Spending Review 2025

Submission to HM Government

About the Civil Society Group

The Civil Society Group is a collaboration of over 80 civil society infrastructure and membership organisations, which has been working since the start of the pandemic to coordinate action and engagement between civil society organisations and governments across the UK. Through our members and wider networks, we gather insight from hundreds of thousands of registered charities, community and faith groups, voluntary organisations and social enterprises.

Introduction

Since July 2024 the UK government has defined its priorities through five 'missions', designed to achieve long-term change. This is a new approach in the governance of the country, not only because these missions transcend individual government departments, but also because the government intends to harness insight, innovation and resources from the voluntary and community sector and the private sector, as well as the public sector, to deliver those missions.

Prime Minister Sir Keir Starmer has stated that 'for too long civil society has been ignored by the shouts of the market and the state' and 'the relationship between government and civil society needs a reset'. He has called for 'a new era of partnership between civil society and the state…to tackle the complex social and economic challenges we face as a country'.

This Spending Review is crucial to making sure civil society, and particularly the voluntary and community sector, is recognised as a valued partner and contributor to mission success. This is intended to be facilitated by the new 'Civil society covenant', to embed high level principles of partnership working between the state and civil society. To make progress, civil society wants to be a valued and respected partner with government, involved in design, delivery -and success of the missions.

The UK Civil Society Almanac 2024 reports that the sector employs nearly a million people, accounting for 3% of the UK's workforce, and it mobilises over 14 million volunteers annually. It has an income of £69.1bn and a comparable level of expenditure (£65.4bn). Most of the income is generated by public donations, investments, and commercial activity. Income from statutory sources provides just over 25% of income, primarily from public service contracts. However, the government's policy and spending decisions have a strong bearing on the resilience and effectiveness of civil society, and its ability to:

- Support people, communities and local economies
- Contribute to the UK's economic growth
- Deliver and underpin public services, through commissioned services and reducing the demand on public services through direct support, diversion and engagement
- Reach and engage with less-heard communities
- Contribute to community development, cohesion, safety and health.

In a time of constrained public finances, the voluntary and community sector's contribution to the government's missions can be significant. We want to be a part of the widespread societal change that the missions can deliver.

Investing in communities

Context

The voluntary and community sector is an integral part of the public services system. Charities and voluntary organisations deliver around £17bn worth of services and support annually that communities need. They fill gaps in existing services and build long-term relationships in communities, including with groups that are furthest from mainstream services. They can be very flexible in responding to changing needs.

This makes them a critical partner for delivering public services. However, charities do much more than deliver services. Under the right conditions, charities are a force for both good and growth in their communities. This is because they:

- continually improve services by using specialist knowledge, investing surplus money, and co-designing services with communities
- use a strengths-based approach to tailor support and fill gaps between other services
- offer upstream preventative support and advocate for systemic change
- strengthen communities by building long-term trusted relationships. This includes engaging volunteers and providing social infrastructure such as places to meet and groups and activities to participate in.

Uncertain, fragmented and insufficient funding makes it hard for charities to deliver services and to bring their unique value and preventative, holistic approach. Research from NCVO has found that almost 9 in 10 charities are subsidising the true cost of delivering against government grants and contracts. This is unsustainable – it prevents charities from fully meeting their beneficiaries' needs and is driving 3 in 4 charities to consider withdrawing from public service delivery altogether.

We want charities to be empowered to play their full role in delivering public services and strengthening their communities. To realise this vision, government must commit to investing in local government to ensure the communities have the activities, services and support they need to be resilient and sustainable.

Sustainable funding for public services

Alongside the draft Civil Society Covenant, the forthcoming local government finance settlement provides an opportunity to reset the relationships between central and local government and the voluntary and community sector. While overstretched budgets are not the only factor driving transactional relationships between government and the sector, they make it much more difficult for policymakers and commissioners to think strategically, plan for the long term, or take the time to co-design approaches and services with communities and the civil society organisations that support them.

> **Recommendation**: Move to a multi-year settlement and the removal of competitive funding pots, to bring greater stability that local councils, and the voluntary and community sector working in partnership with them.

Equitably devolving resources and decision-making power

The government is moving forward with devolution, moving fastest where some urban regions have shown most appetite for it. However, resources must not be disproportionately targeted in these areas.

> **Recommendation:** Local government, at whatever stage in the devolution process, should be actively encouraged to implement 'double devolution' by working alongside local communities. This is especially important in rural areas where there is a strong network of local councils and asset managing local organisations at a community level.

Existing legislative and administrative systems could be used to add financial and social value to devolution Community Wealth Funds to redirect dormant financial assets for social purpose. The government has announced that £350m of dormant assets funding will be allocated between 2024-28 in England with consequential allocations for the devolved nations. However, the design and function of community wealth funds remains unclear.

> **Recommendation:** Engage with voluntary and community organisations about how to devolve priorities and decision-making to the local level, so that communities can use and benefit from Community Wealth funds in the best way they see fit.

> **Recommendation:** Set the expectation from UK government that grants and contracts awarded for public service delivery, especially those with the voluntary

and community sector, are calculated on the basis of full cost recovery by local government.

Recommendation: Use the soft lever of setting an expectation of local councils working with the voluntary and community sector for the benefit of communities and public services. The LGA has produced good practice guidance on how this can be done effectively.

Recommendation: Work with the voluntary and community sector, LGA and others to encourage and enable collaborative commissioning (not just procurement) involving the voluntary and community sector. The LGA has recently published guidance on collaboratively commissioning public services to improve outcomes for communities.

Recommendation: Strengthen Oflog's role in promoting partnership working with the voluntary and community sector.[1]

Recommendation: Government should redefine 'financial distress', taking a wider and more holistic view of what this means for providers of public services, and should encourage all public bodies to do the same.[2] Underfunded grants and contracts push a disproportionate and inappropriate level of risk onto voluntary and community sector providers.

Clarity on the future of UK Shared Prosperity Fund (UKSPF) replacement

The operating and funding environment facing the voluntary and community sector largely sits with devolved administrations in Northern Ireland, Scotland and Wales, and

[1] The minister for local government and English devolution wrote to the chief executive of Oflog in September 2024, committing to "resetting the relationship between local and central government" and a review of Oflog's role. This review provides an opportunity to strengthen Oflog's role in fostering partnership between the voluntary and community sector and local government. This role should include:

- Promoting partnership working with the voluntary and community sector, including through identifying and promoting good practice
- Involving the voluntary and community sector when seeking to understand the state of local government finances and its impact on local communities, including in any 'early warning' processes and remodelling how local services could be provided
- Identifying and working with central and local government to improve structural dynamics that undermine strategic partnership working with the voluntary and community sector, including annualised budget processes and risk aversion.

[2] Central government guidance on corporate financial distress focuses on private sector providers. Managing finances in the voluntary and community sector can be very different to the private or public sector – for example, charities report income and expenditure differently to private companies, and charitable income can change unpredictably from month to month. Government should therefore publish guidance for central and local government commissioners to help them identify, mitigate and avoid risks to voluntary and community sector providers of public services. Government should promote the guidance and issue a procurement policy note to make sure it is used. This would encourage commissioners to act before providers are forced to stop delivering public services.

the UK government in England. The UK Shared Prosperity Fund (UKSPF) is unique in that the UK government distributes funds across the entirety of the UK.

Voluntary and community organisations across the UK receive UKSPF monies, to deliver for people and communities across the UK. Extending UKSPF by a year is to be welcomed, as was set out in the UK Autumn Budget 2024. However, reducing funding by 40% (from £1.5 billion to £900 million) will be detrimental to the projects being funded, many of which are delivered by voluntary and community organisations. Ultimately, people and communities across the UK stand to lose out.

We continue to call on the UK Government to work with the voluntary and community sector, and devolved administrations, in designing any replacement scheme. By working together, we can ensure that any scheme continues to support vital community projects, while complementing devolution.

> **Recommendation:** The government should make a clear commitment to public funding best practice, including multi-year funding, providing clarity on how funding will be disbursed and how devolved administrations are to be involved on an ongoing basis. This would end current uncertainty.

Investing in civil society

HMT engagement

> **Recommendation:** To ensure that the relationship between the Treasury and the voluntary and community sector is in line with the principles set out in the proposed Civil Society Covenant (recognition, partnership, participation and transparency), HM Treasury should put in place processes for formal engagement with the voluntary and community sector prior to every major fiscal event. Alongside this, we would welcome quarterly roundtables with sector representatives and Treasury ministers to discuss the impact of financial announcements on the sector's ability to support the delivery of the government's missions and to foster greater collaboration between civil society and HM Treasury in the policy making process.

Charity Commission for England and Wales

It was positive that the Charity Commission for England and Wales received a modest increase in funding at the Autumn budget that reflected some of the inflationary pressures that the regulator has experienced.

Recommendation: The government should use the multi-year spending review to ensure the Charity Commission has long-term funding to put it on a sustainable footing in both supporting and regulating the sector. This would help to ensure that the Charity Commission has sufficient resources to improve its effectiveness and efficiency and is able to take advantage of the latest technology and data techniques to support charity transparency.

Additional funding is crucial for staff to respond swiftly to registration applications, to offer advice, and support to the sector, and to respond in a timely manner to requests for critical permissions like selling land or changing charitable purposes, particularly in the aftermath of ongoing financial pressures for many in the sector. This can help ensure charities can maximise impact through them quickly determining decisions.

The Commission maintains the online register of charities, which is a primary source of data and information for the public and policymakers about charities. It needs sufficient investment to keep this up-to-date and to take advantage of the latest advances in digital data management. We also emphasise the important role the Commission plays in working with the sector around community cohesion and charity reputation. Robust investigations into the small numbers of bad actors give the public and donors confidence to fund charities in the knowledge it is an effectively regulated and well-run sector.

HMRC

The 4.5% increase in total Departmental Expenditure Limits for HMRC announced at the Autumn Spending Review was welcome in helping to close the tax gap, modernise and reform HMRC, improving customer service.

Recommendation: Ringfence a proportion of this additional money for the specific purposes of

1. incrementally improving HMRC's systems and processes which support the voluntary and community sector,
2. providing additional funding for the HMRC charity tax helpline to provide frontline support for charities looking for tax advice, and
3. investing in the modernisation of the Gift Aid system (see below).

An additional portion of this funding should be used to help make HMRC guidance for charities more user friendly and interactive, helping charities understand their obligations, and helping to ensure they produce accurate and timely tax returns.

Gift Aid

Gift Aid is an invaluable part of the UK charity landscape, providing an incentive for giving and supporting charities' resilience. Unlocking unclaimed Gift Aid, estimated at £500m each year, would boost the value of giving to charities. But the processes for claiming Gift Aid were designed for a paper-based age and are creating barriers both for donors and for charities using the relief.

> **Recommendation:** The government should invest in simplifying and streamlining Gift Aid processes, helping to unlock the Gift Aid that goes unclaimed each year and making the system easier to use for charities and donors.

Investing in philanthropy/giving

The UK's current approach to philanthropy falls short of its potential, presenting a crucial opportunity that this government should seize. Government has a clear role to play in fostering greater giving and has many levers at its disposal to achieve this; some of which we outline below.

Spending Review and Mission Boards (Advisory Commissions)

Philanthropy and wider civil society have a crucial role to play in contributing to the delivery of the government's five missions. We would like philanthropists to have a seat at the table, offering their capital, expertise and convening power.

> **Recommendation:** The Mission Boards and Advisory Commissions established to support these missions should ensure formal representation - the scale of the challenge means working in partnership will be essential, in line with the principles of the draft Civil Society Covenant.

Match funding and Charitable Action Zones

Match-funding can be a way to encourage philanthropy, and crowd-in social purpose capital to support a specific place or cause. Match-funding schemes also reduce the cost burden (and risk) for both charities and local/central government, while simultaneously incentivising philanthropists to focus giving towards areas or causes that are covered by the scheme. This can be an important mechanism to target investment more effectively.

To access and attract match-funding, local authorities and organisations may need support to build their capacity. Capacity building activity might include support with fundraising, working in partnership, setting up teams responsible for attracting investment, or supporting charities to build relationships with funders. Capacity building support for organisations could cover both their capacity to raise funds to meet the requirements of the match-funding scheme, and their capacity to scale up the delivery of services if they receive additional funding.

> **Recommendation:** When the government identifies specific places or causes that will contribute significantly to the delivery of its missions, it should provide match-funding for specific places or causes, to show its commitment and attract philanthropic investment.

Charitable Action Zones would help address the need for community development in areas with a deficit of charitable activity.

> **Recommendation:** The government should match donations targeted at certain areas and invest in these areas' philanthropic infrastructure, with a goal of multiplying the impact of funding secured in these places, thus strengthening local fundraising, charitable activities and community development for the long term.

Low-cost quick wins

- **Wealth advice:** Financial advisers should be equipped to discuss philanthropy with clients. Research by the Charities Aid Foundation indicates that high-net-worth individuals (HNWIs) would like this type of guidance from their financial advisers but are not currently receiving it. Efforts are currently underway to develop training for advisers and the next critical step will be ensuring sufficient uptake. One approach to achieve this is to mandate philanthropy training. The government could instruct the Financial Conduct Authority (FCA) to use its powers to incorporate philanthropy into continuing professional development (CPD) requirements and the curricula of industry qualifications. Additionally, philanthropy should be embedded within the FCA's broader work on sustainable finance, acknowledging its role as part of the capital spectrum that clients may seek advice on.
- **Philanthropy champion:** Appointing a dedicated philanthropy champion in government would help drive a national conversation on giving and connect charities, businesses, funders, and potential philanthropists to boost giving efforts. Assigning this responsibility to a senior government figure would ensure that an understanding of philanthropy is embedded and provide a point of contact for coordinating cross-government activities. This would signal the government's commitment to leveraging philanthropy to support initiatives beyond its reach, such as long-term investments in innovative, high-risk ideas.

- **Mandatory reporting:** Reinstating mandatory reporting of corporate charitable giving presents a significant opportunity to encourage companies to increase their contributions and support the voluntary and community sector. Currently, it is estimated that £1.2 billion is given to charitable causes by FTSE 100 in the UK, but the lack of transparency around their giving makes robust calculations difficult. The government should reverse the 2013 amendment to the Companies Act, which eliminated the requirement for companies to report charitable donations in their annual reports. Restoring this would improve transparency, enable companies to benchmark their giving practices against peers, and establish norms for reporting. Clear standards, which the government could adopt, would outline what should be included in these reports. Corporate giving could encompass financial donations, goods, employee volunteering support, and leveraging purchasing power to benefit the voluntary and community sector, potentially aligned with the National Themes, Outcomes, and Measures (TOMs) Framework for Measuring Social Value.
- **Representation on the Mission Boards/Advisory Commissions:** As stated above, philanthropy has an important role to play in addressing all the government's five missions. The Mission Boards and/or the Advisory Commissions set up to support them should include formal representation from civil society and philanthropy, in line with the principles of the civil society covenant.

A fair settlement for the devolved nations

Fair, sustainable, multi-year funding for devolved administrations

The settlements provided by the UK government to devolved administrations have a direct impact on voluntary organisations in Northern Ireland, Scotland and Wales, particularly those that are in receipt of public funding. Too many of these organisations have contended with years of cuts to their funding, while being expected to deliver the same or even enhanced services and support, and in the face of spiralling costs. This trend must be reversed.

Historically, devolved administrations have expressed difficulty in providing multi-year funding to voluntary organisations, as their own funding for future years is unknown. We welcome the UK government's commitment to multi-year budgeting, which we hope will provide the clarity devolved administrations have stated that they need for forward planning, allowing them to deliver longer-term funding agreements for voluntary organisations.

For a strong voluntary and community sector, high-quality public services, and resilient communities across the UK, fair and sustainable funding multi-year settlements are essential. To make this a reality, the UK government and devolved administrations must commit to working collaboratively as part of the budgetary process.

Devolution-considered approach to UK fiscal policy

Fiscal decisions made by the UK government impact devolved administrations, which must then manage resulting financial implications within their own budget setting. It is crucial that the UK government engages with devolved administrations to properly understand the impact of Treasury policymaking on fiscal environments in Northern Ireland, Scotland and Wales. Failure to do so can result in significant uncertainty and negative impacts on the budget positions of devolved administrations. This ultimately places additional strain on the voluntary and community sector.

The recently announced increase to Employer National Insurance Contributions is instructive. This announcement has resulted in significant debate and uncertainty about the impact on devolved administrations. Devolved administrations face disproportionate financial costs in meeting ERNICs costs for public sector employees, due to the higher proportions of public sector workers in Northern Ireland, Scotland and Wales, when compared with England. Yet, at the time of writing, it is unclear whether public sector employers outside England will be compensated adequately to meet these higher costs. Unless devolved administrations, and their public sector agencies, uplift grants and contracts to cover these increased costs, voluntary organisations will be short-changed even further. This could mean service reductions, job losses, and the strong concern that people in need and hardship will not be supported safely.

> **Recommendation:** We urge the UK government to work constructively and collaboratively with devolved administrations as part of future budgetary processes, to ensure a devolution-considered approach to UK fiscal policy. This should be reflected in the Civil Society Covenant framework.