

SCVO response to the Finance and Public Administration Committee Resource Spending Review Framework

January 2022

Overview

The Scottish Government has published a 'consultative framework document' on its forthcoming Scottish Resource Spending Review. Resource Spending is the spending on day-to-day running costs of government programmes and administration. The Finance and Public Administration Committee initiated a short, focussed inquiry to inform its response to the Scottish Government consultation. SCVO's response to the committee is detailed below.

1) How clearly does the framework set out the Scottish Government's priorities for the resource spending review?

There is a clear identification within the framework of the three core priorities around child poverty, climate change and a fairer, greener economy. SCVO welcomes the underpinning of this approach through an outcome focused, evidence based, consultative strategy. We appreciate the commitment given in Parliament by Kate Forbes MSP, Cabinet Secretary for Finance and the Economy, to meet with the third sector during this process and look forward to hearing more details about this.

We also endorse the intention of this being the start of a national conversation, and hope to see greater engagement with the sector than was the case with the development of the economic transformation strategy. Alongside this, SCVO welcomes the reference to creating the conditions for the voluntary sector to thrive and we believe this is a vital pre-requisite for realising the Cabinet Secretary's aims of delivering effective public services and maintaining sustainable public finances.

However, given how central voluntary organisations will be to the realisation of these priorities, the framework provides a critical lack of recognition of the acute financial challenges facing the voluntary sector. Despite all the warm words over many years, Scotland's voluntary organisations have consistently had to deal with intense financial pressures, which this framework sadly appears not to address. In the face of growing demand for its services over the past decade, Scotland's voluntary sector has often had to battle not to be forgotten by the public sector and has felt the full force of cuts.

A 2019 report from the then Equality and Human Rights Committee highlighted a range of issues including uncertainty with short-term funding, the impact on partnership working of a competitive funding environment and the limitations of ring-fenced funding that does not cover core costs. These difficulties have been intensified by the pandemic as the sector was hit by a perfect storm of income loss and fluctuating service demand.

Despite this, voluntary organisations have played an invaluable role during the pandemic, and have been at the heart of the response. Both local and national government in Scotland have relied heavily

on the voluntary sector to support people and communities through the public health and economic emergency. This has seen innovative practices and partnerships developed between the voluntary and public sector and this must be at the heart of new funding models.

There are references to multi-year funding in the review document, but this is not explicitly outlined as applying to the voluntary sector. We would have expected to see this Programme for Government commitment included in the spending review, and as detailed in response to question two, multi-year funding for the sector must be an overarching priority for the Government. We do welcome the reference in the document to the need for an increase in grant funding to support the third sector response to higher service demand brought on by to the cost of living crisis. However, the framework needs to go further than that in articulating how it will address sector sustainability. SCVO believes this rise in energy costs and high inflation will compound issues of insecure annual funding, lack of timely payments, and the omission of core costs and inflationary uplifts in many funding arrangements.

This tough environment is preventing voluntary organisations from long term planning, as well as harming financial sustainability and predictability for lenders, and requiring the frequent and resource intensive process of chasing small funding pots at the expense of focusing capacity on service delivery. Ultimately this is hampering the Scottish Government's ability to address its core priorities.

2) What should be the overarching priorities in the resource spending review and how adequately are these currently covered in the framework?

The establishment of multi-year funding across the board for the voluntary sector must be an overarching priority. The framework does identify the intention to publish multi-year spending plans in May 2022, but does not specifically identify this as applying to the voluntary sector. It must be an integral part of both Scottish Government funding for the sector and a key condition of local authority multi-year funding given the reliance on voluntary organisations at local level.

We welcome the interest shown by the Finance and Public Administration Committee in multi-year funding during the pre-budget process, and point to comments from the Auditor General and a plethora of reports over many years, which have called for a meaningful shift away from annual budgeting. The most recent Programme for Government also contained a commitment to develop longer term funding models for the sector and in Parliament in December 2021 Kate Forbes MSP, Cabinet Secretary for Finance, agreed that the third sector should receive multi-year funding. The Social Renewal Advisory Board also included a call for multi year funding, asking 'If not now, when?'. Now is the time for this to become a reality and it must include the voluntary sector. Not just in direct relation to these three core priorities, but across the board for voluntary sector funding from both national and local government.

The framework correctly outlines how this would 'provide our delivery partners and businesses, communities and individuals across Scotland with some certainty on which to base their own forward planning'. However, the benefits for the sector and in turn the services they deliver would be far greater than this. Having predictable income would not only ensure that voluntary organisations would be better placed to plan services, but would provide a greater continuity of service, which individual service recipients and communities so greatly value.

Multi-year funding would also provide vital financial stability to voluntary sector organisations which in turn would enhance the service delivered as well as accelerate progress towards Fair Work outcomes.

Currently, a failure to ensure timely payments, combined with a recurrent lack of coverage for neither core costs nor inflationary uplifts, mean many voluntary organisations delivering services are under acute financial strain in an incredibly challenging economic environment. We know of some charities who have not received an inflationary uplift for the past six years and others who have had to dip into reserves to ensure wages are paid and services continue even when awaiting delayed contract renewal decisions. Continued uncertainty through short term contracts makes staff retention challenging for organisations and hinders their ability to offer training and development opportunities.

The framework must also provide details on what multi-year voluntary sector funding would actually look like. In order to achieve a maximum return on investment and ensure the best quality of service can be delivered, funding for the voluntary sector should have inflationary rises built in. In addition, it should not be overly burdened with prescriptive requirements, hampering the ability of the funded organisation to adapt and respond to changing circumstances. Instead, new funding models for the sector need to be central to this review, building on examples of good practice such as we have seen during the pandemic.

Central to this should be the principle of timely payments. Timely payments would not only reduce the strain of uncertainty for organisations and their staff, but would also limit the need for time and energy to be utilised for the resource intensive process of regularly applying for funding. For example, recently at SCVO, because of process delays inside Scottish Government, we did not receive the annual grant letter for Community Jobs Scotland until August, four months after the start of the financial year. This has meant that around 160 jobs for disadvantaged young people have not been created, and there is an underspend of £1m. We had plenty of voluntary sector employers and young people ready and waiting, but we have not been able to meet that need, all because a letter was not issued.

3) Does the framework properly reflect the current economic and political context?

The framework outlines significant elements of the current economic and political context. However, there is little recognition of the integral role played by the voluntary sector in social and economic life in Scotland and the financial strain it is under. As outlined previously, never has the sector's importance been more apparent than over the last two years of the pandemic.

The voluntary sector's huge role in our economy extends well beyond the 100,000+ people it employs and an annual turnover of over £6 billion. It is disappointing therefore to see no reference to the voluntary sector regarding economic transformation. In addition, there is no mention of the pioneering work done by voluntary organisations to create and develop the wellbeing economy. Just as the voluntary sector was overlooked in the creation of the Council for Economic Transformation, we fear it will be the same for the resource spending review.

There are clear examples of how public investment in the voluntary sector leads to a monetisable return on investment. For example, in 2018/19, for every £1 of public spending received, Children's Hospices Across Scotland (CHAS), generated £6.24 of public value in return. However, the economic contribution of the sector extends far beyond a narrow GDP lens. As well as providing invaluable support during the pandemic, the economic weight of the sector offers tremendous potential to help shift to an inclusive, wellbeing economy. The sector supports people in becoming active in the economy through employability support. Voluntary organisations provide care, digital skills and devices, and research-based charities offer crucial contributions to social, economic, and environmental

discussions. Culture is key to recovery, and the voluntary sector runs many theatres, museums, galleries and sports clubs.

Voluntary organisations also provide greener active-travel services, benefiting health, the environment and increasing access to local amenities. The sector plays a crucial role in monitoring and reporting the impact of changes on different marginalised communities. Scotland's 6,000 social enterprises put profits and surpluses towards social and environmental missions, and they are standard setters, influencing change in the norms and behaviours in the private sector.

Tackling poverty and inequalities and addressing systemic issues such as climate change and a just transition to a net-zero economy are also intrinsic to the work of charities, community organisations and social enterprises. So too are other significant policy directions such as community empowerment and shifting to an inclusive, wellbeing economy; it is happening at a national, local and community level and must be recognised and harnessed in the economic strategy.

Voluntary organisations are under acute financial strain due to rising energy costs, inflationary pressures and the withdrawal of emergency funding. This, combined with the challenges outlined for question one around insecure funding, lack of timely payments and omissions of core costs and inflationary uplifts, mean that many voluntary organisations are facing imminent financial peril. The proposed £800,000 cut to the voluntary sector budget outlined in the draft Scottish Government budget 2022-23 will only further intensify this acutely challenging financial situation. If the Scottish Government is truly to address its three core priorities, then it must not only recognise the contribution of voluntary organisations to the economy, but also ensure there is an economically sound operating environment for the sector to flourish in.

4) How does the framework approach cross-cutting issues, long-term challenges such as demographic trends, and preventative approaches?

We welcome the references in the framework to considering preventative approaches and recognising how they can improve services and save public money by reducing demand in other areas. We also highlight the endorsement of Christie Commission principles. However, beyond this, there is a lack of recognition of invaluable preventative role played by the voluntary sector across the length and breadth of Scottish society.

From reducing demand for key services such as hospital admissions to providing a compassionate, nurturing approach to ensure, for example, ex-offenders turn their lives around, voluntary organisations have long led the way in realising the principles of the Christie Commission and the more recent Social Renewal Advisory Board (SRAB). Unfortunately, much of this work, has often not been acted upon by the Scottish Government and once again this framework offers a lack of depth as to how it will support the voluntary sector to continue to achieve this agenda.

The demographic changes outlined in the review make the case for more sustainable sector funding even stronger. As the framework identifies, multi-year funding can 'create the fiscal space to invest in long-term, preventative measures which have a greater impact on these cross-cutting priorities'. Given the critical role voluntary organisations have played in pioneering preventative, person-centred approaches, investment in the voluntary sector and an improved funding environment for charities is vital and must be outlined more clearly in the review.

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