Rt Hon Philip Hammond MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horseguards Road
London, SW1A 2HQ

22 September 2017

Dear Chancellor,

Backing civil society through Brexit to deliver an inclusive economy

We are writing to you ahead of the Autumn Budget to present a number of proposals that will support the government's goal of building an inclusive economy and a shared society.

The government is well aware that charities, voluntary organisations and social enterprises contribute significantly to our economy. £62.54 billion was spent on charitable activities in 2016, while social enterprises have increased the number of new products by 59%, compared to the 38% developed by SMEs. As a sector we are also one of our largest employers, with over 1 million paid employees. As we look to the future and where the major challenges lie, it is these organisations that offer solutions.

As Britain prepares to leave the European Union, forging a new future for the country requires tackling the significant social, economic and environmental challenges it faces and it cannot do this without civil society. Not least because, as agents of change, charities, voluntary organisations and social enterprises (VCSEs) are the most effective institutions to deliver on this aspiration, and are central to supporting thriving, resilient local communities.

To make the most out of VCSEs' potential to deliver an inclusive economy and shared society, government needs to renew its support by providing sustainable funding and through listening to the expertise within the sector to drive change.

The government has the means to do both. National Audit Office statistics show that £40m of LIBOR fines are yet to be allocated to any scheme and the Dormant Asset Commission has identified £2 billion in dormant assets already earmarked to transform funding to the voluntary sector. Such funding pots have the potential to provide significant support to the sustainability of the sector as a whole if directed to strategic programmes that build civil society's resilience at a time when traditional funding streams are drying up.

Short-term: Strengthening civil society

In the short term, we must bring communities together and identify assets, challenges and opportunities within them. We need to ensure that VCSEs have the capacity to meet increasing demand. This is a particular challenge for small charities and community groups that are often at the heart of communities, with small charities (income of less than £1million) seeing a loss of 38% of public sector income over the past five years. To overcome this requires strategic development, including supporting training programmes across key strategic areas such as fundraising, financial management, technology, cyber-security and property management.

Charities must be supported to find new sources of funding. This can only be done if they have the necessary skills. We welcome the fundraising training already committed by the government, but it could be done on a larger scale and needs to be coupled with other core areas, such as finance and digital skills, to ensure that resources raised are well spent.

There is also an important role for specialist infrastructure, at a local and a national level, to ensure VCSEs across the UK can feed into the work of central and local government. This will ensure that we make the right decisions about how we use the limited resources at our disposal post-Brexit. With only a couple of years to consider replacement of European funds, government must invest in this capacity now.

Medium-term: Adapting for the future

Over the medium term, organisations are going to be asked to do more but with a smaller labour pool to draw upon. The sector needs to improve its productivity, yet it often lacks access to the funds available to businesses to invest in technology to help it deliver more. Our proposals ask for the government to invest in programmes that can boost the use of technology in the sector, alongside increased training and skills.

Long-term: Ensuring sustainability

In the long term, new and sizeable income streams will need to be made available. The Dormant Assets Commission has identified significant resources which could be used to support civil society to deliver its work for years to come. It is important that proposals are developed in partnership with the sector, particularly given the capacity pressures on government due to Brexit.

We believe that now is the right time to begin a consultation with the sector on the use of those assets. We have identified some themes and ways that the funds could be used and that could be considered by a government commission.

Our proposals are small interventions that could deliver significant impact for civil society and for the country as a whole. The government needs every part of our economy and society working effectively to make the best of Brexit. Therefore, it is critical that civil society is not ignored, but rather approached strategically in this Autumn Budget.

We look forward to your response.

Yours Sincerely

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Karl Wilding
Director of Policy, NCVO

Peter Holbrook
CEO, Social Enterprise UK

CC' Tracey Crouch, Minister for Civil Society
Andrew Jones, Exchequer secretary to HM Treasury

Supporting communities post-Brexit through strategic funding

We are a collection of specialist infrastructure organisations that support the voluntary, community and social enterprise sector. Below are a number of short, medium and long-term interventions that will have a lasting impact on civil society and will support the government's goal of building an inclusive economy throughout the Brexit process and beyond.

Short-term: Strategic funding to strengthen civil society

Since 2013, the government has committed £592 million of Libor fines to good causes – predominantly military charities, air ambulances and health charities. These funds have been a welcome income boost for the individual organisations that have been able to benefit from them.

However, in order to have the biggest possible impact we believe that funding from the Libor fines could be strategically deployed to meet funding and sustainability needs in the wider voluntary and community sector. VCSEs are operating in a challenging and changing environment, and funding secured outside of normal departmental spending (such as through Libor fines) could have a significant impact on the resilience of the sector as a whole, rather than being channelled to individual sub-sectors.

A strong and sustainable civil society can ensure that, as the UK leaves the European Union, local communities are not left behind and further alienated by a sense of disconnection from the established centres of power. Polling commissioned by Charity Finance Group and carried out by ComRes during the 2017 General Election campaign asked British adults who they thought the UK government were currently prioritising in the Brexit negotiations.

The findings show that it was wealthy people and wealthy communities that the public think the government is prioritising most. Just 2% believed that disadvantaged people and disadvantaged communities were the most prioritised. Charities, despite their contribution to society and the economy, were only seen as one of the government's top three priorities by 5% of the public.

This highlights a real risk for the government that priorities are publicly perceived to be skewed towards a few groups, leaving other parts of our society out of the picture. **We are therefore calling for the government to use the remaining Libor fines to provide more strategically for the needs of civil society**.

One way to do this is through **funding specialist, local and national infrastructure to ensure that those organisations that are closest to communities are able to feed into local and national government conversations and ensure the needs of their beneficiaries are being heard and met**. With the formal separation between the UK and the EU less than two years away, there is an immediate need to bring communities together to identify where the greatest need is and ensure funding – such as the replacement to the European Social Fund – is targeted appropriately.

Strengthening capabilities in civil society

There is increasing demand on services as access to funding is becoming more competitive. Smaller organisations in particular have seen a significant loss in public sector income, often threatening organisations at the heart of communities. One way to address this challenge could be investing in skills that will build the sector's resilience. This means supporting training programmes across key strategic areas such as fundraising, financial management, technology and cyber-security, as outlined in the table below.

Policy option: Civil Society Master Classes		
Estimated Costs per year (£m) between 2017-18 and 2019-20		
2017/18	2018/19	2019/20
- 1	-1	-1

What is the problem under consideration?

In response to the volatile funding environment, charities have cut back on training and development. The UK Commission for Employment and Skills (UKCES) survey 2013 found that 17% of voluntary organisations not investing in training cited lack of funds as the reason, compared to 10% in the private and public sectors.

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 reducing spending on staff training and salaries. This has been done with a view to protecting front-line services, but this is not sustainable in the long term. Staff retention is a growing issue for many small charities in particular, exacerbated by ongoing increases in demand, costs and funding challenges.

The Government has previously 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 of capacity building support – specifically those organisations with income under £1 million – 97% of the charity sector.

These smaller charities are embedded in the communities they serve, trusted by those who need support and who provide person-centred, holistic services that address the root causes of the challenges people face. It is important, therefore, that we invest in these organisations and help ensure their sustainability. One way in which to do this is boost their skills across a variety of areas including finance, governance and technology.

Overview of policy option: The **Civil Society Master-classes** will be a cross-sector partnership. It will provide a range of technical training sessions that will provide voluntary and community organisations with the ability to improve their capacity and financial sustainability in the long-term. There will be seven master-classes that will address the following topics: • Governance • Financial skills • Fundraising • Technology and digital skills • Assessing impact/conducting evaluations • Maximising resources – including finances, volunteers, work force and pro-bono support • Property management Master-classes should be offered to organisations for a minimal fee so as not to exclude the very organisations they are 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.
What are the policy objectives and intended effects? The Master-classes will enable small voluntary and community organisations to access the support they need to build capacity. This will ensure that they can meet the needs of communities over the long term. The wider benefits that come from the new networks and peer support opportunities arising from such training will help to provide a greater legacy for the investment.

Medium-term – adapting to future needs

Increasing productivity through technology

Once Britain leaves the EU, a key challenge for the voluntary, community and social enterprise sector will be the continuing increase in demand on services and a smaller pool of labour on which to draw from. As such, in the **medium term**, the government needs to think about how it can support productivity in the sector.

Access to technology can help VCSEs to develop new ways to access income and meet the needs of the communities that they support – whether these are local communities, interest groups, or (inter)national communities. Indeed, Lloyds Banking Group’s Digital Index highlighted that charities that are more digitally mature are 28% more likely to report an increase in funding than those who aren’t.

However, the lack of capacity and capability to access adequate software and hardware means that this is out of reach for those small and medium sized charities with limited unrestricted funds that can be spent on such core costs. 57% of charities cite skills and 52% cite lack of funding as the biggest barriers to getting more from digital (Charity Digital Skills report, 2016). With 97% of the sector being small organisations with under £1million in income there is a great need for support with investment.

The UK's economy is increasingly underpinned by digital infrastructure and the government has invested significantly in developing UK's cyber security. For example, the Cyber Security Knowledge Transfer Partnerships – a fund jointly financed by DCMS and Innovate UK – provided grants to cyber security companies and academic institutions to help businesses improve competiveness and productivity. A £1m cyber security innovation vouchers scheme was also established last year to provide specialist advice to small and micro businesses. **Civil society lacks such investment in digital capacity.**

The policy proposals presented below will help to place the voluntary and community sector on a par with the support available to the private and public sector. Importantly, it will embed partnership working between the tech and the voluntary sectors which will in turn encourage growth in the voluntary and community sector, increase the output of social technology, as well as ensure the sector has equal opportunity to innovate and adapt to the ever-evolving digital landscape.

<table>
<tr><td colspan="3">Policy option: Connect for Good</td></tr>
<tr><td colspan="3">Estimated Costs per year (£m) between 2017-18 and 2019-20</td></tr>
<tr><td>2017/18</td><td>2018/19</td><td>2019/20</td></tr>
<tr><td>-1</td><td>-1</td><td>-1</td></tr>
<tr><td colspan="3">What is the problem under consideration?
There has been a lack of tech development specific to the sector. This has been a result of:
1) A lack of capacity in small and medium sized charities.
2) Low levels of understanding of voluntary organisations' unique business models.
3) Low levels of understanding of the work that the voluntary sector does.

Because of the shortage of tech skills in the sector and a lack of available resources in the sector (specifically for smaller charities and community groups), the deficiency of tech development in the sector will be best addressed through collaboration between tech experts and voluntary and community organisations themselves.</td></tr>
<tr><td colspan="3">Overview of policy option:
Connect for Good is initially a three year programme that will bring together graphic designers, interface designers and project managers, to collaborate with charities on software projects in events around the country with specific focus on reaching deprived communities.

The programme will provide grant funding to tech companies and charities to work in partnership to implement successful innovations across the sector as well as to support charities and tech companies to collaborate and develop tech programmes beyond the face-to-face events.

The aim of this programme is to create ready-to-use products that charities can use immediately as well as identifying and responding to future issues.</td></tr>
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What are the policy objectives and intended effects?

The programme will:

- Bring together the technology sector and charity sector annually to help them understand each other. This will result in the creation of ready-to-use products as well as longer-term projects that are accessible to voluntary and community organisations and meet the needs of their beneficiaries.

- Improve skills within the sector and give the sector a competitive element. It would also benefit tech companies who could promote good examples of corporate social responsibility. The government has pushed hard to support corporate social responsibility within the private sector and this would help with public perceptions of the role of the private sector.

- Aid the reduction of cybercrime, thereby protecting beneficiaries, donors and employees.

- Enable charities to be more efficient through giving access to new technologies – thereby enabling them to provide improved services to people and communities.

- Improve charity governance by providing access to the necessary software and/or hardware.

Policy option: Voluntary Sector Technology Fund

Estimated Costs per year (£m) between 2017-18 and 2019-20		
2017/18	2018/19	2019/20
- 1	-1	-1

What is the problem under consideration?

Charities with income under £100,000 make up 83% of the sector, and 97% have an income below £1 million. The financial cost of software, hardware and internet access for these organisations is prohibitive, preventing them from being able to deliver the most effective services to their beneficiaries.

As the pressures of meeting increased demand for services grow, as compliance with data protection regulation becomes more urgent (not least because of the increased cost to charities of a data breach) and as compliance moves online, charities are not immune to the immediate need for improved technological capability.

However, small charities often lack the necessary resources to invest in new technology – a similar challenge to that faced by small businesses. As such, they can lack the basics such as computers, telephones and internet connection.

This can not only prevent them from keeping up to date with relevant regulation and delivering on their charitable aims, but also from applying for funding which is often advertised and applied for online.

Investment in technology could help charities to find new and simpler ways to operate, cutting time and costs which could otherwise be diverted to their front line activities.

Overview of policy option: A grant scheme available for charities in need of support to purchase new software and/or hardware equipment. Charities will be able to bid for up to £10,000. The scheme should be centrally administered. This would help charities demonstrate their impact (which is needed to attract funding) and maintain a standard seen in the public and private sector and could allow them to use resources more effectively. This fund should be specifically targeted at those organisations working with hard to reach communities – as they are particularly likely to lack the resources or the necessary networks to have access to individuals who can donate resources.
What are the policy objectives and intended effects? This would allow for small charities to become more sustainable. Many charities are struggling to put into practice their innovative ideas due to limited access to the right technology and the skills to utilise them – as explained in the previous section. Greater technological capacity would allow charities to fight against fraud, protect their data and would give donors and beneficiaries more confidence. For those charities responsible for handling sensitive personal data – often on particularly vulnerable people – it is important that they have adequate resources to ensure this data is protected. As technology is increasingly dominating people's lives charities that rely on it more can potentially reach out to a wider group of people than through traditional means.

Long-term: Ensuring sustainability

A **long term** challenge for the sector is accessing new and sizeable income streams which can support sector sustainability. The substantial resources identified by the Dormant Assets Commission represent a critical opportunity for the government to support civil society and ensure that the sector can deliver its work for years to come. Money isn't the only thing that the voluntary, community and social enterprise sector needs in order to improve our society and continue to meet growing need, but we will need resources to deliver significant social change.

We are therefore very supportive of efforts by the government to unlock over £1bn in unclaimed assets from stocks, shares, pensions and bonds to support good causes through the work of charities, voluntary organisations and social enterprises.

To ensure that the funds are used in the most appropriate way and create a long lasting legacy, it will be important to develop proposals for investing funds from the Dormant Assets in partnership with the VCSE sector itself. It is critical that the right balance is struck between the interests of those sectors which hold the assets and the interests of communities that would benefit from increased investment and support from charities, voluntary organisations and social enterprises.

As such we are calling for the government to work in partnership with the sector to consider potential uses of the fund. For this partnership to be meaningful, it will be necessary to allocate resources to ensure that small charities and community groups have the capacity to engage in any consultation process, not least because small charities make up 97% of the sector and are seen as the 'lifeblood of the community' by many. For example, due to limited time and resource within smaller organisations, consultations must be simple to complete, have long lead times to allow for individuals to contribute and ensure that there is a wide variety of ways to contribute, from online surveys to emails and round tables. Further, it is vital that government engages with local infrastructure to ensure a wide spread of views.

The signatories to this document have also met to provisionally discuss the key areas that we believe that Fund could be gainfully invested in, including: supporting local infrastructure; enabling consortia and collaborations between voluntary organisations; improving digital skills and access to technology in the sector; developing skills in the sector; and supporting greater community asset ownership.

Two detailed proposals that have already been developed will begin to meet these challenges and are detailed below.

Policy option: Local Community Foundations Endowment Fund
Investment from Dormant Assets: £1 billion
Overview of policy option: Use funds from dormant assets to incentivise donations from philanthropists. This will build on the success story of local Community Foundations by creating income-generating endowment funds which can then be used to fund small and local charities now and in the future. A successful programme to build endowments - the Endowment Match Challenge - has already shown that this approach can work. £100m of philanthropic capital was generated with a £50m match from government in addition. The level of match required could vary according to the level of deprivation - with smaller matches required in more deprived areas.
What are the policy objectives and intended effects? Community Foundations encourage local philanthropy, using the funds raised to make grants to local charities, based upon their expertise of what is needed and what works. They have already built an endowment of £500m. Investing half of the maximum total from dormant accounts - £1bn - could generate £40m/year in local grantmaking in perpetuity - more if match funding was sought from philanthropists (his assumes a 4% rate of return). Widening the network of endowed Community Foundations, and increasing the level of capital they hold, will generate investment returns from which small and local charities can be grant funded. At a time when local authority grants to charities are in decline, this is an opportunity to address the sustainability of small charities in particular and the communities they work with, at little cost to the exchequer.

Policy option: Community Asset Investment Plan
Investment from Dormant Assets: £500 million
What is the problem under consideration? As pressures on local government finances increase, we are concerned that the sale of publicly owned assets to find efficiency savings and generate revenue will lead to the loss of valued community spaces, buildings and infrastructure which provide the backbone for thriving and resilient communities. The drive to maximise revenues from asset sales will be particularly acute in areas with high land and property values, with councils now able to spend capital receipts from asset sales on the revenue costs of service transformation. However, the sale of public assets to the private sector – whilst generating short-term revenue – misses an important opportunity to capitalise communities in the long-term through community asset ownership. Across the country, enterprising communities are taking control of important local assets to transform the places they live. This means local people coming together to renovate empty or derelict buildings, generate profits to reinvest in their communities, create spaces for thriving local businesses and social enterprises, and provide affordable housing. With the right support, local authorities can generate additional social value from their assets through community asset transfer, while also boosting the ability of community organisations to deliver public services and strengthening the local economy.
Overview of policy option: Invest £500 million from the Dormant Assets Fund into a £1billion Community Asset Investment Plan. This funding will be used to encourage a further £500 million in match funding from funders such as the Big Lottery Fund. - 80% of this fund will provide capital grants and finance. This would deliver the equivalent of one project per year in every local authority in England. - 10% of the fund will support development planning and feasibility of projects. - 10% of the fund will be used to manage grants and investments, and provide a national hub for information, advice and support, including expertise around building and property management This proposal draws on activity from Scotland (population 5.3 million) where the Big Lottery Fund and the Scottish government have collectively invested or pledged £103m specifically into community ownership during the ten year period 2010-2020. As a result, Scotland is making huge strides on this agenda and leaving the rest of the UK trailing in its wake. A similar (per-capita) scheme in England (population 53 million) would equate to approximately £1bn.
What are the policy objectives and intended effects? - Transferring assets to community ownership, whilst not generating the same immediate financial returns as a commercial sale, can deliver **long-term social return as well as financial savings, opportunities for public service transformation and a sustainable income base** for local civil society organisations.

- Increasing community asset ownership would be a hugely significant step forward to **inject capital into community organisations, regenerate local economies and secure the future** of our most important and treasured community buildings, land and infrastructure.

- The relationship between community organisations and local authorities will be strengthened - 58% of community organisations have reported a stronger relationship with their local authority as a result of the community ownership process. 70% of local authorities either ‘agreed’ or ‘strongly agreed’ that the community ownership process had enhanced partnership working locally.

Contact for further information

Thank you for taking the time to consider the above proposals. We would welcome a meeting to discuss these further. Please contact Andrew.O’Brien@cfg.org.uk directly to arrange a meeting.