

Pre-budget 2025-26 scrutiny - Third sector funding principles



CAS submission – August 2024

Scotland's Citizens Advice Network is an essential community service that empowers people in every corner of Scotland through our local bureaux and national services by providing free, confidential, and independent advice.

The Citizens Advice network across Scotland helped over 187,100 people in 2022-23, resulting in £142.3 million being unlocked for clients to use in their local communities. The advice we provide is life-changing and often life-saving. Moreover, we use this unique evidence base to advocate for consumers and influence long-term structural change.

Key messages

We welcome the focus of the Committee to build a more resilient and effective third sector, capable of better serving Scotland's communities. Our submission is outlined below, and three overarching principles are included throughout.

The cost of precarity and inefficiency under current models is clear and needs to change

- Long-term, secure funding for the third sector would be game-changing. It would have a truly transformative effect in terms of delivering life-changing outcomes for people, as well as offering much-needed job security to retain local knowledge and expertise in local communities.
- Most third sector organisations, including the network of 59 CABs across Scotland, receive funding on an annual basis. This means at the end of each year, there can be huge uncertainty about whether funding will be renewed.
- At its heart, advice is about bringing stability to volatility. And yet, the current approach means our advisers' own livelihoods are often marked with precarity and at the mercy of short-term funding cycles.
- Insecurity of funding can lead to periods within a year when CAB cannot operate on a normal basis – this means people who are living in the most vulnerable circumstances are unable to access essential services.
- The false economy of short-term funding has gone on for far too long. Long-term problems demand long-term solutions. Failure to do so is costing all of us. Multiyear funding is the foundation that our work should be built on.

Moving from transactional to partnership relationships

- This year marks our 85th anniversary demonstrating the staying power of the network – we provide an essential service the need for which is not going anywhere anytime soon.

- Given the precedent that long established third sector organisations such as CAS have for delivery of outcomes with funding provided, more trust should be placed in these processes and relationships.
- There can be a predilection towards funding new and innovative pilot style projects – this should not be at the detriment of supporting existing essential activity the need for which remains consistent and constant.
- Greater value for money would be achieved by investing in long term relationships with organisations demonstrating a track record for delivery.
- This type of partnership approach is far from a radical idea, yet it would have a radical impact for the people and communities CABs support.

Outcomes must be hardwired into all funding models

- Focus must shift away from inputs and outputs to a genuine commitment on outcomes. While improvements have been made, we are still some distance away from having a singular focus on outcomes across all funding models.
- Even in this desperately difficult context, the Citizens Advice network secures real change – the network helped over 187,100 people in 2022-23, resulting in £142.3 million being unlocked in local communities.
- 70% of people reported the advice they received improved their mental health and wellbeing. 91% felt the support they received increased their confidence in dealing with issues in the future. This is advice that changes lives.

Consultation questions

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

Overall, a move to longer term funding would:

- Enhance sustainability of vital local services for communities
- Create stability of employment for third sector workers
- Allow for efficient investment decisions which would improve cost effectiveness

Current state of play for the Citizens Advice network

The current funding landscape across the Citizen Advice network in Scotland is predominantly short term. In 2022/23 half of the 59 CAB across Scotland had core funding security of one year or less. This core income makes up on average one third of CAB's income with most of the remainder coming from national and local projects which are short-term by their very nature and limits the scope of what CAB can deliver.

The cost of precarity

The current short-term nature of funding creates a patchwork approach which requires CAB and CAS managers to identify, bid for, and stitch together different funding every year to continue to deliver services. This means that essential local advice services are constantly just one funder's decision away from diminishing or discontinuing altogether.

This is an inefficient model which inhibits the delivery of sustainable essential services and creates a precarious situation for the network which impacts detrimentally on clients, advisers, and the value for money that advice services can provide. This inhibits our ability to plan and invest strategically to maximise value for money and outcomes for citizens.

Moreover, this approach also diverts time and resources away from frontline services. Time taken on annual renegotiation and retendering processes due to short-term funding – and often very late confirmation of funding – are recurring issues for CABs which can result in uncertainty for CAB staff, as well as increased pressure on managers and ultimately the loss of staff and vital expertise.

Despite these challenges, the evidence of the benefits of core funding is already clear – CAB delivered £14 of client financial gain for every £1 of core funding received in 2022/23.

How longer-term funding helps

A move to longer-term funding would create a solid foundation for our work, creating the basis for consistent, sustainable service delivery. A longer-term funding model would improve job security for our hard-working advisers, supporting their wellbeing and economic security and improve staff retention. This would improve our ability to keep up with the record-breaking levels of demand we have seen over the past few years following the pandemic and cost of living crisis, focusing resources and time toward service delivery instead of retendering and funding applications.

Many of the impacts outlined within this submission apply equally to CAS as the national organisation. This is particularly pertinent in terms of planning longer terms investment decisions. Currently, the lack of capital funding creates a series of challenges for the third sector especially in maintaining infrastructure necessary around cyber security and data protection.

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

From a service delivery perspective, the benefits of transitioning to such a funding model far outweigh any potential challenges. Moreover, just as year-to-year funding presents challenges for organisations delivering in terms of retendering and reporting, this can also intensify the administrative burden on funders. There are cost and efficiency savings of longer-term partnership-based funding models for all parties.

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.

Cyclical loss of experience and expertise (MATRICS)

Training of debt advisers is undertaken by CAS in partnership with Money Advice Scotland via Scottish Government funding. After going through our training programme, advisers then often go on to work in a CAB or another free advice agency. Uncertainty of funding for these posts can mean that advisers leave after a year or so to seek more permanent employment in other sectors.

The impact of late notification (SLAB in-court advice)

Many CAB operate in-court advice and mediation projects funded by Scottish Government via the Scottish Legal Aid Board (SLAB). These projects provide an essential resource for local communities.

Although these projects have been running for some time (some over a decade), they are subject to short-term annual funding and often late confirmation of decisions. Notably, this is not an isolated occurrence – projects must navigate this scenario on a yearly basis. This presents substantial risks (both financial and reputational) that CAB are having to subsume while waiting on a funding decision, alongside being unable to take on and support clients until the funding situation is clarified.

Decision-making in relation to financial year 2024/25 was particularly detrimental to the essential services provided by CAB. Notice was given in April 2024 that projects would receive three months of interim funding, with another decision being made at the end of June. At the end of the three-month interim funding period, notice was given of changes to project scope, staffing, and ultimately the closure of some projects by 1 October 2024. While we recognise funding constraints, this situation had a significant impact on both those directly employed, and those attempting to access these services.

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

Core unrestricted funding would allow us to:

- Better tailor services to client needs
- Focus on outcomes
- Reduce bureaucracy, and maximise resources on service delivery

Core unrestricted funding is critical to maintain the essential service that meets needs of people and communities. Inflexible funding that is tied to specific areas or projects (or client groups) inhibits the ability to decide how best to use funding to provide a wraparound and responsive advice service. Conversely, greater flexibility would allow funding to be used to adapt to changes that happen nationally and locally. A flexible unrestricted approach to funding means advisers have all the options available to help people, providing better outcomes.

Flexible and unrestricted funding would also reduce bureaucracy in recording and reporting from an organisational perspective, targeting resources at frontline service delivery. This has the additional benefit of delivering potential efficiencies for both funders and funded organisations.

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

The benefits of transitioning to this funding model far outweighs any potential challenges. A shift to greater flexibility will require a level of confidence and trust on the part of funder in the delivery bodies and a recognition of their expertise in provision of these services.

A clear understanding is required in terms of what it is to be achieved alongside a fair, transparent and equitable allocation model for core funding that avoids duplication and ensures clarity on the purpose and use of the funds. This would include an outcome-focused service assurance approach capable of demonstrating the link between the services funded and the outcomes ultimately delivered.

At a more granular level there would be a need for robust processes for accounting and reporting, as well as assurances around governance and oversight. In addition, each budget would require an approved business case with a detailed identification of need and costs which will have to be based on projected spend as opposed to actuals. The management of financial risk and exposure therefore becomes of greater importance at a more detailed level.

Most of these processes already exist in the current restricted model and while there will be a requirement to adapt this for a more flexible, outcomes focused approach, this is not an onerous ask compared to the benefits derived from adopting a more flexible and unrestricted funding model.

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.

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

Both flexible core funding alongside inflation adjustments are essential both in terms of:

- Maintaining service delivery
- Retaining staff, skills and experience

At its heart, the Citizens Advice network is a people organisation, and as a result a high percentage of our costs are people based. Ensuring we have sustainable and sufficient funding to pay people at a level that recognises their value is key to the success of our service delivery.

Like the people they support, CAB staff have been acutely exposed to the impact of the cost-of-living and energy crises. Inflation-based uplifts are essential to allow CAB to deal

with this. The Scottish Government rightly requires organisations to be Living Wage employers as a condition of any funding agreement. This is a welcome and proper position, but one which necessitates inflation-related adjustments if third sector organisations are to continue to be able to meet that condition.

Failure to be able to offer inflation adjusting salaries magnifies the difference in wages between the third sector and other organisations and sectors, increasing the risk of losing people to other roles. This impacts on service delivery and knowledge and experience to the detriment of people who need our essential services.

While people tend to be the largest and most important cost, CAS and CAB have also been acutely exposed to the impact of the cost-of-living and energy crises in recent years driving up rent, energy costs, and other essential operating costs. This combination of increasing essential costs, statutory requirements on Living Wage, flat-rate or decreasing budgets, and inflexible and short-term funding means that some CAB are in a very precarious financial position.

Third sector organisations cannot continue to absorb these year-on-year increases in costs without inflation adjustments being taken into account going forward if they are to retain staff, live their values, meet requirements for these essential services.

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

The main risk of a lack of sustainable funding and inflation adjustments include:

- Some CAB will not survive
- Essential local services will be lost
- Staff and skills will leave the service

While funding is increasingly precarious and uncertain – one thing remains certain and constant: the essential service provided by CAB across Scotland continues to experience record-breaking demand. Increasing numbers are matched with increasing complexity – we are supporting people who are presenting in ever more urgent and traumatic circumstances.

The cost-of-living crisis has created a perfect storm. There has been an unprecedented demand for our services in recent years. Our increased and transformational digital service offering has not shifted demand. Instead, it has increased demand, meaning that CAB managers are trying to provide services to more clients than ever and manage their people in new ways to cover all channels. At the same time, funding to deliver our essential services is reducing both locally and nationally. This is not a new trend but the combination of these factors coalescing and the scale of each of them exacerbates and entrenches these challenges. CAB managers feel the crisis is more significant than issues faced in the past, and that it is placing immense strain on them, their teams, and their ability to meet client needs.

Without sustainable funding and inflation adjustments there is a real danger that some CAB will be forced to close, that services in local communities will be reduced or removed, and that the essential face-to-face offering disproportionately sought by people in the most deprived communities will not be available for everyone who needs it.

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 covering.

Investment Decisions

Major infrastructure or premises decisions or investments are challenging in a short-term funding position without inflationary adjustments or capital funding.

Like other organisations, CAS and CAB fixed costs such as rent, energy and staffing costs increase in line with inflationary pressure. This makes committing to investment decisions (which inevitably increase the fixed cost base for a period) very risky in a situation where the funding provided does not take account of the inflationary pressure on your existing fixed costs. This can often act as a barrier to investments, even when they are the right thing to do or could save the organisation money in the long run, making for an inefficient model.

Impact on Access to Funding

Lack of sustainable funding and inflationary uplifts mean that organisations in the third sector are often excluded from accessing new funding sources.

Funding contracts quite rightly increasingly require commitments on important areas such as data protection, cyber security and carbon reduction. These are important areas of compliance but achieving the appropriate accreditation in these areas requires both financial and time investment, as well as specialist skills and knowledge which third sector organisations cannot meet from existing core budgets.

Providing more sustainable funding which allowed third sector organisations to invest in these key areas would create the potential for leveraging in greater funds to the sector.

Staff retention and business expansion

Lack of sustainable funding significantly impacts on our ability to recruit and retain staff. The year-on-year nature of funding means that people often have no certainty of employment beyond the end of the financial year. This has implications for key life and financial decisions. What’s more, this is detrimental to their health and wellbeing and increases the likelihood that they will leave the sector to secure more permanent and stable employment. This is inefficient in several ways:

- Often the organisation will have spent significant time and money training that person which is then lost
- There is a time lag in recruitment which impacts detrimentally on service provision to clients as well as other staff
- Skills and experience are lost to the organisation which could otherwise have been retained.

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

The main challenges related to ensuring staff are paid at least the Real Living Wage are:

- People cost is a high percentage of total budget
- Increasing other fixed costs

The Citizens Advice network is committed to paying people the real living wage in line with our values. At our heart we are a people organisation who deliver services for people by people. This means that the largest percentage of our fixed costs are people related.

Maintaining a commitment to the living wage means a year-on-year increase in fixed costs, which must be met from a flat rate or decreasing budget. If we are to sustain employment levels every year, it follows that there is less money for all other costs. Many other fixed costs have also risen in recent years, creating significant financial challenges for many CAB and forcing managers to take hard decisions on budgetary matters.

It is impossible to continue to meet escalating salary costs from a flat rate settlement without detrimentally impacting on service delivery or reducing the number of staff employed, which also impacts on service delivery.

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

Improved funding would provide:

- Stability and continuity for people working in the sector
- Certainty around future costs
- Improved budget and resource management planning

Improved funding arrangements would allow us to provide stability and security to the workforce. This also increases the likelihood that they will remain in our organisation and help us to retain their skills and experience benefiting service delivery.

Organisationally, improved funding arrangements that recognised and supported organisations to meet this commitment would provide certainty that future salary costs could continue to be met in future years budgets. Knowing that funding for increasing salary costs is built into funding provision allows for greater certainty and more effective financial planning across other areas of the budget. In addition, it provides for greater certainty around resource planning, given the increased likelihood that posts will continue to exist in future years. This is a virtuous cycle that provides for greater efficiency and enhanced service delivery to people and communities.

Despite current issues with funding models, CAS is an accredited Living Wage employer. We pay all employees, including apprentices, 16–17-year-olds, contractors and agency workers the Real Living Wage. This places pressure on our core budget which does not account for inflation.

Related to this, it is important to note that unpaid staff are not cost neutral. Volunteers are central to the impactful outcomes delivered by CABs across Scotland, but this requires significant resources in terms of support and training. Despite the huge contribution

volunteers make to communities and to improving outcomes, this is often not a consideration in funding. These costs must be made more visible, acknowledged, and accounted for in funding models.

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

As outlined throughout this submission, efficiency in funding processes would reduce bureaucracy and allow CAB to maximise time on delivering essential services. When demand for our advice already far outstrips supply, it is imperative to remember that first and foremost we exist to achieve meaningful, life-changing outcomes for people and communities across Scotland.