Spending Review 2021
Submission from Charity Sector Infrastructure Bodies

This submission is on behalf of a group of charity sector infrastructure bodies / civil society organisations including: Association of Charitable Foundations, ACEVO, Charity Finance Group, NCVO, Chartered Institute of Fundraising, Charities Aid Foundation, Directory for Social Change, Charities Aid Foundation, Charity Retail Association, Locality, Lloyds Bank Foundation for England & Wales, Voluntary Organisations Disability Group, NAVCA, Small Charities Coalition, Equally ours, Clinks, Disability Rights UK, Children England, Association of Charitable Organisations, Women's Resource Centre

Introduction

This submission to the 2021 Comprehensive Spending Review comes at a pivotal point for the UK. There are the immediate challenges of moving through and out of the COVID19 pandemic. There are the future challenges looming large on the horizon, such as climate change. All of these form the backdrop to the UK Government's '*Levelling Up*' agenda.

Amidst this charities and wider Civil Society are playing - and will continue to play - an essential role. Civil society organisations play a critical part in tackling the UK economy's current weaknesses, such as unequal economic growth, disparities in productivity and skills shortages. Civil society organisations have the knowledge, expertise and proven experience of working with and through our communities to deliver change where it is most needed.

There is a history of government misunderstanding or undervaluing the critical role played by the Social Sector. COVID19 made the seemingly invisible ways in which we are all connected more visible. From supporting our neighbours, to ensuring significant funding was granted to vaccine development.

There are choices about the UK economy that the Government must make now. This must start from sound assumptions about the Social Sector.[1] Part of this will be gathered from numerous data sources, however this must be supplemented with qualitative data provided by listening to the Sector and responding to us.

To enable Civil Society to work effectively there are social structures that the Government must protect, strengthen and grow. Our recommendations are grouped under three distinct contexts:

- How charities can effectively contribute to the levelling up agenda through the Levelling Up Fund and the establishment of a Community Wealth Fund

[1] For the purposes of this response, we define the Social Sector, also known as the Third Sector, as consisting of organisations independent of government which work for social purposes. This includes charities, voluntary groups, and community groups as well as social enterprises and not-for-profit businesses. Where an organisation has a trading model, its surpluses must be reinvested in good causes

- How the UK comes out of the pandemic period and Builds Back Better through strengthening long term investment in local authorities, retaining Universal Credit levels and ensuring effective distribution of the UKSPF
- The role of charities in meeting future challenges including the trajectory to Net Zero

Summary of Recommendations

Levelling Up Fund

- The Levelling Up Fund should be used to invest in social infrastructure
- Government should develop a social infrastructure strategy which should:
    - include how to identify and map social infrastructure and how to best fund it
    - explore new ideas to fund social infrastructure such as a levy on physical infrastructure projects to be invested locally
- Communities of place and/or identity should be given the support and opportunities to define and solve problems locally through priority setting and spending decisions
- Charities and community organisations should be included in decision making forums on how Levelling Up Fund money is spent

Community Wealth Fund

- The government should use the next wave of dormant assets, which should continue to flow through charities and social enterprises as the primary delivery organisations, to create a permanent multi-billion pound national endowment for the most deprived communities

Strengthening the long-term financial sustainability of local government

- The longer-term financial sustainability of all levels of local democracy should be a key focus for the government with a more holistic, long term funding settlement, to ensure that more deprived communities do not continue to be left behind

Universal credit

- To avoid more people being pulled deeper into poverty – with added costs to wider society – the Government should not cut Universal Credit

Shared Prosperity Fund

- The UK Shared Prosperity Fund should invest in services that support people and communities experiencing disadvantage and discrimination neglected by mainstream state provision.
- Local communities and civil society organisations – including equality organisations that work with groups who experience discrimination and inequality – must be involved in its design and delivery
- At least a quarter of the fund go to local people to invest in their own priorities for the economy. This can be done by devolving funds directly to new “Community-Led Partnerships”, which would bring together councils and communities to drive regeneration in disadvantaged neighbourhoods
- The devolved administrations should be responsible for design and delivery in their respective nations so that the UKSPF creates the biggest impact for local people and matches policy and legal frameworks

Delivering the sixth carbon budget

- Government to set out the trajectory to deliver a sixth carbon budget and to recognise the role of public spending in unlocking private and philanthropic finance to ensure that 1% of GDP is spent on meeting climate targets

International aid

- The Government should restore the UK overseas aid budget to the commitment to aid spending totalling 0.7% of GNI

Context

The government has laudably recognised the value of public spending over the past eighteen months to support the economy and communities across the country through the impact of Covid-19, and the Chancellor has made it clear that this is a Spending Review where tough choices will need to be made to enable the government to focus on its priorities for recovery. It is more important than ever that spend is targeted to achieve the greatest impact. This submission identifies the commitments that would enable civil society to support the government to deliver on its priorities and to improve outcomes relative to the cost of investment.

Charities contribute £18bn to the economy every year and the social value has been estimated by Andy Haldane, former Chief Economist of the Bank of England to be many times that, in the region of £200bn, around 10% of GDP. This economic value can be maintained and even increased, benefiting communities across the country and helping to achieve the government's strategic priorities to level up, by ensuring a clear focus on inclusive growth and investment in social infrastructure at the heart of government's spending plans.

Charities and volunteers have been crucial to the national effort in helping communities across the country deal with the impact of the pandemic through working alongside local authorities and government in the vaccination effort and in supporting communities in areas such as domestic abuse, mental health, debt advice, affordable housing, foodbanks, employment support, and services supporting families and children, all of which are essential to underpinning ambitions for communities to 'level up'.

Poor processes and scheme design which increase transaction costs and weaken impact can be avoided by working closely with and listening to civil society in design and implementation of the government's key measures to level up. Social infrastructure must be part of the solution to improved productivity for local communities, who are best placed to identify problems, propose solutions and implement learning to improve services and who therefore should be granted the agency and power through the Levelling Up Fund and Community Wealth Fund.

We urge the Chancellor to provide transparency and clarity over government's intentions for spend and for the future of public services and to not 'salami slice' budgets in a way which may reduce spending but in the medium and longer term scupper achievement of meaningful economic impact in tackling future challenges including ensuring the UK is put on track to delivering the sixth carbon budget. Working effectively and efficiently with civil society will help the government to improve the outcomes of spend on its priorities, and will enable all our communities to thrive.

There are three broad contexts that these proposals sit within;

- How charities can effectively contribute to the levelling up agenda
- How the UK comes out of the pandemic period and Builds Back Better
- The role of charities in meeting future challenges

How Charities can effectively contribute to the Levelling Up Agenda

Levelling Up Fund

We call for changes to the levelling up fund, to ensure that this policy agenda furthers equality between people and between places. Public polling has also demonstrated that the public see levelling up as tackling social issues, not just building hard infrastructure.[2]

The levelling up fund and agenda should address economic and social inequality in tandem. Inequality across education, housing, independent living support, health and wellbeing has implications for the economy. There is a link between social capital[3] and economic growth. A recent study empirically established that *bridging* social capital is associated with higher levels of regional economic growth.[4] Another study found that social trust is positively related to social enterprises' employment growth and revenue growth.[5]

The Levelling Up Fund should be used to invest in social infrastructure.[6] There is a link between social infrastructure – the places, spaces, organisations and mechanisms that connect people and build capital – and building different types of capital to achieve social and economic equality. [Research from Local Trust and Frontier Economics](https://localtrust.org.uk/wp-content/uploads/2021/07/Frontier-Economics_the-impacts-of-social-infrastructure-investment.pdf)[7] has shown that social infrastructure contributes to social, economic, fiscal and environmental outcomes[8], which are essential to the success of the levelling up agenda. Government should develop a Social Infrastructure Strategy. This strategy should include how to identify and map social infrastructure and how to best fund it. This strategy should explore new ideas to fund social infrastructure such as a levy on physical infrastructure projects to be invested locally. Future rounds of the Levelling Up Fund should have a specific focus on social infrastructure investment. We know that there are lower levels of social infrastructure in deprived areas so investment here is essential.

Funding for physical infrastructure should provide additional social value, such as youth apprenticeships, job transitions for people who are unemployed, incentives for local partnerships, or supporting local providers to bid for projects.

Communities of place and/or identity should be given the support and opportunities to define and solve problems locally through priority setting and spending decisions. Future rounds of the

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[2] https://www.thinknpc.org/blog/is-levelling-up-just-a-soundbite/
[3] Social capital, as articulated by the OECD, relates to the 'links, shared values and understandings in society that enable individuals and groups to trust each other and so work together'. More specifically, bonding social capital relates to closed networks that link groups of similar people, while bridging social capital refers to open networks that link groups of different people. https://localtrust.org.uk/wp-content/uploads/2021/07/Frontier-Economics_the-impacts-of-social-infrastructure-investment.pdf
[4] Muringani, Fitjar and Rodriguez-Pose (2021), 'Social capital and economic growth in the regions of Europe
[5] Power to Change (2017), 'Neighbourhood economic models'
[6] https://publications.ncvo.org.uk/levelling-up/key-design-principles-uk-shared-prosperity-fund/
[7] https://localtrust.org.uk/wp-content/uploads/2021/07/Frontier-Economics_the-impacts-of-social-infrastructure-investment.pdf
[8] https://localtrust.org.uk/wp-content/uploads/2021/07/Frontier-Economics_the-impacts-of-social-infrastructure-investment.pdf

Levelling Up Fund should be distributed to areas according to need. Central government shouldn't control all the levers, and a competitive bidding process is not the way to ensure communities get the resources they need because it absorbs so much capacity from local authorities. The fund would achieve greater impact if it was devolved directly to places that need it the most according to a transparent and accountable distribution formula. Funding should be spent through community partnerships, including local government, businesses, charities and community organisations, and citizens.

Strengthening civil society is vital to tackle inequality. The levelling up white paper should include an explicit goal to enable a thriving civil society, including charities. Charities, volunteers and community groups are vital partners to achieve levelling up because they understand inequality and their communities, and they also support social infrastructure.

Charities and community organisations should be included in decision making forums.
We call on the government to establish a voluntary sector taskforce on levelling up, including representation from equality infrastructure organisations. This would be similar to the Build Back Better council involving the business community.

Community Wealth Fund

We are calling on the government to use the next wave of dormant assets, which should continue to flow through charities and social enterprises as the primary delivery organisations, to create a permanent multi-billion pound national endowment for the most deprived communities that, even before Covid-19, did not benefit from Britain's wider economic prosperity.

A Community Wealth Fund would devolve funding decisions directly to residents within these neighbourhoods, in order to build the confidence and capacity of local residents, whilst providing them with the support to deliver sustainable change for their area. This would give local people the power to create and maintain independent community services and community spaces, and provide them with the capabilities to achieve their aspirations for their areas. Developing new approaches in areas that have not benefited from growth will be key to addressing both the UK's low productivity, and 'levelling up' all our communities in the coming years.

How the UK transitions out of the Pandemic Period

Strengthen long-term financial sustainability of local authorities by increasing core government funding

Charities, volunteers and local authorities work closely together across the UK to ensure that people can access the support, help and services they need to live their lives well. Local government has been central to the relief effort during COVID-19 but the Local Government Association (LGA) reports that while the £3.2 billion of emergency funding provided by the government to councils near the beginning of the crisis did help to reduce some immediate pressures, councils still face significant concerns about the long-term pressures they face.

Even before the crisis, the National Audit Office calculated that local authorities have seen government funding reduced in real terms by almost half since 2010-11, and that 1 in 10 councils are now using their reserves at a rate which is not sustainable for more than three years. The latest Spending Round did provide an additional £2bn in 2021/22, which was welcome, but this will not reverse the significant cuts that councils have endured since 2010 and that have been exacerbated by Covid-19.

Additionally, councils have faced considerable uncertainty about future funding, limiting their ability to plan for the future and to be able to work with local partners from civil society. Too often, councils continue to plan for the worst, seeing services steadily drained of resources rather than working with partners to meet local needs and develop solutions. Cuts to budgets have often pushed authorities to retender year on year, each time expecting more for less. This has gone beyond efficiency and value, and has now resulted in poor services and instability. A significant number of charities subsidise contract value to ensure safe and quality services, but this is not sustainable with many handing back unsustainable or risky contracts. Charities can be important partners to the delivery of funded services but charity finances cannot support the demand overflow. Unsustainable and unrealistic contracts create failure demand in the system, increasing the pressure on other public services and communities.

Research from Lloyds Bank Foundation has shown that while councils have tried to reduce the effect of cuts on people that face the greatest disadvantages, their impact has disproportionately fallen on marginalised and underrepresented groups in society. This has coincided with a marked increase in demand for services, particularly amongst communities that receive the least financial investment by central government. Councils have been forced to cut back on preventative or universal services to focus on immediate crisis need, but still struggle to provide essential support especially in the case of social care and educational support for disabled pupils[9]. It is essential that sufficient funding is available to deliver services at the scale and quality they are required so that people can access the support they need. Effective services will be a key determinant of the Government's ability to level up.

Greater investment in the delivery of public services is an opportunity for inclusive, local economic growth. For example, provision of high quality social care can support working age disabled people to work or participate in the economy, has the potential to provide good local jobs, and supports family members to stay in work.[10] The Spending Review’s priority of ensuring strong and innovative public services across the country needs to encompass local services - including those provided by charities and communities groups as partners with local government - as well as those provided centrally. As such, the longer-term financial sustainability of all levels of local democracy should be a key focus for the government.

It is important that the funding provided takes the form of central government funding, rather than solely providing additional mechanisms for local authorities to raise revenue themselves. It is in the poorest communities that local authorities will struggle most to raise the local revenue needed to fund the services that families rely on, and therefore those areas which should be the target of attempts to ‘Level Up’ and where demand for services will typically be higher. Leaving areas solely reliant on council tax and business rates would further exacerbate inequality, not

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[9] https://www.countycouncilsnetwork.org.uk/councils-call-for-urgent-action-in-spending-review-to-address-1-3bn-special-educational-needs-deficit/

[10] https://neweconomics.org/uploads/files/West-Midlands-Social-Care-report.pdf

least because of the disproportionate impact that Covid-19 has had on deprived areas and communities. It is also essential that the funding formula takes account of each area's unique and changing population, including levels of disability and deprivation. Discrete pots of funding provided to communities (including the Levelling-up fund) will be beneficial, but for those which do not receive these funds there needs to be a more holistic, long term funding settlement, to ensure that these communities do not continue to be left behind.

Don't cut Universal Credit

Social security should be strong enough for all of us to rely on when we need a lifeline – because, as the pandemic has shown us, life is full of things we can't plan for. It should protect families from harm, keeping their heads above water if someone were to lose their job; if their income were too low or insecure to make ends meet; if they were sick or their family circumstances changed. It should pull people out of poverty, bringing greater stability and security, and opening-up options and opportunities.

But in recent years, cuts and freezes to our levels of support have left families living with constant insecurity, unable to meet their everyday needs. Instead of being pulled to safety, they've been put at risk of being pulled deeper into poverty and will add costs to wider society, many of which will have to be picked up by other public and voluntary sector services.

As we look to rebuild our society, 'level up' and 'build back better', we should not weaken social security support by cutting £20 a week from Universal Credit this October. Instead, the Government must ensure people who are still receiving legacy benefits, many of whom are disabled or carers, are no longer excluded from this vital improvement to support.

As the letter from six former Conservative Secretaries of State has said, "a failure to act would mean not grasping this opportunity to invest in a future with more work and less poverty and would damage living standards, health and opportunities for some of the families that need our support most as we emerge from the pandemic."

Ensure effective and efficient distribution of the Shared Prosperity Fund

The coronavirus crisis has had a severe impact on the country's labour market, with the low paid and the young bearing the brunt of the impact. As we emerge from the Covid-19 pandemic and start to rebuild the economy, investing in employment and skills programmes that seek to address economic inequalities within and between communities will be paramount. The government's forthcoming UK Shared Prosperity Fund (UKSPF) will be central to the delivery of this levelling-up agenda by supporting the creation of the social infrastructure needed to tackle structural and regional inequality and to improve the lives of people in deprived communities.

Scheduled to be launched this year, the UKSPF will act as a replacement for the funding the UK has received from EU Structural Funds for decades. Communities across the country have benefited greatly from funds delivered particularly via the European Social Fund and European Regional Development Funding which focus on skills, employability, regional inequality and the low-carbon economy. The funds' equality and non-discrimination objectives ensured women, disabled, Black, Asian and minority ethnic and LGBT people and others facing disadvantage were included. This is a requirement that must be retained and enhanced within UKSPF. There is now an opportunity to design a better initiative that will replace the investment in a more efficient and effective way. By helping to create a fairer and more inclusive society where all communities have an opportunity to contribute to economic growth, an effectively designed UKSPF will help the UK fulfil its post-Brexit and post-Covid-19 potential.

The UKSPF is also an opportunity to improve on past regeneration programmes which have invested in physical infrastructure but failed to support the social infrastructure to ensure it connects with the people who really need it. The UKSPF should invest in services that support people and communities experiencing disadvantage and discrimination neglected by mainstream state provision. Local communities and civil society organisations including equality organisations that work with groups who experience discrimination and inequality must be involved in the design and delivery. Research also shows that approaches which put communities in control of how investment is spent and which interventions will work for their places do not just provide good social outcomes but are also proven to create stronger local economies.

To that end, we propose that at least a quarter of the fund go to local people to invest in their own priorities for the economy. This can be done by devolving funds directly to new “Community-Led Partnerships”, which would bring together councils and communities to drive regeneration in disadvantaged neighbourhoods. The remaining 75% would be allocated as core strategic funds for regional bodies; Combined Authorities, or large local authorities or groups of local authorities where they don’t exist, accountable to local ‘citizen’s panels’. In Wales, Scotland and Northern Ireland, the devolved administrations should be responsible for design and delivery in their respective nations so that the UKSPF creates the biggest impact for local people and matches policy and legal frameworks. This will help tackle the UK’s current skills gaps and productivity challenges and deliver a thriving labour market in line with the government’s ‘levelling up’ agenda. 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.

To ensure the UKSPF delivers its potential, it is vital that charities play a meaningful role and that the government engages with those charities who were part of successful Community Renewal Fund pilot bids and learns lessons from those who were unsuccessful or unable to bid. The sector’s knowledge and expertise will be particularly important given the lack of consultation on the UKSPF’s design.

Longer term, local boards consisting of key stakeholders - including charities - should be responsible for distributing funding and identifying need. This will help ensure that marginalised communities receive adequate support and avoid the UKSPF being used to simply subsidise existing state provision.

The Role of Charities in meeting future challenges

Government also needs to tackle long-term problems, including ensuring the UK is put on track to delivering the sixth carbon budget.

Delivering a Sixth Carbon Budget

We welcome the government's priority in the Spending Review to lead the transition to a Net Zero Carbon. It will be important for government to set out the trajectory to deliver a sixth carbon budget and to recognise the role of public spending in unlocking private and philanthropic finance to ensure that 1% of GDP is spent on meeting climate targets (as called for by the Climate Change Committee)

International Aid Budget

We are calling for a reversal to the cuts to the UK overseas aid budget, restoring the previous commitment to aid spending totalling 0.7% of GNI.

The UK is home to a number of world class international development charities, and the aid sector is an area where the UK stands out as a genuine world leader, yielding considerable soft power around the world.

In recent years the cornerstone of this success have been charities operating on the frontline, delivering crucial services where other organisations cannot and offering unique insight into complex international challenges.

Unfortunately, the budget cut will force charities to reduce services and cause some to shut their doors altogether. Concerningly, the cuts will disproportionately affect smaller international development charities already under severe monetary pressure as a result of the pandemic.

The UK's aid budget would have fallen dramatically in real terms even without the change, in line with the fall in UK GNI during the pandemic, and the further cut makes an already diminished level of funding even smaller. Whilst Government financial support has helped support UK-based development organisations over the recent crisis, charities have had their fundraising options severely limited from March 2020 onwards. Concurrently, organisations in the international aid sector in particular have seen a sharp increase in demand for their services, with the pandemic causing the first rise in global poverty in 23 years.

In the absence of an immediate reversal to the cuts to the British overseas aid budget, the UK Government should commit to a clear timeline for a return to the 0.7% of GNI commitment. This would provide certainty to the civil society organisations facing financial challenges and help charities make an informed decision on the future of their frontline activities.

Please contact Richard Sagar, Head of Policy, Charity Finance Group richard.sagar@cfg.org.uk for further information