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

We welcome this opportunity to contribute to the government's thinking ahead of the Autumn Budget 2024.

In terms of economic impact, civil society contributed just shy of £20 billion towards gross value added in the UK in 2020, and was crucial to supporting the economy during the pandemic. Our workforce measures around 1 million people, equivalent to 2/3 of the NHS workforce, although this is supplemented by millions of people giving their time and energy through volunteering. Civil society is one of three elements making up the economy, alongside the public and private sectors.

However, our impact as a sector goes far beyond our economic impact. Wherever there is need in society there will be civil society organisations working to address that need. This supports and contributes to the work of every government department, local council and public service, from health and social care to criminal justice to transport. And wherever there is joy and light in society, civil society will be involved, bringing people together and supporting them and their communities, through faith, arts, culture, sports, youth work and much more.

Civil society organisations across the country, and working in every field, have been affected by the pandemic and cost of living crisis, like every other part of our economy, and have risen to the challenges of continuing to operate, to be those sources of support and joy that are vital to our society as a whole. A recent report from Grant Thornton sums up the choices open to charities responding to changes in demand, alongside rising costs and depletion of reserves:

> On the one hand mitigation can be achieved through basic financial management measures, such as negotiating adequate funding increases or reducing costs (or both). On the other and, this may not be enough on its own – charities need to remain attractive to those who work with them and thus need to be competitive on wages. This is often in opposition to the careful management of non-pay costs and securing funding increases from existing sources. Thinking outside the box is therefore needed – this might mean looking at diversification of revenue streams, developing future revenue opportunities or **simply cutting activity or services provided. Sadly, the latter can be detrimental to society.**[1]

[1] https://www.grantthornton.co.uk/globalassets/1.-member-firms/unitedkingdom/pdf/publication/2024/cost-of-living-impact-on-charity-sector-report-2024.pdf
Bold added.

Mindful of the government's aim to maintain its fiscal rules, we have developed this submission from the perspective of low-cost but impactful suggestions that would empower our sector to continue to make a crucial impact for society. These are:

1.1. Encourage philanthropy, improve the provision of wealth advice
1.2. Reinstate mandatory reporting of charitable giving by companies
1.3. Increase charity tax limits in line with inflation
1.4. Consult on the introduction of VAT relief on charitable donations and donated goods
1.5. Extend charitable rate relief to wholly-owned charity trading subsidiaries
1.6. Confirm that funding will be provided to continue HMRC's review of Gift Aid
1.7. Provide greater clarity on removing charitable business rates relief for private schools in England

In the longer term, we believe that there are opportunities to strengthen our economy and civil society's impact in contributing to the delivery of the government's missions. Along with households, public services and businesses across society, our sector needs to be on a sustainable footing to be able to move from survival mode to maximising impact. Across many different types of activity and delivery touching each of the government's mission areas, from health and social care to housing, a rediscovery of the previous Labour government's 'invest to save' approach could deliver more human benefits and lower costs to the Exchequer over the long run. We believe these proposals would contribute to greater sustainability across society and increase the resilience and energy of civil society to make a massive difference:

2.1. Introduce a protected minimum floor for reductions to Universal Credit Standard Allowance, to give those in the most precarious financial situations more certainty about their income.
2.2. Require and enable public bodies at every level to ensure that grants and contracts meet the true costs of delivering public services, as civil society organisations are critical partners in delivering public services
2.3. Ensure the Charity Commission for England and Wales has sufficient funding to improve its effectiveness and efficiency, and is able to take advantage of the latest technology and data techniques to support charity transparency. Urge the devolved administrations in Scotland and Northern Ireland to extend similar support to their regulators, OSCR and CCNI.
2.4. Appointment of a philanthropy champion to drive up charitable giving by individuals and businesses

Please read on for more detail.

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1. Low cost, big impact

1.1. Encourage philanthropy, improve the provision of wealth advice

There has been positive progress on developing training for financial advisors to improve their understanding of philanthropy and social investment. The sector is currently developing the content of the training. The next step is to ensure that uptake is adequate. Making philanthropy training mandatory is one possible option. The government could direct the FCA to use its powers to add philanthropy to CPD and the curricula of industry qualifications; and include philanthropy in all its work on sustainable finance, recognising the position of philanthropic capital on the spectrum of capital about which individuals may seek advice. The FCA has been broadly supportive of advisors talking to their clients about philanthropy but more needs to be done given the very high significance of this issue. Financial advisers must be equipped to discuss giving alongside wider tax and spending decisions. Research from Charities Aid Foundation shows that this is something High-net-worth individuals (HNWI) want from their financial advisers but are not currently getting.

1.2. Reinstate mandatory reporting of charitable giving by companies

There is a huge opportunity to motivate companies to increase their giving and wider support to the social sector, for the benefit of society. Companies give less than £500m p.a. to UK causes each year, but the lack of transparency around their giving makes robust calculations difficult. Government should reverse the 2013 amendment to the Companies Act which removed the requirement for companies to report their giving in their annual reports. This would enable greater transparency about giving practices, give companies a clear understanding of the giving behaviour of their market competitors, and set norms for what is reported and how. As noted below, there are standards that the government could adopt to provide clarity on what should be reported. Giving could include financial donations and donations of goods, supporting their staff to volunteer, and using more of their purchasing power to support the social sector, perhaps in line with the National Themes, Outcomes and Measures (TOMs) Framework for Measuring Social Value.

1.3. Increase charity tax limits in line with inflation

Many tax thresholds and limits that apply to the charity sector have remained static since they were first introduced. This did not have much of an impact on charities' finances while inflation remained below (or close to) the Bank of England's 2% target. However since the high levels of inflation that occurred in the aftermath of the pandemic the value of these limits has eroded significantly.

For instance, the cap on the amount of top-up that can be claimed under the Gift Aid Small Donation Scheme (GASDS) is £8,000 per tax year (and up to £8,000 for each community building). If this limit had kept pace with inflation when many of the rules for GASDS were changed in April 2017, it would now stand at £10,358.

Other limits which have not increased with inflation and have remained static include:

- The maximum of the total donor benefit value for Gift Aid, which currently stands at £2,500
- The limits for the maximum permitted small trading turnover, which currently stands at £8,000 for charities with gross income under £32,000, and £80,000 for charities with gross income annual income over £320,00
- The £30 limit for GASDS donations.

1.4. Consult on the introduction of VAT relief on charitable donations and donated goods

We encourage government to press ahead with the planned consultation (and ultimately to introduce), on a targeted VAT relief for low value goods which businesses donate to charities for the charities to give away free of charge to people in need. This was announced at the previous government's Tax Administration and Maintenance Day in April 2024, and is also supported by the British Retail Consortium.[2] We also propose that HMRC holds a roundtable with relevant sector bodies during the consultation period to ensure the sector's views are considered.

1.5. Extend 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. There are currently variations between local authorities applying the discretionary element of business rate relief that results in some 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.

1.6. Confirm that funding will be provided to continue HMRC's review of Gift Aid

We ask that the government provides funding for HMRCs promised review of Gift Aid, first announced at the Spring 2023 Tax Administration and Maintenance Day.[3] The announcement confirmed that HMRC was looking at how Gift Aid can be improved for everyone who uses it, and would seek to engage with all interested parties to improve Gift Aid processes by using digital technology to minimise administrative burdens. This would include a review of the current Gift Aid processes, as well as research focusing on whether and how to digitise Gift Aid. We ask that the Treasury confirms the continued funding of this project, as is it a considerable benefit to charities which rely on the income from Gift Aid to help support their beneficiaries.

[2] https://brc.org.uk/news/corporate-affairs/vat-anomaly-holding-back-donations-to-people-in-need/
[3] Tax administration and maintenance: Spring 2023 - GOV.UK (www.gov.uk)

1.7. Provide greater clarity on removing charitable business rates relief for private schools in England

We ask for greater clarification on the removal of business rates relief from Private Schools. The technical note from HMRC[4] provided limited detail on the government's proposals, with a promise to provide greater clarity in the forthcoming budget. We would ask that relevant departments consult with the wider charity sector to ensure that there are no unintended consequences for charities which are not private schools, as we would seek to avoid a precedent that universal tax reliefs are removed from charity subsectors.

2. Investing in society for the longer-term benefit of all

2.1. Introduce a protected minimum floor for reductions to Universal Credit Standard Allowance, to give those in the most precarious financial situations more certainty about their income

Charities report struggling to meet the ongoing rising demand for their services, which is in part driven by the inadequacy of our social security system. Despite living in one of the wealthiest countries in the world, 5 in 6 people in 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 is 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[5] 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.

Currently, around half of households receiving Universal Credit have reductions applied to their payment, such as debt repayments to the government and benefit cap reductions. Ending deductions at unaffordable rates would mean that support should not fall below the level that would ensure people have enough to survive.

We have joined the Joseph Rowntree Foundation, Trussell Trust and others across the charity sector and beyond to call for a protected minimum floor, limiting the reductions that can be applied to Universal Credit payments. We propose that reductions should be limited to 15% below the current Standard Allowance of Universal Credit. Introducing a protected minimum floor would be an initial step towards the Essentials Guarantee and would embed in our social security system the widely supported principle that, at a minimum, Universal Credit should protect people from going without essentials.

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[4] Technical_Note_-_DIGITAL.pdf (publishing.service.gov.uk)
[5] Half of working families claiming Universal Credit ran out of food in the past month - The Trussell Trust

2.2. Require and enable public bodies at every level to ensure that grants and contracts meet the true costs of delivering public services, as civil society organisations are critical partners in delivering public services

The voluntary sector is a critical partner in delivering public services. In 2020/21, voluntary organisations delivered £16.8 billion worth of public services for central and local government, NHS trusts, devolved and regional governments, the EU and international governments, town and parish councils, and non-departmental public bodies. These services include (but are not limited to) social care, health, and employment and training services. In some service areas, charities are the main provider – for example, from 2016 to 2020, charities delivered 69% of commissioned homelessness services and 66% of commissioned services to support victims of domestic violence and sexual abuse.[1]

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 over 11% in 2022, underfunded grants and contracts now pose a serious threat to charities' ability to deliver public services, and thus to communities' access to these services.

In autumn 2023, NCVO surveyed over 300 voluntary organisations that deliver public services across the UK.[2] 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.
- 10% of all respondents said that their grants/contracts have been underfunded for over a decade.
- In total, 83% of respondents said that their grants/contracts have not covered their costs since at least 2020.
- 73% of respondents said that they are not able to meet demand for their services within the financial limitations of their grants/contracts.

This increases the likelihood of 'failure demand', as people's needs increase and entrench over time, and they continue to seek support wherever they think they might find it, thus increasing pressure on other services.[3]

We call on government to increase funding to local government and other public bodies, including the NHS, so that contracting authorities can ensure that grants and contracts cover the true costs of delivering the services that people 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.

We also call on government to make clear its expectation that, where relevant, grants and contracts be uplifted to meet the costs of paying the national living wage. While the increase in the national living wage in 2024 is welcome, it is not funded, which means that contracting authorities are passing on this underfunding to the voluntary sector. This requires voluntary organisations to make up the shortfall from their own charitable income. One way to set this expectation would be through issuing a Procurement Policy Note.

We also call on government to introduce multi-year funding settlements for local authorities. Identifying communities' needs, designing services to meet them, and understanding and meeting the true costs of delivering those services is eminently possible when public bodies work strategically and in partnership with the voluntary sector. Such partnership working would be greatly supported and enhanced by introducing multi-year funding settlements. As noted in the Local Government Association's June 2024 Local Government White Paper, "The potential to deliver maximum value for money is held back by financial uncertainty and a limited ability to plan for the future."

There are two major consequences of underfunding grants and contracts:

Reduced level and quality of service delivery

Organisations are taking steps to remain within their funding limitations, including (but not limited to):

- reducing the number of referrals that they accept (39% of survey respondents)
- reducing staff numbers (39%)
- reducing their offer (for example, accepting fewer complex cases) (23%)
- reducing their operating hours (15%)

These measures reduce the level of need that can be met. Taking such steps also makes it harder for organisations to invest in efficiency and innovation.

A less resilient provider base

In the short to medium term, inflation has made recruitment and retention of staff more difficult for 83% of survey respondents.

In some cases, contract/grant values have fallen below the national living wage, forcing organisations to use other income sources to subsidise wages in order to avoid breaking the law. 45% of survey respondents said that it is becoming more difficult to pay the national living wage within the bounds of their grants/contracts, and 59% said that it is becoming more difficult to pay the voluntary real living wage. Additionally, 38% of respondents said that grant/contract underfunding is making volunteer recruitment and retention more difficult.

This demonstrates one aspect of the negative impact of government funding for public services: as noted by the LGA, councils are very worried about their ability to meet the national living wage increase and the impact this will have on their (in)ability to meet their statutory duties.[4] This also applies to civil society organisations: those that cannot offer competitive wages are struggling to attract and/or retain staff, thus eroding their ability to provide services.

86% of respondents are subsidising their grants/contracts with other funding, including 79% of respondents who are using charitable donations and fundraising to prop up grants and contracts and 11% who are using reserves. 15% of respondents have introduced or increased a charge to access their services, thus further restricting access for many of the people who most need support.

When people are running marathons or holding coffee mornings for a charity they want to support, they may not be aware that their efforts are underwriting the delivery of statutory services.

Organisations may choose not to bid for contracts that are not adequately funded. 71% of survey respondents have handed back a contract/grant, have not retendered for a contract/grant, or have decided not to bid for a new contract/grant, or have considered doing one or more of these.

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 people who use their services. Organisations will only do this when the only alternative is to permanently shut their doors.

In the longer term, trustees of charities delivering public services at a loss may decide they have no option but to use the charity's reserves to fund shortfalls, thus reducing financial sustainability as well as their ability to innovate. This is unsustainable and may lead to closures, reducing the provider base.

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 – not just to departments with direct commissioning arrangements.

While NCVO's survey showed that this is a problem across all contracting authorities, it is widely recognised that funding for local government is currently insufficient to enable councils to meet people's needs. 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, and that local government spending power across England therefore decreased by 26% in real terms over the same period.[5] The Institute for Fiscal Studies recently found "that there are significant discrepancies between relative levels of funding and estimated needs across the country."[6]
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.[7]

The Local Government Association (LGA) has found that almost three out of four councils (71%) expect to have to use their reserves this year, and that two out of three councils (67%) expect to have to make cost savings in at least one neighbourhood service this year (for example, sport and leisure, libraries, parks and green spaces, arts and culture, etc.).[8] The LGA estimates that local government would need an additional £4bn from 2024 to 2026 just to meet current demand – not to expand provision or innovate new services.[9]

The House of Commons Library estimates that local government spending power in 2024/25 is about 11% lower (in real terms) than in 2010/11.[10]

Other public bodies face their own underinvestment challenges. For example, the Health Foundation recently found that "achieving sustained improvement [in NHS services] would require average annual real-terms funding growth of 3.8% over the next 10 years".[11]

We recognise the difficult fiscal context within which government must make decisions – but maintaining unsustainable downward pressure on funding for public bodies is a false economy. It stores up more acute, and thus more costly, problems for the future. It ensures that demand for public services will continue to rise, as people's needs go unmet.

2.3. Ensure the Charity Commission for England and Wales has sufficient funding to improve its effectiveness and efficiency, and is able to take advantage of the latest technology and data techniques to support charity transparency. Urge the devolved administrations in Scotland and Northern Ireland to extend similar support to their regulators, OSCR and CCNI

It is crucial for the sector that the Charity Commission has sufficient funding for staff to respond swiftly to registration applications, to offer advice, and support to the sector, and to grant 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 approving and supporting these strategies. The Commission maintains the online register of charities, which is a primary source of data and information for the public and policy-makers about charities. It needs sufficient investment to keep this up-to-date and to take advantage of the latest advances in technology.

We also emphasise the important role the Commission plays in working with the sector around community cohesion and charity reputation – particularly in the wake of the riots that followed the Southport stabbings, and in the face of ongoing international conflicts. 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.

2.4. Appointment of a philanthropy champion to drive up charitable giving by individuals and businesses

This would enable government to pursue a coherent and effective strategy to significantly increase giving by embedding it across society. A philanthropy champion would set the tone for a national conversation about giving, and would be able to connect charities, private businesses, funders, would-be philanthropists, and others to both directly and indirectly drive greater giving. Assigning explicit responsibility for philanthropy to a senior, influential figure in government will help to ensure that understanding of philanthropy is embedded and give other parts of government with responsibility for philanthropy a point of contact to co-ordinate cross government activity.

Appointing a philanthropy champion would also strongly signal government's commitment to leveraging the power of philanthropy to do things government cannot or does not do – for example, investing in riskier ideas over longer time periods. We also call on government to reintroduce schemes to stimulate innovative and place-based giving programmes, and to codesign these with the voluntary sector. The success of previous programmes, the overall decline in giving, and the rise of social polarisation and fragmentation all demonstrate the need for this type of government-stimulated boost.

This submission is on behalf of the Civil Society Group which represents over 80 organisations. The following members have aligned around this Budget submission:

Debra Allcock Tyler, Chief Executive, Directory of Social Change

Tony Armstrong, Chief Executive, Locality

James Banks, Chief Executive, London Funders

Sandra Beeton, Chief Executive, Social Benefits Consortium cic

Caron Bradshaw OBE, Chief Executive, Charity Finance Group

Steve Butterworth, CEO, Neighbourly

Lindsay Cordery-Bruce, Chief Executive, WCVA

Katie Docherty, Chief Executive, Chartered Institute of Fundraising

Sarah Elliott, CEO, NCVO

Jason Elsom, Chief Executive, Parentkind

Anna Fowlie, Chief Executive, Scottish Council for Voluntary Organisations

Rosanne Gray, CEO, In Kind Direct

Rick Henderson, Chief Executive, Homeless Link

Rhidian Hughes, Chief Executive, Voluntary Organisations Disability Group (VODG)

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

Carol Mack OBE, Chief Executive, Association of Charitable Foundations

Ed Mayo, Chief Executive, Pilotlight

Kunle Olulode, Director, Voice 4 Change England

Robin Osterley, Chief Executive, Charity Retail Association

James Phillips, Chief Operating Officer, Lloyds Bank Foundation for England & Wales

Paul Roberts OBE, Chief Executive, LGBT+ Consortium

Antonia Swinson, Chief Executive Ethical Property Foundation