

**Scottish Government funding of voluntary organisations**

**A case study of voluntary sector intermediaries**

**Insights from senior leaders of voluntary
sector intermediaries**

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**September 2022**

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# Key findings summary

This case study is part of a series of work undertaken by the Scottish Council for Voluntary Organisations (SCVO) looking into the funding situation of Scottish voluntary organisations. In this paper, we draw upon the experiences of voluntary sector intermediaries to shine a light on how the Scottish Government directly funds voluntary organisations, including the processes it adopts and how it interacts with those that receive funding.

Intermediaries are organisations whose members are primarily other voluntary sector organisations or individuals that share a common interest or purpose. Also called umbrella bodies, membership bodies or network bodies, their primary role is to support and represent these members. National intermediaries are effective partners for government, parliament, and funders, with their members and networks contributing to vital policies and strategic outcomes. These organisations also serve as a conduit or bridge between their members and others. They support their members by building and sharing intelligence, providing information, and offering organisational development and capacity building.

Serving as a case study of how the Scottish Government funds voluntary organisations more broadly, this briefing makes the case that national intermediaries, as with other voluntary organisations, are at risk because of a lack of fair funding. In this paper, we summarise and publish the views of senior leaders of voluntary sector intermediaries from across Scotland, highlighting the impact of unfair funding on national intermediaries. We outline what is by no means an exhaustive account of what needs to change in how the Scottish Government funds national intermediaries and other voluntary organisations over the next two years to deliver fair funding for Scotland's voluntary sector.

This paper focuses on the funding that intermediaries receive directly from the Scottish Government, which includes funding that is disseminated by organisations on behalf of the Scottish Government. Many intermediaries recognise these issues in the funding they receive from non-departmental public bodies and via third-party organisations. We intend for this paper to assist all those responsible for improving the experience of grantees, including across all devolved Scottish Government funds.

**The main funding challenges that intermediaries face with Scottish Government funding include:**

* The uncertain annual cycle of year-to-year funding
* Untimely decision making and payment of Scottish Government grants
* Static levels of funding with no inflationary uplift, sometimes up to six years
* Inconsistent relationships with senior civil servants that have power to make changes
* A lack of flexibility in existing funding arrangements

**The impact of these funding challenges on voluntary sector intermediaries include:**

* An inability to plan for the long-term reducing the impact organisations can have
* Putting pressure on governance in a way that creates difficulties for leaders to comply with legal duties
* Constraining service delivery by focusing on what government wants, rather than what is needed
* Harming financial sustainability by leaving organisations vulnerable before each financial year
* Diminishing the workforce’s wellbeing through limiting fair work practices such as secure jobs
* Limiting capacity to have the most impact by forcing leaders to chase small, short-term pots of funding

**Factors contributing to good funding relationships between voluntary sector intermediaries and the Scottish Government include:**

* Good quality communications with civil servants at all levels and in all relevant teams
* Familiarity and consistency in the funding relationship with the Scottish Government
* Supporting learning and capacity building to improve approaches and outcomes together
* Trusting each other to manage and overcome challenges in two-way relationships
* Focusing on outcomes and how partners can work best together to achieve these

**A convincing response from the Scottish Government and those responsible for disseminating funds would include:**

* Adopting timely processes for funding decision making and payment of funds
* Providing written documentation for effective and consistent communication
* Offering real multi-year funding falling between at least 3-5 years with uplifts
* Providing an inflationary uplift to ensure that organisations and their staff can meet rising costs
* Providing meaningful core costs to help to build services and support income generation
* Being transparent around funding to organisations and from government
* Offering flexible unrestricted funding to support changing need and gaps
* Modernising approaches to monitoring and reporting to capture real success
* Building consistent and accessible applications and fund information to help with planning
* Establishing visible relationships and partnership from senior civil servants who
 have power.

**To address these challenges, those interviewed said that:**

**On funding issues, SCVO should: lead on sector funding issues and finding solutions with Scottish Government and intermediaries**

* support a strong collective voice between intermediaries and the wider sector to
influence funding
* work with intermediaries to get the balance right in pushing for change on funding

**More generally, SCVO should:**

* continue one-to-one conversations similar to the calls as part of this investigation
* enhance the resources it already provides, such as the guide to intermediaries
* ensure its engagement and influencing activity is accessible for all organisations
* make the case for intermediaries and voluntary sector infrastructure whenever
 possible
* always build evidence that is fair and representative to maximise support and
 impact

# Background

**Scene setting**

Precarious funding risks the voluntary sector’s contribution to Scotland’s economy and society. We need reliable funding, and SCVO is committed to championing solutions that will help maintain and enhance the voluntary sector’s presence and role in Scottish society. Research and engagement underpin these efforts.

SCVO is carrying out a range of engagement and research initiatives connected to funding. Examples include our in-depth interviews with randomly selected organisations based on factors such as income and location, and our partnership work with stakeholders to build a Scotland-focused research community called the Scottish Third Sector Tracker.

On top of broad representative activities such as these, we also want to dig deeper into the funding experiences of specific groups. This has a dual aim of working with those groups to improve their situation and to extract learning and solutions that might be applied elsewhere or support findings of other research and engagement around funding.

One of these groups is voluntary sector intermediaries. These organisations experience considerable challenges in their funding just like many other voluntary organisations. Those challenges are not always unique and can offer a snapshot of the many barriers that most, if not all, voluntary organisations face.

Focusing on intermediaries provides a pre-defined group of organisations to work with and who share similar roles in providing assets, systems, services, and networks upon which the wider voluntary sector relies. An Intermediaries Network already exists from which gather intelligence and to work together to find solutions.

**Our approach**

We invited SCVO's Intermediaries Network members to book a 30-minute meeting with our Policy & Public Affairs Manager. These one-to-one conversations aimed to help SCVO listen to and learn from the experiences of intermediaries that receive Scottish Government funding, to inform our policy and influencing now and in the future.

SCVO spoke to senior leaders from 13 intermediaries between June and July 2021. Combined, these intermediaries covered eight distinct policy areas. Questions unearthed the issues and challenges with Scottish Government funding faced by intermediaries. They probed the impact on organisations and sought solutions that could reduce this.

We spoke to organisations that receive various restricted and unrestricted sources of income from several Scottish Government departments and via organisations who disseminate funds for the Scottish Government. Funding amounts varied between £50,000 and £1.5 million. Nearly all organisations received core funding from the Scottish Government, comprising anywhere between 30% and 90% of an organisation's total income.

Funding from the Scottish Government was often the largest single lump sum received. Most of the organisations we spoke to rely heavily on core funding from the Scottish Government. Some say that if they lost core funding, they would either close their doors or seriously scale back their operations.

This paper does not disclose the identity of any of the organisations SCVO interviewed. SCVO has sought further feedback from those organisations that kindly took part in the conversations, as well as from the broader membership of SCVO’s Intermediaries Network at a meeting in February 2022.

**About voluntary sector intermediaries**

**What intermediaries do**

Intermediaries are voluntary sector organisations whose members are primarily other voluntary sector organisations that share a common interest or purpose. Intermediaries are also called umbrella bodies, membership bodies or network bodies, and their main role is to support and represent their members.

There are over 60 national intermediaries represent organisations working in the same field, such as youth work, arts, health, or heritage. There are also 32 Third Sector Interfaces (TSIs) in Scotland, one for each local authority area. Each TSI is embedded within the community it serves and has a deep, localised knowledge of the voluntary sector in their area.

Scotland’s intermediaries directly reach thousands of member organisations, and indirectly support many thousand more organisations and individuals across Scotland. There are over 40,000 voluntary sector organisations in Scotland. These organisations are supported by a strong network of Intermediaries that inform members about current policy issues, communicate the views of their members to policy makers, and provide a range of vital services.

Intermediaries provide communication channels and facilitate networking between members. They also provide a range of practical support services, from general information and signposting to direct services such as members’ helplines, payroll, finance, HR, and IT. Many intermediaries provide organisational and staff development support, including support with business planning, funding, and tailored training for staff. They also help develop the evidence base for policy and practice and facilitate the sharing of good practice.

Some intermediaries support hundreds of groups. Others provide tailored support to a small number of organisations. But all intermediaries indirectly reach beyond their direct members to thousands of local communities and individuals across Scotland.

**Why intermediaries are important**

When we talk about a high-performing economy, we recognise the need for there to be reliable infrastructure that connects all the different parts and enables goods and services to flow. Just as the economy relies on solid infrastructure, so to do individual sectors such as Scotland’s voluntary sector. Infrastructure makes up the systems that are the backbone of the sector, needed to help organisations achieve more than they could on their own and to boost the sector’s potential.

Voluntary organisations – particularly those that are small, local, or specialist – need support from intermediaries that know their geographical areas or policy issues and can support frontline organisations with securing funding, maintaining good governance, staying informed, and keeping costs down by offering shared core services that any organisation needs to operate. Intermediaries provide a valuable entry point to accessing the information, knowledge, and skills that they need.

That entry point is also crucial for government, parliament, and the wider public sector. It provides an interface between the voluntary sector and public bodies to involve citizens and civil society organisations in the design, delivery, and scrutiny of policy, projects, and services. Intermediaries’ understanding of their areas means they are often well placed to manage government funding for their sector, and they can be a bridge into the Scottish Government and Parliament for organisations less able to speak openly about big issues. Not only this, but intermediaries also connect civil servants and politicians with beneficiaries who they otherwise would have no access to; those furthest from the mainstream of society and who tend to view official communications with distrust.

The pandemic has highlighted the importance of fostering the sector’s infrastructure. The Scottish Government worked closely with intermediaries at a national and local level to identify needs and get money to people and communities. Funds were designed and managed in partnership with these bodies, who were recognised for their vital contribution as community anchors and trusted to disseminate funds. The pandemic revealed the importance of solid voluntary sector infrastructure not only to the preparedness and resilience of Scotland’s voluntary sector but also of the public sector.

**Part A: The funding challenges that voluntary sector**

**intermediaries face**

The complexity and diversity of Scotland’s voluntary sector raises difficulties in summarising the big issues and challenges faced by voluntary sector intermediaries that cover so many areas of public life. However, some clear themes surfaced during SCVO’s interviews with senior leaders of voluntary sector intermediaries, with the main challenges being that of **year-to-year funding**, **untimely decision making and payments**, **static levels of funding**, **inconsistent relationships**, and a **lack of flexibility**. This section details what senior leaders said on the funding challenges their organisations face.

**Year to year funding**

Most voluntary sector intermediaries interviewed face an annual cycle of uncertainty when it comes to the funding they receive from the Scottish Government. This short-term public funding creates a situation where organisations can struggle to deliver projects and plan their workforces. Not only this, but organisations are wasting resources by chasing short and repetitive funding cycles.

Where organisations are receiving ‘multi-year funding,’ this is usually rolling annual funding based on annual decision-making. This is a difficult situation for both leaders and their staff, and for all the talk around moving to longer-term funding, adequate progress is clearly not being made across the whole or indeed most directorates of the Scottish Government.

**Voluntary organisations said:**

****“The annual cycle of funding presents difficulties in the management of people and giving staff certainty in their jobs. As someone who has been in this position before, it’s scary not to have job security.”

****“We’ve been offered 3-year funding, but this is to be reviewed annually. Even when a rolling agreement is in place, changes can be made at short notice that have a huge impact on the organisation.”

****“The Scottish Government have a good narrative around moving towards human rights budgeting, but it’s not reflected in how they manage funding.”

****“This is ultimately about government’s expectation that it can shift financial risk onto third sector partners who are in a worse position to manage this risk.”

****“Year to year funding is a problem. A longer funding cycle would mean that it feels less stark to challenge government on other matters.”

****“We need to manage financial risk for now, but we also need to be able to look ahead – we need to be able to focus on risk management, strategic planning and so on.”

****“We’re on a three-year rolling agreement, but there’s no real planning horizon out of this. Money is still annual and therefore there is no long-term financial security for us.”

****“All our funding is year on year, but it is better when we at least receive a written policy to continue funding over a set, longer period. This feels safe, but multi-year funding is needed.”

****“We’ve seen lots of changes in how we’re funded. We’ve been on one year funding, multi-year funding, had funding extended for six months while decisions are still to be made. Our aim is for a 3-year cycle.”

****“Other funding comes from membership subscriptions; we cannot rely on this income to plug gaps in government funding because our members are struggling too.”

****“Given the size and complexity of funding applications and the fact that these are annual, it’s impossible to take any time off to recharge and take a break from work.”

****“The annual funding cycle results in uncertainty – we just do what we can do, but we don’t have a plan.”

****“Despite receiving year to year funding, we’re relatively confident that we would get funding. For staff, this is psychological when we’re only getting an extra six months or a year at a time.”

**Untimely decision making and payments**

A key element of the annual uncertainty caused by year-to-year funding is the time that those organisations interviewed must wait to learn whether their funding will be continued next year. They are left only to assume it will. The lack of straightforward and timely processes in decision-making by the Scottish Government presents a significant barrier to the planning and delivery of projects and services and supporting the workforce.

When decisions relating to funding are made, this can often slip into the new financial year. Organisations must chase the Scottish Government for decisions, and they feel as though it is a constant battle to secure a timely decision. Even when a decision is made, organisations are often left waiting months for the payment of funds to reach their accounts, meaning that those unable to dip into their reserves or other income sources are left in extreme difficulty.

**Voluntary organisations said:**

****“An immediate issue to be solved is timing of decisions. Every year, it’s a battle to get a decision out of them. This year has been better – we got a decision in March and got full payment in first week of April. A change of civil servant may have made the difference.”

****“We get year to year funding. Last year, we didn’t get confirmation until well into last April. Letters of comfort and positive conversations are helpful and ease our concerns, but year to year funding is a challenge.”

****“It was better this year as we received notification and confirmation of funding early in January, with funds received end of March. Previous years, funding has not come through until July, meaning we must delve into our reserves. We’re lucky we can!”

****“The delay in the UK budget last year had a knock-on effect last year. The Scottish Government used this as an excuse – even once we had our funding agreed, it took ages to get finance to send the money through.”

****“We’ve only just got our letter of confirmation of funding (June) – most years, we do not get written confirmation of money for the next year until at least March. Usually, we must chase this.”

****“It was the same story again last year, first due to Brexit and then due to COVID. Organisations were offered three months additional funding to cover the gap into next year, but we still haven’t seen it!’

****“Payment to us was delayed for several months. The explanation given to us was around Scottish Government internal finance mechanisms. However, we know other organisations got their funds in April.”

**Static levels of funding**

Voluntary organisations interviewed explained that they often do not see any adjustments for inflation, making it challenging to meet cost-of-living increases and rising costs while being expected to deliver the same services or more with static funding. Many of those interviewed have received the same level of funding for many years, in some cases five or six. Concerns are taken onboard by the Scottish Government, but this often does not result in any meaningful change.

These voluntary organisations face a unique challenge in the sense that they do not want to pull money away from those organisations they represent. They recognise that in most cases, the entire sub-sectors they operate in are underfunded, and the challenges they encounter are often similar to those of their members. While core funding from the Scottish Government is extremely appreciated, a significant challenge is securing core funding from other sources, meaning adequate government funding is even more essential.

**Voluntary organisations said:**

****“We’ve had the same level of funding for many years and it’s simply not enough. I probably didn’t apply for enough. I should have been more ambitious, but I was worried about Scottish Government rejecting the whole thing.”

****“Three-year funding sounds good, but even then, it doesn’t go up at all. It remains at the same level.’

****“Our sector faces huge challenges – it’s an underfunded sector in general, and we are part of this underfunded sector. That’s reflected in terms of Scottish Government funding.”

****“There are very few core funding options available to us other than the funding we get from Scottish Government. Funders don’t want to fund the core part that we rely on. The challenge is knowing where else to go for funding.”

****

“We’re always asking for more funding for the sector and for ourselves. In fairness, it is taken on board, and they are reviewing policies and strategies, but there’s just so little money for us.”

****“It’s difficult to get core costs from grants and foundations – you might get a nominal contribution for management costs but that’s it.”

****“We would struggle without this core funding from the Scottish Government. We are so grateful, but it is still not enough. Even with reserves and other funding sources, we would not survive.”

****“When asking for funding, we do not want to step on toes of organisations we are there to support. We don’t want to take money from the front line – we need and want to do more, but we struggle with resource and capacity and not wanting to draw funding away from others. We maintain our values by asking “do we need that funding and is it essential.””

****“We have no core funding commitments from the end of March next year. Beyond then, if there’s no further commitment made, we can only operate for another six months.”

****“We’ve noticed that because we are doing well in other areas, it is much harder to get investment because we’re not struggling.”

****“The biggest challenge we face is that there is never an uplift in our grant offer. We’ve had the same money from year one, and that’s many years ago.”

****“Our income from the Scottish Government hasn’t changed over the past five of six years. It means that staff have received no pay rises in that time to meet the changing costs they face.”

**Inconsistent relationships**

Those interviewed explained how important relationships with the Scottish Government are and that in many cases these are positive. Unfortunately, this does not always translate into the funding experience. There is also a fine line when being a critical friend given the annual uncertainty surrounding vital funding from the Scottish Government.

**Voluntary organisations said:**

****“Our relationships with the Scottish Government and funding intermediaries are mixed. It’s usually good but is so often down to individuals. It’s difficult when there are so many changes in people and turnover.”

****“It’s all about relationships, but we have so little time to do this. As a CEO of a relatively small organisation, I need to do everything. It’s difficult to form those relationships.”

****“We have a very good relationship with Scottish Government. We are on lots of working groups. Unfortunately, this has not translated in grant funding.”

****“We must cultivate strong relationships in government, but I’m nervous about this. I went to our board this year to ask to get stuck into a political engagement plan to engage with the Minister and Scottish Government contacts, but that’s a challenge in itself.”

****“We’ve not experienced any issues in our relationship with the Scottish Government just yet. It’s carefully managed by our board, but there will be upcoming conversations.”

****“We’re meant to be a critical friend of the Scottish Government, but do they need a critical friend? Do they see the need of a critical friend? It’s a fine line when it comes to funding relationships.”

****“Difficult conversations with government in relationship to members’ funding – we’re aware of how far we can push it. We must hold the reputation for sector; if we break it with a part of government then it’s lost with others.”

****“We know relationships with government are so important. So much so, we’ve used some funding to bring in expertise to support with this, but only because we’re forced to look at damage control.”

**A lack of flexibility**

Those interviewed stressed the importance of unrestricted core funding for voluntary organisations as opposed to funding often restricted to specific projects and outcomes. Unrestricted funding would enable them to feel more secure and plan for the long term while responding quickly to a changing environment, as we have seen during the pandemic.

**Voluntary organisations said:**

****“We’re now using our funding for a different reason. We’ve explained this to government, and they haven’t argued and have accepted it, but it’s always a challenge with planning and making up our minds. It’s by chance most of the time.”

****“The lack of flexibility is so frustrating. We have an annual agreement, a strategic plan and deliverables agreed, but it doesn’t allow for the adapting that needs to happen. It’s been better this year, perhaps due to COVID.”

****“When something new comes up or we must address a new development, it’s difficult for us to tackle it – it’s difficult to get funding that allows for this flexibility.”

****“We need additional security as well as ability to adapt, but this is tricky when we must report on what we said we would do. Relationships help, but it’s still a mixed bag.”

‘We often work with consultants to manage projects. We must agree in advance our pots of funding with a particular consultant knowing we might need to use it in the financial year. However, it would be better to use the funding when needed, rather than feeling forced to spend because we might not get it back next year.”

****“The inflexibility makes it a challenge to be strategic in what we fund ourselves and how we use money.”

**Part B: Exploring the impact of funding challenges on**

**voluntary sector intermediaries**

This section confronts six of the biggest affected areas from the impact of funding issues and challenges faced by voluntary sector intermediaries, which include **an inability to plan for the longer-term**, **governance under pressure**, **constrained service delivery**, **reduced financial sustainability**, **diminished wellbeing of the workforce**, and **limited capacity to do the job**. This section details what senior leaders said on the impact of funding challenges their organisation.

**An inability to plan longer-term**

Those interviewed discussed the restrictions that annual funding places on their ability to think and plan for the long-term, diminishing organisations’ confidence and causing frustration that they cannot make the impact they would like to have. Organisations feel they cannot operate on a strategic basis with short extensions to funding.

**Voluntary organisations said:**

****“The annual funding cycle means we’re restricted in how we can strategically plan. It makes it difficult to support our membership and do what we want to do.”

****“It’s so difficult to plan with year-to-year funding. We’re wrestling with what to do with our Articles of Association – they need to change as our membership approach has changed – but can we truly prioritise this when there are more urgent, pressing matters?”

****“It’s so tricky to plan ahead with funding how it is, even without the pandemic. We cannot plan beyond March, and we’re just second guessing everything. It’s very difficult.”

****“We cannot operate on a strategic basis and how we’re funded makes a big difference for our confidence.”

****“We’re in a period of short extensions, so we’re not able to sit down and thing about next year. We’ve had two years of very short-term funding, or just adding to the initial three years we had.”

****“We could have done more with new initiatives and supporting government’s mission if funding was less short-term.”

****“We try not to let the short-term funding arrangements impact on delivery, but of course we’re subconsciously focused on the short term.”

**Governance under pressure**

Those interviewed are tasked with supporting their Trustee Boards to run organisations in a responsible and effective manner. Annual accounting requires organisations have the resources needed to continue operating on a going concern basis. Uncertainty places significant pressure on leaders and those with a legal duty to demonstrate this.

**Voluntary organisations said:**

****“I have to ask my board for a lot – I’m asking them to approve my annual budget when the biggest chunk of our funding is missing and not confirmed.”

****“Our funding from the Scottish Government is my number one concern as a leader – there’s risks with trustees, with the auditors, and also with staff team assurances.”

****

“It’s a constant worry for our board.”

****“Independent examiners want to know we’re going concern and have Scottish Government funding for the year coming up. We need to provide this information when its needed.”

****“Delays in funding have a real impact in terms of cashflow. We have healthy reserves for a small organisation, but delays have impact on what we can really spend money on over and above rent and salaries.”

****“It’s a huge governance issue for our board – we manage our independent examiner, board, and staff okay. As a leader, we manage their fears but cannot say all is fine.”

**Constrained service delivery**

Organisations feel that their ability to deliver services for their members and wider communities are constrained by gaps in support, wasted time in repetitive funding negotiations, fragmented funding sources, and outdated reporting mechanisms that do not focus on successful outcomes or prioritise activity that can have the most impact.

**Voluntary organisations said:**

****

“There’s an implicit and explicit requirement in our funding arrangement to do what the Scottish Government wants us to do, rather than what our sector or our members want.”

****“If we closed, which is possible, there would be an even greater diminishing voice in our sector, which gets hardly any funding. We’re there to speak not only for voluntary sector, but entire sector – that’s not recognised or funded.”

****“We try to limit impact and assume the funding will come in. We get on with the job and work towards our strategy and vision. But time is taken up with uncertainty in negotiations and putting a jigsaw together, rather than delivery.”

****“We have funding in place but its piecemeal and there are gaps in the support we can provide because of this.”

****“There’ always a challenge around whether you get one pot and not another. It distracts us from day job and it’s an uncertain jigsaw that takes so much time to piece together.”

****“The challenges we face impact on projects we can support through grants, such as staff turnover, time management and planning caused by insecurity.”

****“It’s simple – we had to pull back on an area we were working on, such as a service level agreement with a local authority, because the local authority did not distribute funding provided by the Scottish Government.”

****“Outdated reporting means we’re unable to be as flexible and adaptable as we would like to be to respond to the changing needs of our members. We’re limited by the structure of our funding arrangement.”

**Reduced financial sustainability**

Challenges in securing core funding from sources beyond the Scottish Government means that any delay to funding or static inflexible funding will put the financial sustainability and sometimes even the survival of organisations in harm’s way. Most organisations are coping okay, but this is unsustainable, and a sudden change could have significant consequences.

**Voluntary organisations said:**

****“We’ve been funded by the Scottish Government for a long time but there is a lack of security. Our funding agreement wasn’t completed until the end of April and into the new financial year.”

****“The Scottish Government are bad at offering funding agreements before the end of financial year, and this causes an annual worry about our financial position.”

****“We’re often told by government that ‘this is just normal; I’ve told you you’ll get funding.’ They have no concept of the stresses this causes on me and on staff.”

****“The annual cycle doesn’t have too much of a negative impact. Our subscription income is year by year but at least we have this, and we are not completely hand to mouth. We’ve not got a major cashflow issue.”

****“Whether you can deal with this is dependent on a charitable body having reserves. Even then, the short-term nature leads to turnover of staff – they leave for new roles.”

****“There’s a constant question about financial sustainability, despite being important infrastructure for the sector and recognised as such in our government agreement.”

****“Delays cause a huge problem. We have a savings account with a 60 days’ notice period – we must make a decision to draw down money or whether we can we keep going. Our cash got so low, but we had enough to pay salaries.”

**Diminished wellbeing of the workforce**

The most significant impact that these funding challenges and indeed the cumulative impact of consequences covered in this section relates to the wellbeing and consistency of these organisations’ workforces, the lifeblood of any organisation. Staff morale at all levels surfaced as an area where the impact of funding challenges is felt, from those on short-term contracts to the demands of managing these tensions felt by senior leaders. The word *‘sanguine’* was used in multiple interviews when describing the situation; leaders are experienced and familiar with the annual anxiety caused by uncertain funding arrangements, but this is optimism in a bad situation.

**Voluntary organisations said:**

****“Staff morale is a big issue. The funding cycle is not good for job security. Our staff go through this hassle every year, although the money comes through in the end.”

****“Where is the funding model of support to look after staff in different roles and capacities? Where is fair work and flexible work?”

****

“Online during pandemic has helped to extend reach as a national body, but I don’t have a team – I can’t necessarily do what I would want to.”

****“Being a leader just now is a stressful existence. I’m firefighting and treading water and more of CEO time is being spent on the nitty gritty operational work to get through rather than focusing on the long term to support a buoyant sector.”

****“It does have an impact on me as a leader. I try to keep positive and spend time on what we can control.”

****“We got funding for a year but once it came in, I had to start a new funding application. I had a year to play with once funding came in, but I didn’t have a holiday because I needed to spend the summer on funding applications. There’s so much stress with applications failing.”

****“Junior staff are concerned while leadership are sanguine – we’re just used to it!”

****“The entire team are aware of how precarious it is, but we’ve never put people on notice of redundancy. If funding is not set, we work with the management team and board to manage this. This does impact on people and leaders will take the brunt.”

****“I feel sanguine about the challenges because I’ve been in this boat before elsewhere in the sector. Going through rounds and rounds of funding is just the norm, but not necessarily right.”

****“Fixed term contract to fixed term contract is not helpful. We can’t appoint on open contracts, and it’s always difficult to recruit for fixed term with extension subject to funding. It’s been difficult to recruit lately because of this – we’ve used some of our surplus to offer extended jobs.

****“We’ve just had to focus on cost cutting as it’s been a tight year. We’ve had to give up our previous office space to save some funding.”

****“We cannot sustain this level of grant funding and staff levels. The Scottish Government are appreciative, but we’re always asked to do more.”

****“Staff understand what’s happening. I try to share as much with staff as I can, but I don’t want staff to worry about their jobs and security – it’s not their role to worry and it’s not fair.”

**Limited capacity to have the most impact**

While limited capacity could fall under constraining service delivery, the capacity issue was a key topic raised during the interviews, particularly in relation to finding additional funding from other sources to ensure sustainability in the short-term. Those interviewed also spent a great deal of time chasing the Scottish Government for a decision or has experience of spending lots of time adjusting to new monitoring and reporting approaches that often change without any real strategic thought as to how these could be improved in partnership.

**Voluntary organisations said:**

****“A lot of our time is spent on fundraising – it’s stressful, especially keeping colleagues in the job. Before we have been okay but it’s getting harder.”

****“Administratively, all the looking for funding and chasing Scottish Government decisions takes up time. The additional work following up civil servants is also a burden – we don’t want to come across as a pest, but we must keep at them.”

****“A lot of time and energy is spent on keeping things afloat, all the while not achieving the impact we want to achieve.”

****“We keep an eye open for odd funds, but this is stressful and takes up much of our time.”

****“New civil servants come in all the time and decide that reporting is going to be different, done in their way. New templates are issued to us, new catchups arranged, and this all takes time. After a while, we switch back to old ways of reporting and the cycle continues.”

 **Part C: Not losing sight of what works in funding relationships**

The aims of this engagement were to identify the challenges and issues, their impact, and what changes are needed in how voluntary sector intermediaries are funded by the Scottish Government. However, not everything was negative when senior leaders discussed their own experiences, with funding often being the ‘fly in the ointment.’ Many of the intermediaries we spoke to enjoy close relationships with civil servants and recognised their good approach to working with the sector.

1. **Quality of communications with civil servants**

Some organisations noted that they have positive relationships at an operational level with the teams they work closely with in the Scottish Government. Those organisations welcomed the level of contact they have with these civil servants, though they reflected on the disappointment that positive relationships at this level often do not translate into a positive funding process.

**Voluntary organisations said:**

****“Our previous funding arrangement had an atmosphere where we were not able to even talk about funding – we can with the Scottish Government.”

****“Everything else about our relationship with the Scottish Government is positive. Funding is the fly in the ointment for us.”

****“We have good relationships with our civil servants. We’ve not had much contact recently due to COVID which is a bit frustrating because it’s so good to know what’s happening. Usually, it is much better.”

****“We have good communications with the Scottish Government. Unfortunately, it just doesn’t translate into actual progress on funds.”

****“Scottish Government communicate well. We have standing meetings monthly, and they make themselves available.”

****“When the pandemic struck, there was no process for sitting around the table across sectors and the pandemic enabled this. It’s strengthened partnerships across sector, not just with government.”

1. **Familiarity and consistency in the funding relationship**

Organisations that reported a positive working relationship with key civil servants reflected on the importance of familiarity and consistency. A positive relationship was more likely to be reported by organisations whose key contacts remained the same from year-to-year and therefore understood their organisation. Consistency in decision-making and payments was also welcomed by some.

**Voluntary organisations said:**

****“The team we work with is small. We have a key contact, but we know the whole team. There’s a good level of awareness of the team and who is doing what”

****

“Our key contact has stayed the same for the last seven years, which helps.”

****“It’s based on an informal ‘who you know, what you know’ but that works for us.”

****

“This year, money has been timely. Latest half year funds were dependent on getting our end of year report signed off. The moment it was signed off our funds were sent over between April and May.”

****“We find the decision making quite smooth – end of year report is followed by second years money.”

1. **Supporting learning and capacity building to improve approaches**

Some organisations pointed to funds that provide suitable learning and capacity building as part of the funding package, where organisations applying to or receiving funding from the Scottish Government were able to access training and support opportunities. This includes support with writing an application and providing suitable feedback on fund activities.

****“The recent funds where we’ve received capacity building experience and there’s been recognition of the tools and package of support needed to support applicants has been great.”

****“Our civil servants said they liked the way we report on what we have achieved. We’ve had good feedback.”

“The fund we’re part of is an excellent fund. It has training opportunities, and they’re prompt to get back to you with feedback.”

****“They’re not great at recommending solutions on reporting on our impact, but they do give us support when we ask.”

1. **Trusting each other to manage and overcome challenges**

A couple of the organisations interviewed felt that the Scottish Government were supportive when challenges surfaced over the past year and that they were able to work together to overcome problems and find solutions through good levels of trust and understanding.

****“We’re pretty good at sharing information. If we detect unrest or problems early on, we can tell the Scottish Government about this confidentially.”

****“We went to the Scottish Government last year (2020) to address a shortfall, and government had the goodwill to say, *‘we’ll pay you for this bit of work’*.”

1. **Recognition from civil servants of the work voluntary organisations do**

One organisation spoke at length about the benefits of their organisation feeling recognised and appreciated by civil servants for what they do and the value they add to the government’s aims and ambitions.

****“We have really good relations with the civil servants we work with. They recognise we do great work, and we feel valued. They trust us and they are grateful.”

1. **Focusing on outcomes and how partners can work best together**

Another organisation focused on the sense of partnership with the Scottish Government and noted that theirs was not a typical funder-fundee relationship because of the clear focus on how they could achieve outcomes rather than transactional form-filling.

****“Our relationship isn’t a typical funder-fundee relationship. It’s focused on how we can support outcomes, and they don’t ask for much in the way of reporting.”

 **Part D: A convincing response from the Scottish Government and those responsible for disseminating funds would include:**

There is no silver bullet to solving the funding challenges faced by voluntary organisations in Scotland, and particularly national voluntary sector intermediaries. However, the Scottish Government can change things for the better by nature of their funding. No less than 10 main themes were covered by senior leaders when exploring changes to funding that are needed to maintain and enhance intermediaries’ capabilities and preparedness in the months and years to come.

**Adopting timely processes**

Voluntary organisations need suitably communicated notice periods advising when the Scottish Government and those that disseminate funds will make annual funding decisions and when they can expect payments.

Some organisations felt that the past financial year (2021/2022) was far better than before. However, we are far from consistent, timely decisions and payments across the Scottish Government.

At the very least, a timely process for funding would mean that organisations have certainty before the beginning of the new financial year. Anything less than this is inadequate practice and must be addressed.

Some organisations are forced to cope with delayed funding decisions and payments by using their reserves. However, this is not appropriate and indeed most organisations are unable to rely on this.

If funding is not to be continued, organisations need several months’ notice to be able to fulfil legal responsibilities and handle redundancies appropriately by providing staff with three months’ notice.

The transfer of risk to voluntary organisations through delayed decision-making and payments is unparalleled, with voluntary organisations left with no idea whether they'll receive funding.

In preparation for the new financial year the following April, the Scottish Government and those that disseminate funds on their behalf should make significant efforts to adopt timely processes by:

* entering conversations with intermediaries on next year’s funding before and no later
 than August
* providing confirmation of a funding decision before and no later than December
* paying funds into an organisation’s account before and no later than the tax year
 start date in April.

**Providing written documentation**

Written documentation is essential for effective and consistent communication between the Scottish Government and intermediaries. It is also vital for good governance.

The Scottish Government and those managing government funds should develop and sign-off partnership agreements with intermediaries promptly. Partnership agreements should never be left unfinished without signing.

They should provide intermediaries with timely letters of comfort for in-principal funding for the new financial year adhering to the above timescales; this helps assure boards and auditors.

They should also provide written confirmation of timelines for discussing, approving, and paying intermediaries' funding; this offers welcome relief for leaders navigating the annual process.

**Offering real multi-year funding**

Intermediaries could make more of a positive change with greater impact if they had access to longer-term multi-year funding from the Scottish Government. Multi-year funding that is longer-term falls between three and five years and should not be confused with a multi-year commitment to rolling funding that is reviewed annually and that has no inflationary uplift across the years.

Generally, intermediaries need a minimum commitment to funding of at least three years ahead, and some public bodies and independent funders are already funding in this way. Intermediaries recognise that the Scottish Government will often need to enter into these multi-year agreements with some caveats and this understandable.

**Providing an inflationary uplift**

Intermediaries are being asked to deliver more for less, sometimes with the same funding as was provided more than six years ago.

The Scottish Government must acknowledge the many intermediaries take real terms cut year on year, as is the case for many other voluntary organisations.

Intermediaries need the Scottish Government to build in in cost increases year on year, and annual and multi-year agreements should be uplifted in line with inflation at the very least.

 **Providing meaningful core costs**

Intermediaries need a genuine contribution that covers most core costs. This will help to build services, support income generation, and adapt to changing circumstances.

The Scottish Government must work with intermediaries to recognise what is enough core for each intermediary to maintain a solid level of capacity to maintain delivery.

The Scottish Government should also work with intermediaries to give more thought to how funding is put in place to support intermediaries to innovate and diversify their income base.

**Being transparent around funding**

There should be transparency around which intermediaries are being funded, by which departments, non-departmental public bodies, and third-party organisations, and by how much.

All funders should publish their funding on a website as well as the outcomes that are agreed with funding recipients.

Though this might be uncomfortable for some, taking this approach will make it easier to identify and fill gaps, and learn from good practice in planning and reporting.

**Offering flexible unrestricted funding**

While multi-year funding necessitates more flexibility in how funds are used as the landscape changes, the same trusting approach is needed in single-year funding.

The Scottish Government should look at the work of a variety of independent funders to understand how they are able to provide more freedom in their funding.

Flexibility should not be by chance but rather be part of in-built, regular conversation about changing need, gaps in provision, and what more or different support is needed.

**Modernising approaches to monitoring and reporting**

There is also more to funding intermediaries and voluntary organisations than the money itself. Intermediaries welcome a package of support around the funding they receive that supports capacity building and recognises the support and ongoing dialogue that is needed.

Part of this should involve a two-way conversation and two-way decision making relating to how the success of intermediaries’ work is measured during and after the funding period. Intermediaries can better demonstrate their impact when they are not confined to traditional reporting mechanisms.

**Building consistent and accessible applications and fund information**

Intermediaries, as with other voluntary organisations, need information on funding opportunities as soon as is possible. They need to know what new funding streams there are, what they cover, and how to apply?

Intermediaries need ample time to consider and submit proposals to new and existing funds given the annual cycle many currently contend with. This information is needed for budget planning and forecasting.

Greater consistency with funding processes and applications would also help, as this can vary from submitting an application to sharing a business plan. Knowing what the process is in advance helps with planning.

We need to see Scottish Government departments, non-departmental public bodies, and the different organisations responsible for disseminating Scottish Government funding be more active in sharing insights, developments, processes and streamlined best practice to improve the experience for grantees.

**Establishing visible relationships and partnership from senior civil servants**

The quality of relationship between intermediaries and the Scottish Government has been identified as a crucial variable that can reduce or compound the impact of funding challenges experienced by intermediaries.

While intermediaries often have strong relationships with the civil servants they meet regularly, many felt that relationships at a much more senior level needed to be more understanding.

The Scottish Government needs to listen to intermediaries to understand what certainty and sustainability looks like for them, and there needs to be a common understanding of, and commitment to this across government.

The Scottish Government should also investigate why the funding experiences felt by voluntary organisations is far superior in some areas compared with others and take steps to remedy this.

 **Part E: SCVO’s role in securing progress on funding - where do we go from here?**

Our conversations with intermediaries were set up with the dual aim of working with them to improve their funding experience and to extract learning and solutions that might be applied elsewhere. SCVO wants to see a convincing response from the Scottish Government and those responsible for disseminating Scottish Government funds to the funding challenges faced not only by voluntary sector intermediaries but across Scotland’s voluntary sector.

If this paper is to add value to both aims, where do we go from here? We asked intermediaries what they considered to be SCVO’s role in addressing the funding issues and challenges experienced by intermediaries. While the comments below are about SCVO’s specific work with voluntary sector intermediaries, they will undoubtedly apply elsewhere.

**On funding, SCVO should:**

 **Lead on sector funding challenges and finding solutions**

****“SCVO should lead on third sector funding issues and how we'd like funds to look. We are in no position to do this work ourselves. And our members won't be, too.”

****“SCVO should lead senior level engagement with Scottish Government on the development of solutions.”

****

“Focus on longer-term thinking on funding and post-Brexit funding”

****“Play an advocacy role with the Scottish Government, bringing together views of the network and others into SCVO policy.”

****“Look at what are the significant systemic issues and how we address some of these.”

**Support a strong collective voice to influence funding**

****

“SCVO to campaign for intermediaries funding – SCVO has a stronger voice, easily recognised.”

****

“Build a collective voice by bringing people together on message.”

****“The government doesn't appreciate the knock-on impact of one-year funding and reduced funding on those on the ground and those we fund – SCVO can help to raise this issue.”

****

“Being a strong voice to get us out of last-minute, annularity situations”

****

“Help to join the dots with similar organisations.”

****“A practical option would be increasing impact by bringing people together.”

“SCVO is an umbrella body. It’s big enough and has leverage to use on behalf of the sector – we face a constant tight rope with how we as a smaller organisation can push.”

****

“SCVO has a key role in connecting local, national, and UK.”

****“We need to think about how we collectively add value. The more we keep ourselves in corners, the less we respond in the way we need to respond.”

****“We need to build a clearer picture of who is impacting what areas – who are the anchors in localities, and we need to know who to go to? It's been building up and changing during the pandemic.”

**Work with intermediaries to get the balance right when pushing on funding**

****“We need to be careful with pushing and working with intermediaries to get the balance right.”

****“There are different challenges for intermediaries, and we need to understand this. SCVO are starting to do it now with one-to-ones.”

****“This work needs to be anonymous. My staff were concerned with me talking about these issues.”

**More generally, SCVO should:**

**Continue conversations similar to these calls**

****

“Conversations like this are really positive.”

****“This type of meeting is exactly what I wanted – I was really pleased to see it when the invite came through.”

****

“More of these calls, then get together as a group – how far can we push it?”

**Enhance the resources it already provides**

****

“The specific things SCVO does for intermediaries are really helpful.”

****“State of the sector survey is always useful”

****“SCVO’s briefing paper on what is an intermediary and what intermediaries do is a really good paper.”

**Ensure its engagement and influencing activity is accessible**

****“Think about places where SCVO policy or other information can go that's easy to understand and accessible.”

****“Make it easy for our members to engage. We may not have the time to do this ourselves on your behalf, but they're a good audience with whom we can share things.”

****“I’ve been to some intermediaries meetings, but calendars are jammed pack – it’s too difficult to attend these.”

****

“Find solutions to engagement that recognise time and capacity issues.”

****

“I'm bad at attending intermediaries’ meetings, although they are really useful.”

****

“Attending the intermediaries group is a capacity issue.”

**Make the case for intermediaries and sector infrastructure**

****

“Make the case for intermediaries and why are they essential.”

****

“Promote the impact and multiplier effect of intermediaries.”

****“Highlight that if government value an area of policy, then having an organisation that promotes this can help generate public support for investment.”

****“Highlight the economies of scale and efficiencies. Showing how much better it could be and impact.”

****Run a workshop/seminar aimed at civil servants. It could cover what the third sector is and what the role of intermediaries is.”

 **Always build evidence that is fair and representative**

****“Everything SCVO says should be for the good of the sector. Having an opinion is not being informed.”

****“I expect my voice to be represented – SCVO should be taking the responsibility on funding, accessibility of it, and levelling the playing field.”

**Concluding remarks**

Overall, our view is that the Scottish Government can and must do more to deliver fair funding, not only for voluntary sector intermediaries – as is covered by this case study – but for all voluntary organisations that rely on this crucial source of income. While voluntary organisations are undoubtedly grateful for the Scottish Government’s continued support and investment in sector infrastructure and in frontline services, it is impossible to ignore the annual cycle of challenges that voluntary organisations experience when applying to and receiving funding.

The interviews conducted as part of this case study of voluntary sector intermediaries provide crucial insights from senior voluntary sector leaders in their own irrefutable words. We know that the Scottish Government recognises the need for a vibrant voluntary sector. In its COVID Recovery Strategy, the government has noted its ‘commitment to working with partners…in the voluntary sector as part of an energetic national recovery endeavour.’ We need to see that energy applied to working with the voluntary sector to deliver fair funding across all funding, including in the funding voluntary organisations receive from non-departmental public bodies and via third-party organisations responsible for disseminating Scottish Government funds.

This paper outlines what a convincing response from the Scottish Government to the funding challenges faced by voluntary sector intermediaries would look like, and this reflects SCVO’s longstanding calls for fair funding across the voluntary sector. Fair funding for Scotland’s voluntary organisations means:

* **longer-term funding models** to ensure security and reduce wasted capacity
* **unrestricted core funding** to ensure the stability needed to plan ahead and to generate the capacity needed to seek out further funding
* **funding practices that are sustainable** –such as inflationary uplifts and full costs – to ensure that the sector too can be sustainable.
* **streamlined and consistent approaches to accessing funding** – such as with applications and reporting – to ensure a level playing field for all organisations.

We have every confidence that those calls can be achieved if all parties the Scottish Government and the Scottish Parliament give their urgent focus to working together with Scotland’s voluntary sector to find workable solutions. SCVO will continue to listen to the needs of voluntary organisations as we make the case at a national level for fair funding for the whole sector, for better supported voluntary sector infrastructure, and for national bodies to apply their energy to systematising good funding practice.

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