Rt Hon George Osborne MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horseguards Road
London
SW1A 2HQ

26th October 2015

Dear Chancellor,

WORKING WITH VOLUNTARY AND COMMUNITY ORGANISATIONS TO BUILD STRONGER COMMUNITIES

We are writing to you ahead of the upcoming Spending Review to address the most pressing issues facing the voluntary and community sector today. In the enclosed document, we put forward five detailed policy proposals designed to address these challenges, focusing particularly on small and medium--sized voluntary organisations.

Voluntary and community organisations play a critical role in our society through providing flexible and responsive support to local communities, and will play a key role in enabling all communities to have a role in delivering public services and ensuring community assets continue to benefit local communities. It is therefore vital that government supports charities to maintain and bolster their ability to build stronger communities.

In addition to delivering essential public services, the sector is also recognised as a major contributor to the UK economy, with a Gross Added Value of £12.1 billion. The sector has an income of £40 billion per year, employs 821,000 people and catalyses the wider contribution of 13.8 million regular volunteers through social action, estimated to be worth £23.9 billion.

In order to continue to support local communities, voluntary and community organisations need strategic investment to create a step change in the commissioning and deliver of public services and the purchase of community assets to ensure stronger more resilient communities. The voluntary sector is facing a £4.6bn funding gap by 2018. This comes as a result of loss of income through government spending cuts and inflation. The government has an opportunity in this spending review to build a comprehensive package of support that enables voluntary organisations adapt to a volatile funding environment, improve their effectiveness and lay the groundwork for future growth.

We propose the following five recommendations:

- **Existing public service contracts should be adjusted for the introduction of the National Living Wage, and related workplace pension costs**.

- The creation of a **Community Capital Fund** to enable communities to take ownership of their assets and ensure they become self-sustaining.

- The creation of a **Centre for Social Value** which would sit within the Commissioning Academy.

- Creation of **Voluntary Sector Master Classes** to compliment the recently introduced Local Sustainability Fund by providing a range of technical training sessions that will equip voluntary organisations with the ability to improve their capacity and financial sustainability in the long-term.

- The establishment of **Partnership Hubs** to promote and create innovative solutions in the delivery of public services.

We hope that you will take on board our proposals as part of the Spending Review and work with charities to build stronger communities.

Yours sincerely,

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Tony Armstrong
CEO, Locality

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Head of Social Sector Engagement, Big Society Capital

Kunle Olulode
Director, Voice for Change

Neil Cleeveley
CEO, NAVCA

John Barrett
Acting CEO, Small Charities Coalition

Peter Lewis
CEO, Institute of Fundraising

Policy Proposals

With the exception of proposal 1, we believe all proposals should be funded through the Office for Civil Society or DCLG to ensure that all funding is equally distributed across devolved nations.

1. Accounting for the National Living Wage (NLW)

Rationale

With the welcome introduction of the National Living Wage (NLW) in April 2016, the National Minimum Wage (NMW) will increase to £7.20/hour, growing to £9 by 2020. The salary of every member of staff earning the existing NMW will cost an additional £1,150 by April 2016, excluding pension and national insurance contributions. Whilst the National Living Wage will be accompanied by an increase in Employment Allowance to £3,000 in April 2016, this will not offset the increased costs incurred by the employer.

This poses a significant challenge for voluntary and community organisations that are currently delivering public service contracts. NAO guidelines state that contracts should meet a fair share of a “provider’s central administrative costs because that will help to ensure that the provider can manage its activities and finances properly, and will to contribute to the organisation’s sustainability.” In specific regard to the voluntary sector, the NAO states that charities cannot be expected to subsidise the cost of the service from donations that it receives.

Research from the Third Sector Researcher Centre shows that the total increased cost to the sector by 2020 will be £500 million. These figures will be higher once the subsequent increased cost of employers’ National Insurance and mandatory workplace pension contributions are factored in.

The increased cost associated with the NLW will be very challenging for voluntary organisations who deliver public services. The voluntary sector is a key player in the delivery of public services with over half of the sector’s workforce (51%) employed in a social work or residential care role. Furthermore, 83% of the sector’s income from government was earned through contracts or fees, the majority of which (£6.3 billion) is from local authority contracts.

Without strategic investment in existing public service contracts, voluntary and community organisations face the very real prospect of closure with vital services for the most vulnerable in society being lost. The increased costs associated with the NLW will not only exacerbate the £4.6 billion funding gap that the sector will experience by 2018 if current rates of income and service provision are maintained, but also the current ‘capacity crunch’ which is most keenly felt by those organisations in receipt of government funding.

Proposal

In line with NAO guidelines, the government should provide ring-fenced investment to cover the difference in cost between existing budgets allocated in public service contracts to cover staff wages, and the increased costs in wages introduced by the NLW. Included in this calculation should be related costs including employers' national insurance and mandated workplace pensions contributions.

In adopting this policy, the government will be adhering to the Low Pay Commission recommendation "to ensure funding is available to meet the extra burden the NMW rise".

Cost

It will be necessary for government departments and local authorities to conduct an impact assessment to calculate the total costs of introducing the NLW, including National Insurance and pension contributions.

Scale

Data detailing the number of people working under public service contracts in the voluntary sector is not readily available. However, the latest data from NCVO's Civil Society Almanac shows that 32.9% of the sector – 50,000 organisations - receives government funding. Data from the Third Sector Research Centre shows that 250,000 people (29% of all workers in the voluntary sector) are paid the NMW.

Assuming that NMW charity employees are evenly distributed between charities that deliver government contracts and those that don't, an estimated 75,000 employees will be impacted by charities' ability to deliver their contracted services.

2. Community Capital Fund

Rationale

Assets are critical for the development of strong communities and building social capital. There are many examples across the country of local assets being developed by voluntary and community groups to deliver social, economic and environmental impact, which meets the needs of their local community. The government has recognised this potential through the development of policies such as Community Right to Bid, Community Right to Reclaim Land and support for Community Asset Transfers.

An unprecedented release of local government assets is expected in the coming years as councils seek to make further efficiency savings. The total asset base of local authorities in England is estimated to be worth £250bn, and there is now an opportunity to ensure that vital community assets are safeguarded and continue to benefit local people, while also boosting the ability of community organisations to deliver public services and strengthen the local economy.

Assets are also important for the development of a sustainable voluntary sector. The recent sector-led financial sustainability review found that organisations which had best adapted to the impact of the recession had assets which could generate revenue, for example, renting buildings or hosting new services. In many communities, voluntary organisations do not own assets or have had to sell their assets to cope with the impact of funding cuts. There is a danger that this limits the potential for voluntary organisations, particularly working in deprived communities, to service their communities and generate income sustainably.

Proposal

Government should create a **Community Capital Fund** which would receive bids for voluntary and community groups to take over local authority assets. The Fund would:

a) Provide investment to organisations to support them in developing their plans, and to develop skills and capacity to operate the assets sustainably;
b) Fund central support and advice to help the process of asset transfer, undertake research and share best practice on how to develop community assets;
c) Provide capital grants to allow community organisations to lever in additional funding and finance to allow them to secure assets for sale.

The Community Capital fund should target some of the most deprived local authorities with a particular focus on those areas that have seen the biggest falls in voluntary organisations' incomes (such as the North East and North West), and where the cost of assets pushes them out of the market (such as London and the South East).

Strategic investment now would enable communities to take ownership of their assets during this narrow window of opportunity and support them in becoming self-sustaining for generations to come. We propose that Government should allocate funds to support a step change in community ownership of assets by investing in a programme of national support to local authorities, other statutory agencies and community organisations alongside a Community Capital Fund which would receive bids for charities and community groups to take over assets.

This investment would build on the legacy of the Community Ownership and Management of Assets programme, the community rights pre-feasibility grants programmes, the Empty Homes Community Grant Programme, and earlier Government funding to support asset transfer. It is important to ensure that such investment is focused on community ownership of assets, rather than broader social enterprise. For example, the new Power to Change and Access Foundation funding will provide support to community organisations in terms of developing enterprise, but are not focused on supporting community ownership of assets, and there remains a significant need for such support and funding.

Cost

£150 million over 3 years, £50m per annum.

- £140m for grants for asset purchase

- £5m to fund research in best practice and impact of community assets
- £5m to operate the fund

Scale

The impact of the fund will depend on the number of assets which are purchased. The mean value of assets held by Locality, a body which represents community-led organisations that develop assets, was £2.65m although 69% of members held assets worth less than £1m. This indicates that the average cost of purchasing assets of community value would be less than £2.65m.

However, if we assume the average alongside an average grant of £200,000 per organisation to operate the asset, this has the potential to reach a minimum of 49 communities across the country. As the cost of the assets is likely to be significantly less than the average figure quoted above, it is likely that the reach will be much larger.

The impact of a Community Capital Fund would be increased in some projects by the use of social investment in combination with the grant support, particularly with more opportunities now available to communities to access investment, helped by government initiatives over the last few years.

An Increasing number of community assets projects have been funded through a combination of grants, loans, and equity through community share issues. The proportions of grant, loan and community contributions that may be appropriate will vary depending on the individual project, community capacity, and local circumstances, such as property prices. Therefore, flexibility will be key. Grants will be critical for the success of these projects, particularly during the pre-feasibility stages and early parts of a project's life, and for building community capacity.

Unity Hall

Unity Works received a £420,000 capital grant to take over Unity Hall in Wakefield, a 40,000 sq.ft Grade II listed building that had been empty for 12 years. The new community building is being used as a place for the arts and enterprise in the city, directly generating 10 full time jobs and indirectly many more as well as providing apprenticeships and volunteering opportunities for residents.

The asset is now generating significant economic and social impact for the local community, in one of the most deprived areas of England.

3. Centre for Social Value

Rationale

The passage of the Social Value Act was one of the big achievements on public service reform of the last Parliament. Lord Young's review into the Act has showed that it is having a positive impact on public services, but that awareness and take up of the Act has been mixed. Some public bodies have embraced the potential of social value to generate additional social, economic and environmental benefits through public service contracts.

Other bodies have been slow to realise the potential. There have been a number of barriers identified, as highlighted by Lord Young's review, including:

- Lack of capacity in commissioning teams;
- Lack of understanding how best to identify and embed social value within contracts;
- Lack of skills to engage with charities, voluntary organisations and social enterprises on developing social value;
- Disjunction between commissioners and procurement teams;
- Confusion around the strengths and weaknesses of various approaches to measuring social value.

Some of these barriers cannot be directly addressed by central government (e.g. capacity), but others such as lack of understanding of how to implement social value, the lack of skills in engaging with the sector and confusion around the strengths and weaknesses of various measurements of social value.

The establishment of the Commissioning Academy was an important first step in improving commissioning and the benefits from this innovation are starting to bear fruit. However, social value has so far been given limited focus within the Commissioning Academy, given the range of other issues that commissioners need to tackle and support has been sourced for free, rather than using specialists. Moreover, there is a lack of bespoke tools and information for commissioners on how to use and maximise the impact of the social value approach to commissioning.

Proposal

Alongside continuing to fund the work of the Commissioning Academy, the government should fund the creation of a **Centre for Social Value** which would sit within the Academy. This would complement the proposal for a Social Value Unit within the Treasury.

The Centre would seek to:

- Support specialist training and education of commissioners and procurement officials on the implementation of social value
- Developing tools and templates for commissioners and procurement officials to implement social value (e.g. how to identify social value opportunities; how to measure social value;

- Support events between public bodies, businesses and charities to encourage collaborative working within a social value approach through the Commissioning Academy
- Commission research into the benefits of social value and spread best practice

The Centre would bring together officials (national and local); outside experts, charities, social enterprises and businesses together to advance the implementation of the Act and ensure that all public bodies effectively implement the Act.

Cost

£5m over five years. £1m a year.

Scale

The Commissioning Academy is set to have supported 1,500 participants by 2016, with an average of 250-300 participants a year. A Centre for Social Value sat within the Commissioning Academy would reach around 1,000 commissioners by the end of the Parliament.

There are over 600 public bodies in England, all which are subject to the provisions of the Social Value Act. The tools developed by the Centre will support the implementation of social value across all these public bodies.

There are no figures on the number of charities and social enterprises engaged in public service delivery, but the number of organisations is likely to be in the tens of thousands.

Centre for Social Impact Bonds

The Centre for Social Impact Bonds was set up by the government in 2011 to increase understanding of SIBs across government and to provide support to SIB developers. It has been advocate for their adoption, provided expertise and strategic advice to SIB developers, help to promote the development of the SIB market and collected data to support outcomes commissioning, such as the Unit Cost Database.

The Centre has been very successful in stimulating the development of Social Impact Bonds, with at least 14 Social Impact Bonds have been created in the UK and around 20 more are estimated to be created by the end of the decade.

4. Voluntary Sector Master-Classes

Rationale

The recent sector-led financial sustainability review, identified a capacity crunch in the voluntary sector. Voluntary and community organisations, particularly those that are reliant on government income, are unable to free up new resources through increased efficiency to draw in new resources. The capacity-building that has been undertaken is rarely focused on the financial skills that will enable charities to get the most out of their resources.

Whilst voluntary and community organisations have demonstrated resilience in the face of significant funding changes – including a £2.3 billion reduction in government income since the recession – they have recalibrated their income streams by drawing upon their reserves, cutting or removing investment in their capacity as an organisation, and reduced spending on staff training and salaries whilst staff have increased their working hours. This has been done with a view to protecting front-line services and trying to meet increased levels of services to their beneficiaries.

The government has sought to address this problem through the Local Sustainability Fund (LSF) which is an important first step in supporting medium sized voluntary organisations to review and transform their operating models. However, the application process has proved insurmountable for those organisations that are in most need for capcity building suport. The Master-Classes will offer a more flexible approach, ensuring that such organisations can access the support they need.

Proposal

The **Voluntary Sector Master-classes** will be a cross-sector partnership. It will compliment the LSF by providing a range of technical training sessions that will equip voluntary organisations with the ability to improve their capacity and financial sustainability in the long-term.

There will be six master-classes that will address the following topics:

- Financial skills
- Governance
- Fundraising
- Commissioning
- Assessing impact/conducting evaluations
- Maximising resources – including finances, volunteers, work force and pro-bono support

This will be a three year programme. Each of the six master-classes will run four times a year, for three years. The classes will be predominately targeted at managers and trustees of small and medium sized organisations responsible for developing and delivering the organisation's strategy.

They should be offered to organisations for a minimal fee so as not to exclude the very organisations it is designed to support. In order to ensure that those organisations for whom attending training would result in closing their services, the provision of bursary funding should be considered so that such organisations can backfill or buy-in cover.

Cost

£1m per year over three years (£3 million). Additional resources will be provided by partners from the private sector.

Scale

On the basis that each master-class can accommodate up to 20 organisations per session, the number of charities that can access the master-classes over three years will be 1,440 small and medium sized voluntary organisations.

Commercial Masterclasses

A cross-sector partnership between AVANTA, Capita, Ingeus, NAVCA, NCVO, Serco and Social Enterprise UK delivered a year-long national programme to enhance the voluntary sector's commercial skills for public service delivery. The aim of the masterclasses was to enable the sector to have greater involvement in running public services as the sector can bring significant value to shaping and delivering future services.

This was a year-long funded by the Office for Civil Society at the Cabinet Office with pro-bono support from private sector partners.

Small Charities Fundraising Training Programme 2015/16

The Government has recognised that some small charities may face barriers to maximising their fundraising revenue and need greater support in understanding the fundraising options available to them. The OCS has therefore put a call out for partners to deliver subsidised fundraising training to small charities with under £1 million income. This has been launched with a view to enable small charities to generate more fundraising income, supporting their vital work and help to ensure a confident, capable and thriving civil society.

5. Partnership Hubs

The voluntary sector plays a critical role in supporting people and communities and will play a key role in further public service reform and devolution. At a local level, a strong collaborative relationship between the sector, the local authority and commissioning bodies is essential for the development of services to meet the needs of the local community and to take a full role in devolution.

With the establishment of the Compact in 1997, the value of a strong working relationship between the voluntary sector and government, particular local government, was recognised. The Compact, backed-up by significant resources, such as the £125 million futurebuilders fund and the ChangeUp programme of investment, has helped to establish the voluntary sector as a key partner in public service delivery.

With the Devolution and Localism agenda continuing to gather momentum and as the voluntary and community sector's takes an increasing role in delivering public services the relationship and understanding between the voluntary sector and local government is arguably more important than ever.

The effectiveness of the relationships between a local voluntary sector and a local authority is often dependent on one or two key people from both sides. Activity is often concentrated and siloed within local authorities.. It is widely understood that for these partnerships to work, working with the voluntary and community sector should become normal practice with the local authority and should be work across local authority departments. .

Proposal

Together with voluntary sector partners, the 60 most deprived local authorities will be invited to bid for funding to establish a partnership hub.

The funding for these hubs will enable:

1) Local authority staff, especially commissioners, to engage with their local voluntary sector to identify and understand the work that they do in the local community. This will be done with a view to identify gaps in provision, or where charities can receive support in the services that they are already providing so as to have a greater impact. This can be through grant or contract funding.
2) Voluntary sector and Local Authority staff to develop contacts across departments and organisations and embed a culture of working together.

The focus of the hubs should be on prevention and public service provision.

Cost

£31 million over 3 years: £10 million per annum including £1 million for an evaluation. This funding will include:

- A full time member of staff in a Local Authority to build relationships with the voluntary sector.
- Remunerate voluntary organisations for the staff time.
- Funds available to set up systems in order to embed partnership working.

- Funds to run events and training sessions for both commissioners and voluntary organisations.

All Together Better Durham

This is a partnership board in County Durham made up local authority services, including the police and county council staff, as well as local community and voluntary sector representatives.

The purpose of this partnership is to facilitate two-way communication between board members and community representatives to ensure that strategic decisions regarding the county as a whole are firmly linked to issues of importance to local people.

This group have developed performance indicators that identify whether they are achieving their targets in improving County Durham.