

7 November 2024

## **Putting the Borders' Third Sector at the heart of the 2024 Budget**

We are approaching the 2024 Scottish Government Budget on 4th December. Following my letter sent in February 2024 raising concerns regarding the Scottish budget implications to the wider third sector, I write to you again to highlight the key issues for the Third Sector in the Scottish Borders and ask for your support in ensuring that the 2024 Scottish Government Budget reflects the needs of these vital elements of our economy and community.

There are approximately 776 registered charities, over 200 social enterprises and several community groups operating across the Scottish Borders. These organisations bring communities together, support and care for our most vulnerable individuals and provide valuable services across a range of critical areas. We are very concerned about the impact of further financial pressure on these organisations, with some tapping into their reserves to be able to continue the provision of essential services and activities. Quite simply, the quality of life of many people in the Scottish Borders would be negatively impacted without these organisations.

### **Challenges**

We are all aware that the Scottish Borders has a significant demographic challenge with our ageing population and lack of replacement in terms of the younger population. This trend places a huge strain on the third sector in a way not faced by any other Scottish region. The demands made on our organisations working in the fields of mental health, food, community spaces and well-being are growing at a rapid pace. These provisions are not 'nice to have' options; they are necessities.

We are seeing third sector organisations facing challenges at a rate and level that is unprecedented. The recent UK Government decision to increase National Insurance contributions, combined with the reduction or disappearance of funding leaves many organisations with no option but to close down and, in many cases, make committed and talented individuals redundant.

Therefore, we ask that you ensure that the 2024 Scottish Government Budget has third sector organisations at the heart of its strategy and focus.

There are 3 key issues that I wish to highlight: Fair Funding, Economic Parity and delivering the Real Living Wage for Third Sector organisations.

### **1. Fair Funding**

We need to secure long-term funding to ensure sustainability of services and provisions.

Borders Community Action works with many third sector organisations across The Scottish Borders to understand the complex challenges of income-generation, including public sector grants, and the solutions needed. There is an urgent need for a Fair Funding approach. This letter targets Scottish Government but local government bodies must also adopt a Fair Funding strategy and action plan.

Borders Community Action's ask of yourself is to ensure that the Scottish Government's 2025/2026 Budget commits to the principles and actions of Fair Funding. We echo the principles set out by the Scottish Council of Voluntary Organisations (SCVO).

These include:

- Longer-term funding of three years or more. Multi-year funding of at least three years would enable voluntary organisations to plan for the future, removing the uncertainty that is currently felt by organisations, their staff and volunteers, and the people and communities who rely on voluntary sector services, which are often funded on a year-by-year basis or, in some cases, even shorter-term.
- Flexible, unrestricted core funding, which enables organisations to provide security, plan effectively, and fulfil good governance requirements.
- Sustainable funding that includes inflation-based uplifts and full costs, including core operating costs.
- Funding that accommodates paying staff at least the Real Living Wage and pay uplifts for voluntary sector staff on par with those offered in the public sector.
- Accessible, streamlined, proportionate, and consistent approaches to applications and reporting, timely processing and payments, and partnership between the grant-maker and grant-holder.
- A comprehensive and proportionate approach to financial transparency around grant funding to support organisations and the public to understand spending decisions.
- Transparent delivery goals, timelines, and accountability mechanisms – such as reporting and stakeholder groups - to ensure progress on “Fairer Funding” can be scrutinised by the voluntary sector and Parliament.

The Scottish Government has committed to the implementation of Fairer Funding by 2026. However, we remain unclear on what these reforms mean beyond assurances on multi-year funding, prompt notification of funding decisions, and improvements to grant-making processes. We need to resolve the unfinished issues.

## 2. Economic Parity for Third Sector Organisations

The Christie Commission on the future of delivery of public services stated that voluntary organisations cannot continue to be viewed as “the poor relation of mainstream public services”, a sentiment identified by the Auditor General for Scotland. Voluntary organisations, as well as people and communities in Scotland, must be treated fairly and with respect.

It is important that Scottish Government, and other public sector bodies, understand that investment in the third sector is not simply a cost. Our **essential sector** takes pressure off public services and prevents higher levels of spend and pressure elsewhere in the delivery of services by statutory bodies.

We echo SCVO's expressed concern that short-term funding cycles present significant issues. We recognise that, at present, annual funding cycles are common; their challenges are exacerbated when delays to decision-making and awarding grants mean that funding covers an even shorter timescale as it needs to be spent by the end of the financial year. The time and resources devoted to short-term funding cycles, from organisations and funders alike, leads to vital capacity—that could otherwise be devoted to delivery—being wasted. Ultimately, this creates needless inefficiency at the heart of public policy and public services.

The need for sustainable funding is urgent. Historical increases in inflation and the subsequent rises in the cost of living and running costs continue to bring significant pressures for voluntary organisations and SCVO's Third Sector Tracker found:

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- From August 2021 to April 2024, the proportion of voluntary sector organisations reporting financial challenges has increased from 47% to 77%.
- Over a third (36%) of organisations have reported having made use of their financial reserves in the 3 months leading into April 2024, a 4% increase compared to the same period in 2023. Depleting reserves for recurring costs is not sustainable, with 60% of the organisations sharing that continuing to use reserves was unsustainable for their organisation.
- Some organisations have responded to the cost-of-living crisis by providing their staff with an increase in pay, also often from organisations' financial reserves, a situation that is clearly unsustainable.
- As costs have risen for voluntary organisations over the past three years, so have demands on the services that they provide for the most vulnerable people across Scotland. In August 2021, 56% of organisations reported an increased demand in core services and activities, rising to 63% by April 2023.

### **3. Delivering the Real Living Wage for Third Sector employees**

I have already referred to the challenges and issues in relation to the Real Living Wage in our sector and how, in some cases, organisations are having to use reserves to ensure that their employees receive the Real Living Wage. The Scottish Government has a powerful role to play in delivering the Real Living Wage across the sector without organisations having to dip into reserves but the increase in National Insurance contributions has a significant implication in how this can be done. We ask that the Government takes action by:

- Ensuring that all public grant funding and procured contracts have both the real Living Wage and annual uplifts to the real Living Wage built in as well as full cost recovery.
- This increase in employer national insurance contributions imposed by the UK Government will raise operating costs for employing organisations. While the increased Employment Allowance for smaller organisations is welcome, many organisations will still face higher operating costs. This could cost our sector around £75 million in Scotland alone. These financial pressures threaten the ability of the third sector to provide essential services, support jobs, and maintain their operations, which in return, creates additional pressure on public services.
- We face challenging times in the third sector in the Scottish Borders. We need to secure our services, our funding, our status and our dedicated people. Failure to do so will see further erosion of what is delivered and what survives. If this happens, we will let down so many people in the Scottish Borders and across Scotland.

Our ask is for fair treatment of our sector and that any budget decisions are carefully considered to ensure the third sector can continue to provide essential services, support community resilience, and contribute to social and economic well-being.

Yours sincerely,



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