The Civil Society Group is made up of almost 90 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, supporting millions of people every year, with everything from mental and physical health, to advice, to crisis support, and more. These charitable organisations 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. The immediate consequences of contraction in charity sector activity will be felt in already very thinly stretched public service delivery.

Charities directly contribute £20 bn 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 bn, or 10% of GDP, to the economy. The economy would contract even more than it already has if more charities are forced 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 one million people. One in 10 charities have already had to make staff redundant and one 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.

With many households in an already precarious financial position due to the cumulative effects of the economic pressures over the last few years, charities are already stretching their resources to meet the challenge.

It is vital that government is aware of and takes steps to alleviate this challenging financial environment in which the voluntary sector continues to operate, as these organisations work to support the most vulnerable. The most recent Voluntary, Community and Social Enterprise Sector survey[1] has indicated that many charities are still in financial straits, with 35% of small and medium charities and 44% of large charities reporting that their finances have deteriorated in the past three months**,** having not fully recovered from the impact of responding to the cost of living crisis and the usual influx of demand over the colder winter months.

For many charitable organisations, there has been little or no improvement to the operating environment since the Autumn Statement. Key asks for the sector, if brought in by the government, would be of significant benefit to our wider society, as the support for charitable organisations helps them respond to need and increase their impact in the public interest.

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

1. 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

[1] 2310-a-tale-of-two-sectors.pdf (ntu.ac.uk)

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%.
2. Enable public bodies to ensure that grants and contracts meet the true costs of delivering public services by: a) Increasing long-term funding to all public bodies so that they can cover the true costs of delivering the services that communities need b) Requiring that, where relevant, grants and contracts be uplifted to meet the costs of paying the national minimum wage c) Considering how best to ensure national oversight of the state of the public services market and providers' ability to deliver.
3. Require HM Treasury to extend funding for Levelling Up funds, including the UK Shared Prosperity Fund (UKSPF), to 2030 to match the Levelling Up mission's timetable.
4. Streamline and review the charity tax and compliance systems by:
    a. Putting in place an automatic transitional relief mechanism (of at least three years) for Gift Aid if there is a reduction to the basic rate of income tax. This will ensure charities' income from Gift Aid remains steady.
    b. Protecting fiscal incentives for charitable bequests
    c. Addressing the issue of irrecoverable VAT for charities
    d. Extending charitable rate relief to wholly owned charity trading subsidiaries

1. 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, 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'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).

[2] Half of working families claiming Universal Credit ran out of food in the past month - The Trussell Trust

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).

2. Enable public bodies to ensure that grants and contracts meet the true costs of 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, including social care, health, and employment and training services.[3] 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.[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, with charities subsidising the delivery of public services through their other income-generating activities, including public fundraising. With the inflation rate peaking at over 11% in 2022 and remaining far higher than for at least two decades, 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 are three main consequences of underfunding grants and contracts:

- **Reduced level and quality of service delivery**

Organisations are taking steps to remain within their funding limitations that include, but are not limited to:

  - reducing the number of referrals that they accept (39% of our 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 in the local area. 73% of respondents said that they are not able to meet demand for their services within the financial limitations of their

[3] NCVO Almanac 2023
[4] https://www.gov.uk/government/publications/uk-public-procurement-through-vcses-2016-2020

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.

Taking such steps also makes it harder for organisations to invest in efficiency and innovation.

- **A less resilient provider base**

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. 59% said that it is becoming more difficult to pay the voluntary real living wage.

In some cases, contract/grant values have fallen below the national minimum wage, forcing organisations to use other income sources to subsidise wages in order to avoid breaking the law.

Organisations that cannot offer competitive wages are struggling to attract and/or retain staff, thus eroding their ability to provide services. They may use reserves to fund shortfalls, thus reducing their financial sustainability as well as their ability to innovate.

Additionally, 38% of respondents said that grant/contract underfunding is making volunteer recruitment and retention more difficult.

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.

- **A shrinking provider base, which drives down quality, choice, and innovation**

Organisations may choose not to 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, 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 service users. Organisations will 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 HM Treasury, as well as to all departments with policy responsibility for an area of public service delivery.

Government must therefore increase long-term funding to all public bodies, including central government departments, devolved governments, local governments, and the NHS, so that they can cover the true costs of delivering 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] Funding for public bodies is currently insufficient to enable them 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[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]

Identifying communities' needs, designing services to meet them, and understanding the true costs of delivering those services is eminently achievable, particularly when public bodies work in partnership with the voluntary sector. But 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.

Government must also require that, where relevant, grants and contracts be uplifted to meet the costs of paying the national minimum wage. While the increase in the minimum wage in 2024 is welcome, it is not funded, which means that commissioning authorities including NHS and local councils are passing on this underfunding to the voluntary sector. This requires voluntary organisations to make up the shortfall from their own charitable income. Our survey found that 45% of organisations are finding it more difficult to pay the minimum wage within the financial limitations of their grants/contracts. Of these, 90% are subsidising their grants/contracts. This is a worrying sign of the insufficiency of government funding for public services. As noted by the LGA, councils are very worried about their ability to meet the minimum wage increase and the impact this will have on their (in)ability to meet their statutory duties.[20]

There is also a significant gap in oversight and understanding of the risks to public services within central government. 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

[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

significant decline in public service quality and scale of delivery across the UK, including services delivered by voluntary organisations. **Government must therefore consider how best to ensure national oversight of the state of public service delivery across public bodies**, including introducing:

- 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

Without the right support in place, people's needs are increasingly going unmet. There is an immense human cost to people being prevented from living happy, healthy lives – but there is also an economic cost, as around 2 in 5 economically inactive people are not working due to long term sickness.[22,23] The voluntary sector should be a key partner in providing the support that would enable many people to re-engage in their communities.

Charities and voluntary organisations are delivering services at below-cost prices, much more cheaply than if they were insourced. Private contractors would seek to make a profit and would terminate contracts, or simply not tender for contracts, if their costs were not covered. Charities do not want to walk away from the people they support, but they are increasingly having to make that decision, chipping away at the services they offer in order to survive.

3. **Extend funding for Levelling Up funds, including the UK Shared Prosperity Fund (UKSPF) to 2030 to match the Levelling Up missions' timetable.**

Multi-year, longer term funding enables both stability and ambition in designing and delivering programmes. The EU's multiannual financial framework (MFF) of seven years allowed places to use development funding to strategically plan programmes that have supported regional growth. In contrast, the current UKSPF promises funding for only three years (ending in March 2025) – which will turn out to have been two and a half years at most, as first payments to local areas did not begin until October 2022.

The UKSPF should be used to address the fundamental drivers of economic inactivity: unemployment, and firmly entrenched inequalities in the labour market. Funding for shared prosperity should invest in services that support disadvantaged and seldom heard communities that have been neglected by mainstream state provision. In doing so, it will help tackle the UK's current skills gaps and productivity challenges and enable people to contribute to their communities and the economy. Importantly, communities will also be better positioned to generate local opportunities for themselves and withstand the impact of economic shocks by becoming more economically resilient. Shared prosperity funding is at the heart of a long-term investment strategy, aimed at delivering

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

significant long-term savings whilst helping to tackle some of the UK's most entrenched social problems.

Long-term funding provides financial certainty for commissioners and providers, and enables continuity of support for individuals. It also enables preventative or early action initiatives which help overcome problems, including long-term unemployment, before they become harder to tackle, and allows people to better resolve complex or entrenched issues by ensuring continuity in services. While most agree with the logic behind early action and its potential for long-term cost savings, current short-term spending mechanisms are a barrier to investment in preventative initiatives. Longer-term programmes could help break away from the current patterns of spending and service delivery, which tend to focus on 'downstream' treatment and care. Not only would this benefit service users, it would make investing in shared prosperity more cost effective through what the Chartered Institute for Public Finance and Accountancy (CIPFA) calls a 'public pound multiplier', where targeting public investment effectively reduces financial pressures elsewhere.

Shared prosperity funding that is based in community partnerships spanning sectors and organisations, combined with longer term funding (as described above) would not only facilitate better service integration, it could also provide significant cost savings for the Exchequer, as highlighted by the NAO.[11]

4. Streamlining and reviewing the charity tax system

a. Transitional relief for Gift Aid

To ensure that charities do not lose out financially in the short term, the government should put in place an automatic transitional relief mechanism of at least three years for Gift Aid if there is a reduction to the basic rate of income tax. If such a measure is not introduced, it would mean hundreds of millions of pounds of income for the sector would be lost.

Such a policy is not without precedent, having been introduced at the Spring Statement in 2022[12] and previously in 2007, the last two times when the government announced a reduction in the basic rate of income tax. Introducing an automatic measure will provide much needed clarity for charities and the people and communities they serve. Ensuring that such a mechanism is automatic will also remove any potential additional administrative burden that could be present.

b. Protecting fiscal incentives for charitable bequests

We are urging HM Treasury to commit to preserving the fiscal incentives for charitable bequests, or consult with the charity sector on any proposals for reform.

Under the current inheritance tax (IHT) framework, not only are charitable bequests tax free, but the tax rate reduces from 40% to 36% if a person leaves 10% or more of their estate to charity.[13] A review

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[11] https://www.nao.org.uk/wp-content/uploads/2013/03/Integration-across-government-Executive-Summary.pdf
[12] Spring Statement 2022 (publishing.service.gov.uk)
[13] HMRC, Tax relief when you donate to a charity, viewed on 22/1/2024

into IHT by the Office for Tax Simplification in 2019[14] found that estates who make use of this 10% rule account for 95% of income from charitable gifts in wills, making it a significant contributor to the sector's legacy income. They also recognised the pivotal role it plays in ensuring advisors raise the topic of charitable giving during the Will writing process which, through research from the Cabinet Office, has been proven to double the likelihood that a client will leave a charitable bequest.[15]

We believe that removal of these incentives would have a detrimental effect on both the number of charitable bequests made, as well as the value of legacy gifts to charities. This income is crucial to funding vital services for communities across the UK. Currently, gifts in wills fund 6 in 10 lifeboat launches, over a third of Marie Curie hospices, and sustain arts organisations, mental health helplines and an increasing number of community-based charities and charitable services. At a time when charities are facing the unprecedented challenge of meeting increased demand for services, whilst also coping with rising running costs, it is crucial that the fiscal framework continues to encourage and incentivise charitable gifts in wills.

In the event that HM Treasury does decide to review or reform IHT, we strongly urge officials to consider the risk to charitable legacy income and to consult with the sector for their views on the impact of proposed changes, and any suitable alternative fiscal incentives to protect this vital income stream.

c. Irrecoverable VAT

Irrecoverable VAT costs the sector an estimated £2bn a year. 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 and allow government to reduce the VAT burden for charities.

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.

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 supplies are zero rated. Electronic certification could be a

[14] Office of Tax Simplification, Inheritance Tax Review- a second report: Simplifying the design of Inheritance Tax, 2019
[15] Cabinet Office, Applying behavioral insights to charitable giving, 2013

condition of accessing the charitable VAT rate. Automated accounting packages would accommodate this rate, as they have for the reduced VAT rates for hospitality in the COVID recovery period.

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.

d. 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 system 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

Tony Armstrong, Chief Executive, Locality

James Banks, Chief Executive, London Funders

Caron Bradshaw OBE, Chief Executive, Charity Finance Group

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

Katie Docherty, Chief Executive, Chartered Institute of Fundraising

Anna Fowlie, Chief Executive, Scottish Council for Voluntary Organisations

Rosanne Gray, Chief Executive, In Kind Direct

Vivienne Hayes, Chief Executive, Women’s Resource Centre

Rick Henderson, Chief Executive, Homeless Link

Rhidian Hughes, Chief Executive, Voluntary Organisations Disability Group

Susan Hunter, Chief Executive Officer, Befriending Networks

Jane Ide, Chief Executive, ACEVO

Deborah Layde, Chief Executive, The Seafarers' Charity

Kamran Mallick, Chief Executive, Disability Rights UK

Ruth Marks, Chief Executive, Wales Council for Voluntary Action

Robin Osterley, Chief Executive, Charity Retail Association

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

Antonia Swinson, Chief Executive, Ethical Property Foundation

Sarah Vibert, Chief Executive, NCVO

Donal Watkin, Chief Executive, Association of Charitable Organisations

About the Civil Society Group

The Civil Society Group is a collaboration of almost 60 voluntary, charity and faith infrastructure bodies. The Civil Society Group seeks to build sector influence and draw on diverse networks to help civil society to deliver support and development for the communities our sector serves, efficiently and effectively.

www.CivilSocietyGroup.org.uk