The Civil Society Group is made up of over 50 organisations that support the UK charity and voluntary sector. The tens of thousands of charities and community groups that we work with range from micro volunteer-led groups to national 'household name' charities. Their work supports millions of people every year, with everything from mental and physical health, to advice, crisis support and more. They also enrich communities across the UK by strengthening social infrastructure, providing opportunities for millions to volunteer every year, and improving life outcomes.

Charities are an essential part of the social fabric in communities, the economy and the public services ecosystem – but they, and critically the people they support face increasing risks of having to cut back services. The immediate consequences of contraction in charity sector activity will be felt in already very thinly stretched public service delivery.

Charities directly contribute £20bn to the economy each year, or 1% of GDP. Andy Haldane has estimated that, when volunteering is accounted for, the voluntary sector contributes around £200 billion, or 10% of GDP, to the economy. The economy would contract even more than it already is if charities had to close.

The longer tail of the impact will be felt in the resilience and economic growth of communities all over the country. Charities employ almost 1 million people. 1 in 10 charities have already had to make staff redundant and 1 in 10 are reducing their hours to reduce staff costs. We are likely to see further redundancies and decreased retention rates if the voluntary sector receives no further support.

While we were delighted that the Chancellor recognised the vital role that charities play in supporting communities at the previous Spring Budget by providing additional support for charities with service delivery and to improve energy efficiency, with household income in an already precarious position following the cumulative effects of the cost of living crisis on the back of the pandemic, charities are already dealing with a surge in demand and rising costs that are set to continue. The most recent Voluntary, Community and Social Enterprise Sector survey[1] has indicated that charities are still facing rising demand, with more than four in five (83%) larger charities expecting demand to grow over the next three months. As we approach the colder winter months it is vital that government provides much needed relief for families and the voluntary sector as they work to support those facing the greatest vulnerabilities.

To enable people to get the support they need, and for the voluntary sector to keep supporting communities in both the immediate term and for many years to come, government must:

- Introduce an 'Essentials Guarantee' that would embed in our social security system the widely supported principle that, at a minimum, Universal Credit should protect people from going without essentials. With this in mind the cap on total deductions from the Standard Allowance of Universal Credit should be lowered from 25% to 15%.
- Government should ensure public bodies have the resources to deliver public services by increasing funding to enable them to uplift grants and contracts to cover the costs of public service delivery.
- Streamline and review the charity tax and compliance systems by:
    - Addressing the issue of irrecoverable VAT for charities
    - Reintroducing VAT relief for the installation of energy saving measures in buildings intended for use solely for a relevant charitable purpose

[1] 2306-shifting-out-of-reverse.pdf (ntu.ac.uk)

- Extending charitable rate relief to wholly-owned charity trading subsidiaries

Government should introduce an 'Essentials Guarantee'

Charities report struggling to meet ongoing rising demand for their services, which in part is driven by the inadequacy of our social security system. Despite living in one of the wealthiest countries in the world, around 90% of low-income households receiving Universal Credit are going without essentials, driving more and more people into hardship and in need of charity support – at the same time as charities report growing challenges in securing funding to meet this demand.

Our social security system should offer adequate support to anyone in need of help, but right now it's not even providing enough to cover life's essentials. The continued cost of living crisis is making this worse for some of those on the lowest incomes. The latest research from YouGov for Trussell Trust[2] found that half of those on Universal Credit ran out of food in the last month and couldn't afford to buy more.

This escalating hardship creates dire consequences for individuals, communities and the UK as a whole, damaging the nation's health, driving up demand for other services and holding back our economy.

We have joined Joseph Rowntree Foundation, Trussell Trust and others across the charity sector and beyond to call for the Essentials Guarantee. The Essentials Guarantee would embed in our social security system the widely supported principle that, at a minimum, Universal Credit should protect people from going without essentials. It would introduce an independent process to regularly determine the Essentials Guarantee level, based on the cost of essentials (such as food, utilities and vital household goods) for the adults in a household (excluding rent and council tax). It's critical that any such guarantee includes ensuring benefits rise in line with inflation so they at least hold their value in real terms to ensure that the gap between benefit levels and what's needed to afford essentials doesn't grow bigger than it already is.

Guaranteeing the essentials also means Government must stop deducting benefits at unaffordable rates so that deductions (such as debt repayments to government) can never pull support below the level that would ensure people have enough to survive. Correspondingly, the cap on total deductions from the Standard Allowance of Universal Credit should be lowered from 25% to 15%. Within this, deductions to repay debt to central government should be capped at 5% of the Standard Allowance (in line with other creditors).

Government should increase funding to public bodies to ensure the ongoing delivery of public services, by enabling them to uplift grants and contracts for public services to cover the costs of public service delivery.

The voluntary sector is a critical partner in delivering public services. In 2020/21, voluntary organisations delivered £16.8 billion worth of public services, including social care, health, and employment and training services.[3] From 2016 to 2020, charities delivered 69% of commissioned

[2] Half of working families claiming Universal Credit ran out of food in the past month - The Trussell Trust
[3] https://www.ncvo.org.uk/news-and-insights/news-index/uk-civil-society-almanac-2023/#/

homelessness services and 66% of commissioned services to support victims of domestic violence and sexual abuse.[4]

Typically, the grants and contracts for these services do not have inflationary uplifts built in. Inflation has therefore been eroding the value of these grants and contracts for many years – but with the inflation rate peaking at over 11% in 2022, underfunded grants and contracts are now posing a serious threat to charities' ability to deliver public services, and to communities' access to these services.

NCVO recently surveyed over 300 voluntary organisations that deliver public services across the UK. Of these, **40% said that their grants/contracts never covered the true costs of delivering services.** A further 44% said that grants/contracts have not covered their true costs since at least 2020 – of which 22% (10% of all respondents) said that their grants/contracts have been underfunded for over a decade. There is a significant double standard here: commissioners expect private companies to build profits into their bids, while expecting the voluntary sector to provide the safety net that has traditionally been provided by the state, at a fraction of the true cost.

There are three main consequences of underfunding grants and contracts:

- **Reduced level and quality of service delivery.** Organisations often manage costs within a contract by reducing the number of referrals that they accept, their operating hours, or their offer (for example, accepting fewer complex cases). This reduces the level of need that is met in the local area. It may also make it harder for organisations to invest in service development and innovation.

  92% of survey respondents said that they have reduced referral numbers, staff numbers, and/or opening hours in order to remain financially solvent. 23% said they have changed the types of referrals that they accept. When charities are unable to deliver this vital support, people are driven further into crisis and needing more support at a higher cost in the future.

- **A less resilient provider base.** Organisations that cannot offer competitive wages are struggling to attract and/or retain staff. In some cases, contract/grant values have fallen below the national minimum wage.

  Inflation has made recruitment and retention of staff more difficult for 83% of survey respondents, and 45% said that it is becoming more difficult to pay the statutory national minimum wage within the bounds of their grants/contracts. Additionally, 38% of respondents said that grant/contract underfunding is making volunteer recruitment and retention more difficult. Only 14% of respondents deliver services where the contract covers the cost of delivery. This is not sustainable and risks service collapse.

- **A shrinking provider base, which drives down quality, choice, and innovation, and may mean no one is left to deliver the service**. Organisations increasingly can't bid for contracts that are not adequately funded. Reduced resilience due to underfunded contracts may lead some organisations to close.

  71% of survey respondents have handed back a contract/grant, have not retendered for a contract/grant, have decided not to bid for a new contract/grant, or have considered doing one or more of these.

[4] https://www.gov.uk/government/publications/uk-public-procurement-through-vcses-2016-2020

> More than 1 in 10 (13%) have handed back a contract/grant before its end date or have considered doing so, despite the legal and financial implications of this, and despite the impact on service users. Organisations only do this when the only alternative is to permanently shut their doors.

The risk that contract and grant underfunding poses to public services across the country should be of urgent concern to the Cabinet Office and Treasury, as well as to all departments with policy responsibility for an area of public service delivery.

Government must first ensure that public bodies including central government departments, devolved governments, local governments, and the NHS, are adequately funded to pay for the services that communities need. This must include ensuring that personal budgets allocated by local authorities and the NHS are uplifted to (at a minimum) meet the true costs of services.[5] This is not currently the case – for example:

- the NAO estimates that central government funding for local authorities decreased by 52.3% in real terms between 2010/11 and 2020/21[6]
- the Institute for Fiscal Studies recently found "that there are significant discrepancies between relative levels of funding and estimated needs across the country"[7]
- the British Medical Association estimates that the cumulative underspend on the NHS between 2009/10 and 2021/22 was £322 billion (defined as "the difference between what funding would have been if historical growth rates had been maintained, and what was actually provided")[8]
- The Health Foundation estimates that adult social care funding will need to increase by about 6% in real terms each year to meet demand, improve access, and cover the true costs of delivering services. If social care spending does not increase in real terms in the coming years, this will lead to a gap of £8.4bn by 2024/25, and a gap of £18.4bn by 2032/33.[9]

Government has a responsibility to the British people to deliver public services but the ability to meet this responsibility is dependent upon resource. Identifying communities' needs, designing services to meet them, and understanding the costs of delivering those services is eminently possible, particularly when public bodies work in partnership with the voluntary sector. **There must be sufficient funding to allow public bodies to provide these services, and this funding must come with an expectation that it will be used to uplift grants and contracts to cover the true costs of delivery.**

Local commissioners will only have sight of services in their areas and will act based on local pressures. Without national oversight (which could enable national action to safeguard financially sustainable delivery of services that meet people's needs) we expect to see a significant decline in public service quality and scale of delivery, including services delivered by voluntary organisations.

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[5] https://www.health.org.uk/publications/long-reads/adult-social-care-funding-pressures
[6] https://www.nao.org.uk/reports/financial-sustainability-of-local-authorities-visualisation-update/
[7] https://ifs.org.uk/publications/how-much-public-spending-does-each-area-receive-local-authority-level-estimates-health
[8] https://www.bma.org.uk/advice-and-support/nhs-delivery-and-workforce/funding/health-funding-data-analysis
[9] https://www.health.org.uk/publications/long-reads/adult-social-care-funding-pressures

We therefore also recommend that government consider how best to ensure national oversight of the state of public service delivery across public bodies. This could include, for example:

- new roles in the Cabinet Office, DLUHC, and/or any department with policy responsibility for an area of public services
- additional and/or improved data collection, including via the new central digital platform that will be introduced by the Procurement Act
- wider, more holistic consideration of what constitutes financial distress[10] in providers delivering public services and/or in grant/contract arrangements

Streamlining and reviewing the charity tax system

Irrecoverable VAT

We call on government to:

- **Use greater flexibility provided by leaving the EU to introduce a new special charity VAT rate on purchases made by charities**. The rate would ideally be set at 0% but could be adjusted according to economic circumstances. This would complement existing reduced and zero rates, and the social exemptions.

A precedent for introducing specific VAT reductions was set during the pandemic, when similar measures were introduced for a range of business types. A schedule to the legislation could be introduced, allowing all supplies to charities to be charged at a different rate of VAT.

Irrecoverable VAT costs the sector an estimated £2bn a year. Introducing a special VAT rate (ideally set at 0%) on purchases made by charities would be simple, effective, and allow government to reduce the VAT burden for charities.

VAT is intended as a tax on consumption. Charities, however, only make purchases to enable them to provide what is needed and desirable in society. They operate, by definition, for the public benefit. At times of crisis, charities are often the first organisations to answer calls for help – seen during the pandemic and now in the cost-of-living crisis. VAT represents an obstacle to delivering more services to those in desperate need, as demand for charity services is skyrocketing.

Successive Governments have acknowledged that VAT administration has been an undue burden for charities and have introduced targeted reliefs to reduce the scale of the problem, but they have been constrained by EU law from doing anything more radical. Currently, there is no general VAT relief for charities: there is a complicated mix of special reliefs, exemptions, zero ratings and concessions.

Introducing a special VAT rate for charities is workable in practice. They already need to issue certificates in many situations where zero rated supplies are relevant. Electronic certification could be a condition of accessing the charitable VAT rate. Automated accounting packages would accommodate this rate - just as they have for the reduced VAT rates for hospitality in the COVID recovery period.

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[10] https://www.gov.uk/government/publications/corporate-financial-distress/central-government-guidance-on-corporate-financial-distress-html#introduction

The charity sector supports a proposal to set a specific, lower, VAT rate on supplies made to charities to reduce their VAT burden. This would result in important savings for the sector as most charities can recover little or no VAT, unlike companies and public bodies.

This proposal was originally made by the Charity Tax Group in response to a 2020 report by London Economics on the value of VAT reliefs for the charity sector. It has since gained wide support from across the sector.

- **Reintroduce VAT relief for the installation of Energy Saving Measures in buildings intended for use solely for a relevant charitable purpose**

Following consultation with Charity Finance Group members both via survey and more detailed supplementary conversations, we believe that the relief for the installation of Energy Saving Measures (ESMs) in buildings intended for use solely for a relevant charitable purpose should be reinstated. At a time of persistent high inflation, stagnating income and increased demand for their services, anything that provides additional help for charities to meet environmental obligations and install ESMs is to be welcomed. Ultimately it will mean that more of the charity's resources can go towards providing public benefit and making a positive difference to their beneficiaries.

We found that for many charities we spoke to, any additional financial incentive could encourage charities to install ESMs that they otherwise wouldn't. As one charitable museum trust commented to us: "VAT relief would allow us to plan for these changes with a larger degree of optimism that we'll actually be in a position to attain them." Conversely it would also speed up a charity's ability to install ESMs by reducing the amount of expenditure needed. A heritage arts charity in the north of England commented: "increased financial incentives will not change the decisions but will speed up our ability to deliver changes, make savings and therefore help us to become more financially resilient."

We would also note that for many heritage and university charities in listed buildings, installing ESMs requires additional legal restrictions, planning requirements and are thus more expensive. A finance director at a major university with this challenge commented: "Any support to reduce the cost of energy saving measures would increase the chances of these projects either going ahead or being started sooner."

- **Extending charitable rate relief to wholly-owned charity trading subsidiaries**

We are calling for Charitable Rate Relief to be extended to wholly-owned charity trading subsidiaries. The current legislation on business rates means that charities can lose vital business rates relief if they organise their activities through a wholly-owned subsidiary. Many charities opt to operate specific activities, such as charity shops, through wholly-owned subsidiaries as this is an efficient means of ring-fencing funds and managing risk. This is consistent with Charity Commission guidance on protecting charity assets. However a charity structures its fundraising activities, the purpose is to generate funds to further its charitable purposes and the application of rules on Charitable Rates Relief should not inadvertently penalise charities seeking to reduce risk.

An amendment to Section 43 of the Local Government Finance Act 1988 should be considered to end a postcode lottery that results in wholly-owned charity trading subsidiaries being denied Charitable Rate Relief for premises that otherwise meet the test of being wholly or mainly used for charitable purposes. This is a particular issue for charity shops where most receive Charitable Rate Relief

This submission is on behalf of a group of the civil society organisations, including:

Debra Allcock Tyler, Chief Executive, Directory of Social Change

Victoria Armstrong, Chief Executive, Community Transport Association

James Banks MBE, Chief Executive, London Funders

Caron Bradshaw OBE, Chief Executive, Charity Finance Group

Steve Butterworth, Chief Executive, Neighbourly

Jonathan Chevallier, CEO, Charity Digital

Brian Dalton, Chief Executive, Irish in Britain

Maddy Desforges OBE, Chief Executive, National Association for Voluntary and Community Action (NAVCA)

Katie Docherty, CEO, Chartered Institute of Fundraising

Kathy Evans, CEO, Children England

Anne Fox - CEO- Clinks

Rosanne Gray, CEO, In Kind Direct

Rhidian Hughes, Chief Executive, Voluntary Organisations Disability Group

Jane Ide OBE, Chief Executive, Association of Chief Executives of Voluntary Organisations

Deborah Layde - CEO- The Seafarers' Charity

Rosemary Macdonald, CEO, UKCF

Kamran Mallick, CEO, Disability Rights UK

Ed Mayo, Chief Executive, Pilotlight

Jess Mullen, Chief Executive, Collective Voice

Ndidi Okezie - CEO - UK Youth

Robin Osterley - Chief Executive, Charity Retail Association

Richard Quallington, Executive Director, Action with Communities in Rural England

Paul Roberts OBE, Chief Executive, LGBT+ Consortium

Paul Streets OBE, Chief Executive, Lloyds Bank Foundation for England & Wales

Antonia Swinson, Chief Executive, Ethical Property Foundation

Sarah Vibert, CEO, NCVO

Marcus Ward, Chair, Consultants for Good

Donal Watkin, Chief Executive, Association of Charitable Organisations

John Wilson, Chief Officer, Community Matters