjustments to adapt their settings. The fund was incredibly successful in supporting children to access their ELC entitlement however it only ran for four years before being discontinued by the Scottish Government.

⁵ CELCIS (2024), *Children's Services Reform Research: Learning and Implications for Scotland*

⁶ Scottish Government (2024), *Whole Family Wellbeing Funding (WFWF) - year 1 process evaluation: final report*

Many third sector organisations know their children, families and communities they serve. The value of this was clearly seen during the COVID-19 pandemic, when Scottish Government provided flexibility and greater freedom to third sector organisations supporting families. At Children in Scotland, we understand the need for evaluation data to ensure public funds are spent efficiently however we feel a better approach to setting aims and outcomes for funding and collecting evaluation data is achievable, to ensure we can allow third sector children's sector organisations to do what they do best – supporting and improving outcomes for children, young people and families.

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

As highlighted above, Children in Scotland believes that there is scope to introduce more flexible approaches to funding third sector organisations. We know there are complicated systems within Scottish Government which is itself on a yearly funding cycle. However, we believe that with the political will, we could find ways to overcome these challenges in order to increase the impacts of the investments being made.

We think there are a number of key considerations in thinking this through.

These would include:

- which organisations would receive funding and at what level
- how to ensure a spread of funding across different types of organisation (e.g. organisations with a focus on strategic/policy activity versus those with a focus on direct service delivery, national organisations versus regional organisations, etc.)
- application processes and mechanisms to effectively manage the high demand for funding without creating unmanageable processes
- how to balance the co-ordination of activity to ensure there is no duplication of activity across different third sector organisations
- how to define clear outcomes and outputs for third sector organisations that align with national priorities while allowing flexibility of approach
- reporting and evaluation processes that ensure that organisations are achieving their aims and public money is being spent effectively
- how to ensure key communities (including those furthest from their rights) are supported.

7. Flexibility and Core Funding Needs: If relevant, please provide any specific examples of how your operational effectiveness and governance have been affected by a lack of flexibility in your core funding.

As noted above, the CYPFEI & ALEC funding has had a level of flexibility built in. While there have been challenges with the funding as outlined above, we would support this kind of approach going forwards, where funding is linked to the overall strategic plan of an organisation and can be reported back on through the overall reporting regime of an organisation.

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

For Children in Scotland, inflation-rated uplifts and full-cost recovery are essential to the long-term viability of our organisation.

We have seen our external costs rise significantly over the time in which we have been receiving CYPFEI funds (core funds) from Scottish Government. The value of the grant has not kept pace with the rate of inflation. Part of the grant has been used to pay salaries of core staff, and we are committed to fair work, the living wage and progressive employment practices, it means we have been left with a shortfall. Similarly, this has been true of projects and services funded by Scottish Government.

Fundamentally, this means that we are being asked to do more for less. Last financial year, Children in Scotland had to use financial reserves to enable us to cover our costs, including ensuring that we can pay staff fairly. At the end of last financial year, we had to make the difficult decision to make some posts redundant to ensure that we continue as a 'going concern'. We are currently a very lean organisation, and this leaves us vulnerable and under-resourced in some key operational areas including in our ability to invest in our longer-term sustainability.

Our members have also shared the importance of inflation-based uplifts and full cost recovery. One simply told us it was "highly critical". Another highlighted that without sustainable funding (including inflation-related adjustments), organisational capacity will continue to be eroded.

Organisations have highlighted that their services feel stretched or squeezed, and they have told us that this can have a significant impact on staff morale.

"We are operating on a budget from Scottish Government that has seen no uplift for some years. Squeezing support organisations to the point of the ridiculous serves no one's interests."

(Children in Scotland member)

"we have to work harder and harder just to stand still... it is a demoralising situation"

(Children in Scotland member)

"Currently every year is a worry - whilst our work has evident positive impact in so many ways... the impact of uncertainty is huge and if costs do not cover operations we cannot deliver the highest quality services. We feel highly valued and not valued at all."

(Children in Scotland member)

"It is at the heart of sustaining a vibrant workforce. Public sector colleagues take this as a given. To this end our sector is treated as second rate, and not valued as equals."

(Children in Scotland member)

Without inflated-related uplifts and full cost recovery, members have highlighted that it is children and families and staff who suffer through cuts to services and an inability to deliver fair pay.

"We're vulnerable to inflation as we can't simply adjust our prices to absorb and price increases. If funders don't build in inflationary increases these have to come out of other expenditure budgets and we're left facing the tough decision about what other services we might have to cut. This impacts most on small local charities who have very few options they can consider."

(Children in Scotland member)

"If it isn't possible to include these costs then the charity has to either cutback services or expect hard working staff to forego pay increases."

(Children in Scotland member)

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

As highlighted above, Children in Scotland's financial reserves have been significantly impacted. Over the 2023-24 financial year, Children in Scotland made the decision to operate a deficit budget and use some of our reserves to deliver a much needed pay increase to staff as we had fallen behind the sector in terms of pay, which was beginning to have an impact on retention and staff wellbeing. In January 2024, we made the difficult decision to make a number of posts redundant in order to deliver a break-even budget for 2024-25. The depletion of our financial reserves has left us more vulnerable as an organisation. The redundancies have also had a significant impact on staff capacity within the organisation.

With a high-level of uncertainty about of funding for 2025-26, it looks unlikely that we will be able to offer staff a salary uplift this year.

Without a commitment to fund inflation-based uplifts and full cost recovery (including core operating costs), the future viability of Children in Scotland come into question. This situation is replicated for many of our members and partners. Over the past twelve months, we have already seen a number of impactful third sector organisations make the tough decision to cease operations.

10. Sustainable Funding and Inflation Adjustments: If relevant, please provide any specific examples of how your organisation's sustainability has been affected by a lack of inflation uplifts and/or full cost recovery.

Please see our responses to questions 8 and 9.

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

Children in Scotland is proud to be a Real Living Wage employer. This aligns with our values as an organisation and is part of our commitment to the Fair Work Principles.

The main challenge that we experience in relation to Real Living Wage is the lack of inflated-related uplifts in our core funding award. Staff salaries are one

of the highest costs we have at Children in Scotland and our commitment to continue to offer Real Living Wage means we may need to consider further cost-saving measures (including additional redundancies and cuts to our activity), if we continue to see static or reduced funding levels in the years ahead.

Our members have also highlighted the importance of investing in staff and paying them the Real Living Wage. Many members have told us that their staff are their most valuable resource.

“We have always believed in our staff and have paid over and above these rates for many years as well as addressing flexible working and mental health and well-being as Mindful Employers. It may be a challenge in relation to staffing budgets, but this is something that underpins our values and commitments and would not reduce in any way.”

(Children in Scotland member)

“We take the view that staff have to be paid salaries which are in line with or above standards in the sector. If we are not able to pay staff to a good standard, then we should not be operating.”

(Children in Scotland member)

Members have told us about the challenges of continuing to deliver on this commitment if funding does not rise in line with inflation.

“As the Real Living Wage increases automatically in line with inflation, charities who have signed up to the Real Living Wage have to budget for an automatic uplift to wage bills every year, which are often a very high percentage of their overall budget. If grant funding doesn't also increase in line with inflation, then the charity could end up running a service at a loss.”

(Children in Scotland member)

Fair Work Principles

In addition to the Real Living Wage, Children in Scotland is committed to the Fair Work Principles. Evidence of our commitment to the Fair Work Principles has been part of the assessment criteria for some of the Scottish Government funded work that we deliver.

Despite our commitment to these principles, many of the Scottish Government contracts we have received recently do not reflect the Fair

Work Principles, with specific clauses excluding sick pay and maternity pay for staff positions funded through the contract. This places increased risk and financial strain on third sector organisations delivering Scottish Government funded work. We believe this clause should be removed from Scottish Government contracts to ensure they reflect the Fair Work Principles.

A key element of the Fair Work Principles is “security of employment, work and income are important foundations of a successful life”. The short-term nature of current funding arrangements makes it very difficult for Children in Scotland to offer this security to all members of staff. This is a sentiment that was echoed by our members, who reflected on the lack of stability offered within the sector.

“[it] feels unfair that we have worked hard to improve areas such as sick pay, maternity and adoption leave, but we have to do that by ourselves as the government contracts we have, specifically exclude using their payment for maternity or sick pay”

(Children in Scotland member)

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

As highlighted above, longer-term certainty of our core funding (including inflation-related uplifts) would help us to better manage our staffing budget and other external costs. Funding of at least three years or more would support us to commit to annual pay increases for all staff over a period of two or three years and significantly help us to deliver on our Real Living Wage and Fair Work commitments.

The same would be true of the funding for our services and projects as this would help with staff retention, wellbeing and ensure that we are not on a constant trajectory of having to do more with less.

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

Simplified application processes

As previously highlighted, Children in Scotland has found the application processes for some strands of Scottish Government funding to be time-

consuming and resource heavy. We would like to see standardisation of application processes, with a simplified and streamlined approach that would free up staff time to deliver our work.

Feedback from our members about application processes have been mixed. Some felt that these were fine, whilst others told us they were “time-consuming and resource-intensive”. Our members and project partners have also highlighted that application processes can be overly complex and that they often differ depending on the fund being applied for. In general, our members are supportive more consistent and simplified processes.

One of our members highlighted the Open and Trusting Grantmakers work that has been developed by IVAR⁷. Members also suggested reducing the size of application forms and implementing staged funding approaches, including the introduction a simple first stage, which would help the third sector to manage organisational capacity more effectively.

“The application process takes up a lot of staff time and costs and board time, and then has been completely disregarded by funders on occasions. It is extremely disheartening.”

(Children in Scotland member)

Timely decision-making and clear communication

Many of the organisations that we work with are funded through CYPFEI & ALEC funding. This funding is due to end in March 2025 however, despite regular requests by Children in Scotland, there is still no clear timeline from our Scottish Government contacts about when a decision about the future of this fund will be made.

Members of the Children's Sector Strategic and Policy Forum who also receive CYPFEI & ALEC funding have expressed frustration and concern about the level of communication around this funding decision and the lack of transparency about decision-making, particularly in relation to timescales for decision-making.

As highlighted previously in our response, for some of the ongoing Scottish Government funded projects and services that Children in Scotland delivers have experienced significant delays in receiving confirmation that their

⁷ IVAR

funding will continue. We have also experienced significant delays in receiving grant letters, with project delivery sometimes continuing for several months before formal confirmation has been received. This can have implications for project delivery, impacting both project planning, delivery capacity and staff wellbeing. It also places an unfair risk on third sector organisations – expecting them to continue to deliver important projects without any form of written commitment.

One example of this from Children in Scotland is the funding we receive for the Enquire service that we deliver. The timing of decisions about grant funding for this service has a huge impact on our staff team, our planning, and our operations.

In this current year, if communication is not timeous, it is possible that we will have to put the full Enquire staff team through a redundancy consultation. With our current restricted reserves and the clause 2.7 in our grant contract which states that eligible costs for the grant exclude 'any employment costs arising from the Grantee's legal obligations to its employees, for example parental leave, sick leave, redundancy', Children in Scotland is unable to hold the financial risk, even where there is a high likelihood of continued funding.

This would have a hugely negative impact on staff morale. Indeed, even at this stage in the financial year there is a level of anxiety amongst the managers of the service. Staff have told us how this funding position is negatively impacting their morale and job satisfaction. We have also recently lost two staff members who both cited a lack of job security as contributing to their decisions to leave. We believe that putting all staff through redundancy procedures will significantly heighten the risk of staff moving on to other jobs, losing years of expertise and skill. It would also involve a significant amount of work from HR and our Leadership Team as we tried to manage this very difficult situation.

This process can be avoided if notification in the form of either a letter of comfort or a full grant letter is awarded by mid December 2024. The positive impact of an earlier decision would be immense for the staff team and on our ability to plan ahead.

Our members have also highlighted issues with the timeous decision-making. One Children in Scotland member told us:

“Reporting and payment processes are fine. The key for us is in the application and re-application process. It is incredibly frustrating when we put the significant time required to apply for government funding for a set deadline, to find the Scottish Government has moved their deadline for response, or makes a very late decision. It impacts on our ability to function effectively, has a negative impact on staff, and we have seen staff move away from the sector, because of lack of confidence in funding decisions. Specifically we found out about funding for a project for this year, six weeks into the financial year. Fortunately, we had been able to retain staff for the project in other work. Without this, we would have needed to make the staff redundant and lost the ability to deliver this key piece of work for the Scottish Government.”

(Children in Scotland member)

Reporting processes

Overall, Children in Scotland has found reporting processes be proportionate to the level of funding we receive and the work that we deliver. We have worked hard to try and streamline our internal and external reporting processes to ensure good alignment between these in our quarterly and annual reporting.

However, we are acutely aware that reporting demands vary across third sector organisations. In particular, for some smaller organisations, who are reliant on multiple funding streams and have smaller staff teams, this can be incredibly challenging. One member told us:

“Shorter application and reporting forms would be very welcome! It can be extremely time-consuming completing funding applications and reporting especially as we are a small staff team.”

(Children in Scotland member)

Fair and ethical procurement practices

Procurement by Scottish Government of Children in Scotland services can tend to be very cumbersome and difficult to navigate. While the intention of such processes is to try and illicit best value, in reality the work involved in putting forward bids for pieces of work can be disproportionate. In addition, we are increasingly seeing funding packets which are too small to allow full-cost recovery. Children in Scotland will then be in the difficult position of

deciding whether to go for a piece of work that is of strategic importance despite the amount of funds available and or not.

The Third Sector Interfaces we work with have regularly spoken about the challenges with existing purchasing and commissioning processes and the barriers these put in place for the third sector.

Through our delivery of the Supporting the Third Sector Project, Children in Scotland operates a small Commissioning and Purchasing Peer Support Group that consists of members from the TSI Children's Services Network. Discussions from this group have focused on socially responsible commissioning and procurement. In particular, the group has discussed the highly competitive nature of the tender process and the uncertainty and inefficiencies within current processes.

We have also talked about how existing procurement processes favour competition rather than collaboration, with a focus on price rather than service users which limits choice and innovation. Along with members of the TSI Children's Services Network, Children in Scotland is pleased to be exploring this further as part of a new pilot project led by Scotland Excel.

We have seen some positive examples of progressive and effective purchasing and commissioning processes in some areas of the country through the Whole Family Wellbeing Fund initiative, however we know these are only small pockets of good practice, and much work is needed to share and replicate this work.

Some of our members have also highlighted issues with current procurement processes, stating that they do not offer a level playing field and they favour larger third sector organisations.

*"There is a problem with procurements as tendering favours large charities. This leads to a loss of smaller organisations who represent communities of need. The larger charities become service providers and there is a loss of understanding and representation of beneficiaries within the sector."
(Children in Scotland member)*

As demonstrated through our recent engagement with our members, third sector organisations are desperate for a change to the existing funding

system, and they are keen to see the true value of the third sector reflected in commissioning and procurement processes.

“The third sector needs to be a valued 'partner' in the processes and priorities around funding and commissioning rather than treated as merely a recipient of funding or a supplier of services. In other words, third sector should be a 'partner' in both design and delivery of funding and commissioning.”

(Children in Scotland member)

“I have worked in the public sector for 15 years and the third sector for almost 20 years. The funding model in the third sector has the same issues now that it had when I started in it. Government knows the issues and the solutions. I do not understand why this knowledge is never applied.”

(Children in Scotland member)

Final comments:

As a member organisation representing many third sector organisations from across the children's sector, Children in Scotland is keen to engage further with both the Committee and Scottish Government in detailed discussions about how we transition from our current inadequate funding model to a fair and more progressive system.

Children in Scotland and our members want to see a system that values the important contribution of the third sector and delivers the much need stability and sustainability third sector organisations need in order to continue to deliver their vital work supporting children, young people and families.

We know that Scottish Government is motivated by trying to ensure best value for the money the funds investing in organisations through their grant and other funding. Current funding models, however, are having unintended consequences. There are increasing levels of work both for the funder and funded organisations. Funding models are also contributing to undermining of the stability of organisation and negatively impacting the wellbeing of staff working with and for these organisations. Ultimately, this has an impact on both the quality and quantity of work on the ground. At a time where resources are tight, it makes sense to look at how to change these processes to ensure the best possible value for funds invested.

“Third sector funding is generally not keeping up with the increased cost of delivering services or the uplift in demand that we're seeing. Funding in the sector is meanwhile becoming more competitive with, for example, trust and foundations seeing huge uplifts in the numbers of applications they are getting, and 2024 has seen a number closing their doors in order to reassess their wider strategies or give themselves space to deal with the volume of bids. Long-term core funding is therefore becoming more and more vital but sadly also increasingly rare”
(Children in Scotland member)

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