Rt Hon George Osborne MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horseguards Road
London
SW1A 2HQ

23rd February 2016

Dear Chancellor,

Strengthening the Voluntary Sector to Empower Communities

We are writing to you ahead of the upcoming Budget to urge you to use this opportunity to address some of the most pressing issues facing the voluntary and community sector today. These are organisations that can support government to 'transform the life chances of the poorest in our country' as set out in the Prime Minister's speech last month.

In this document we put forward six proposals designed to address these challenges, with a particular focus on small and medium-sized voluntary organisations.

Voluntary organisations make a major contribution to the UK economy and wider society. They employ 821,000 people and mobilise 13.8 million regular volunteers which is worth nearly £24 billion each year and they add £12.4bn in Gross Value Added to the UK economy every year. They understand the needs of the communities within which they work and they build trusting relationships so they can reach individuals who are most at risk. Indeed, without these organisations the Government cannot complete its 'all-out-assault on poverty' outlined in Manchester last year.

We recognise that both charities and Government are operating in a tough environment. Against the backdrop of austerity, public services must be transformed if they are to meet society's rapidly growing and changing needs. Our sector is already playing a vital role in delivering these services and we welcome the Government's commitment to engage the sector further in public service delivery.

In 2012/13, charities raised nearly £11bn in voluntary income from donations and fundraising. This has been spent on delivering services and supporting communities across the country, in many cases underpinning the work of other public services or delivering preventative interventions which save public money.

While charities are supporting those most in need, their struggle to meet rising demand is only getting harder. Small and medium sized charities, those typically best placed to deliver services to those most at risk, are finding it particularly difficult. Many of these charities are taking steps to adapt to the tough environment and address governance and leadership issues in the sector, but there is still work to be done.

We believe that government's spending on strategic support for the voluntary sector should therefore be seen as public investment that would enable these voluntary organisations to thrive and generate a substantial return through their good work. It would ensure that charities can continue to meet the needs of individuals and Government. Strategic and targeted interventions on the issues outlined in these proposals will translate into better services for beneficiaries and long term savings for government.

Our proposals seek to tackle the key challenges facing our sector: governance, financial sustainability, assets and commissioning.

We propose the following six recommendations:

- **Maintain mandatory charitable business rates relief at 80%** - ensuring that this critical relief is able to support tens of thousands of charities and ensure money is directed to helping those who need support.

- **Use windfalls, such as those previously directed from Libor Fines, to fund initiatives to increase the sector's capacity including governance and commissioning –** so that they address the key issues facing all charities and enable them to play a full role in public service transformation.

- **Direct unspent Apprenticeships Levy funds from charities towards investment in voluntary sector skills –** so that the Levy works for the sector and helps us to meet the needs of beneficiaries into the future.

- **Introduce further increases in the National Insurance Contributions Allowance for charities, tapered in line with National Living Wage increases** - maintaining a level playing field between voluntary organisations and the private sector on meeting the costs of the National Living Wage.

- **Allocate 3% of the proceeds from government asset sales to support a Community Capital Fund –** this will ensure that the sale of government land and proprieties leaves a long term legacy of stronger and more self-sufficient communities.

- **Engage the sector on the Dormant Assets Commission** and set out how the government will ensure it is independent and has transparent decision-making processes.

We hope that you will take on board our proposals as part of the Budget and work with charities to build higher levels of public confidence and achieve a bigger impact.

Yours sincerely,

Caron Bradshaw
Chief Executive, Charity Finance Group

Paul Streets OBE
Chief Executive, Lloyds Bank Foundation

Neil Cleeveley
Chief Executive, NAVCA

John Barrett
Acting CEO, Small Charities Coalition

Geetha Rabindrakumar
Head of Social Sector Engagement, Big Society Capital

Tony Armstrong
Chief Executive, Locality

David Emerson CBE
Chief Executive, Association of Charitable Foundations

Kunle Olulode,
Director, Voice4Change England

Asheem Singh
Director of Public Policy, ACEVO

Sir Stuart Etherington
Chief Executive, NCVO

Policy proposals

Maintain mandatory charitable business rates relief at 80%

Rationale

There is a long history in the UK of buildings used for public benefit being exempt or partially exempt from taxation. This tradition reflects that charity assets can only be used for public benefit in pursuit of their charitable objectives, and acknowledges the significant economic contribution that charities make, as well as the social value they deliver above and beyond their primary charitable activities.

Charitable business rate relief is worth £1.5 billion a year to voluntary organisations – the single largest relief for the sector. Unlike Gift Aid, which primarily benefits charities that fundraise from individuals, business rates relief benefits a far wider cross-section of organisations. In 2014-15, 88,000 charity premises received an average of £16,000 mandatory relief. This relief is crucial to the economic viability of many of the organisations which receive it.

The devolution of business rates to local authorities has raised significant concern that rate reliefs currently enjoyed by charities will also be devolved. Charities currently receive a mandatory business rates relief of 80% of their liability. Local authorities are able to grant up to a further 20% of discretionary rates relief to charities.

In practice, local authorities grant only 2.5% discretionary relief on average, a figure which has consistently fallen in recent years. Given the pressure on local government spending, localising reliefs would put councils in the impossible position of choosing to continue providing charitable reliefs to organisations that support local communities, or removing them to raise income for statutory services.

Small and medium sized local organisations with an income of under £1m will be the most effected by localising reliefs - fewer than 4% of the 160,000 charities in the UK have an income of more than £1m. However, charities that operate nationally, internationally or across several local areas are also likely to be particularly affected, as local councils tend to focus support on those charities with the biggest local footprint under existing discretionary relief.

At a time when the sector is being asked to take a greater role in their communities and in delivering public services, it is essential that this relief is not eroded.

Proposal

Centrally-mandated business rates relief should not be devolved to local councils, but maintained at the existing 80% level.

Cost

No additional cost.

Scale

Tens of thousands of small and medium sized charities benefit from business rate reliefs.

Many charities require premises in order to deliver their services. Maintaining mandatory charitable business rate relief will support the resilience and sustainability of the sector needed to meet government's objectives of transforming the lives of Britain's poorest. Without access to mandatory rate relief there is a risk that organisations will become financially unsustainable and will have to stop delivering services or in some cases, close.

Use windfalls, such as those previously directed from Libor Fines, to fund initiatives to increase the sector's capacity

Rationale

In addition to being a major contributor to the UK economy, the voluntary sector plays a key role in redesigning public services. By being close to their beneficiaries, voluntary organisations have direct insight into the needs of their communities. This means that charities can bring local expertise to public service delivery, and provide a voice for some of the most marginalised in society.

As government looks to redesign public services and open them up to a wider range of providers, voluntary organisations need support in adapting to the new funding landscape. However, commissioning processes have consistently proved to be a barrier for many voluntary organisations, specifically local, small and medium sized-organisations. Commissioning processes put these organisations at an unfair disadvantage, with overly complex requirements and reduced partnership working. The ability of voluntary organisations, particularly smaller ones, to continue meeting increasing levels and complexity of demand is therefore being eroded. Charities are also having to do this in the midst of tough financial conditions. Excluding these charities has a detrimental impact on services, particularly in terms of reaching those most at risk.

In order to address these challenges more strategic support is needed to enable voluntary organisations to adapt to a volatile funding environment, and improve their effectiveness and lay the groundwork for communities to take ownership of key assets and services. Whilst initiatives such as the Local Sustainability Fund have been a welcome first step, more is needed to support both voluntary organisations and commissioners to realise the potential of the voluntary sector in the transformation of public services, particularly in critical areas such as health and social care.

Proposal

The government should strategically invest windfalls, such as those previously directed from Libor Fines, to fund initiatives to improve commissioning practices and support the voluntary sector to increase its impact across the board; rather than on an *ad hoc* basis.

In the last budget the government committed £70m of Libor fines to air ambulance services and veterans charities. This was a welcome income boost for those individual organisations. However, as highlighted in the recent PACAC report, the Government should ensure that the Libor Fund is administered objectively and transparently. By using any such future windfalls to help build the sector's capacity, government will be able to help thousands of charities and secure the sector's continued role in the UK's society and economy so that it is able to have a far bigger and longer term impact. The sector is already working hard to improve its governance and doing what it can to become more sustainable. This approach could help to support this development further.

We outline three options through which such capacity building could be achieved using windfalls:

i) Centre for Social Value

The passage of the Social Value Act was one of the big achievements on public service reform in the last Parliament. Lord Young's review into the Act has showed that it is having a positive impact on public services, but that awareness and take up of the Act has been mixed.

Some public bodies have embraced the potential of social value to generate additional social, economic and environmental benefits through public service contracts, but others have been slow to realise this potential. There have been a number of barriers identified, as highlighted by Lord Young's review, including:

- Lack of capacity in commissioning teams;
- Lack of understanding about how best to identify and embed social value within contracts;
- Lack of skills to engage with charities, voluntary organisations and social enterprises on developing social value;
- Disjunction between commissioners and procurement teams;
- Confusion around the strengths and weaknesses of various approaches to measuring social value.

Some of these barriers cannot be directly addressed by central government (e.g. capacity). However, others such as a lack of understanding of how to implement social value, the lack of skills in engaging with the sector and confusion around the strengths and weaknesses of various measurements of social value, would benefit from investment centrally.

The Social Value Act and social value commissioning more broadly, need central government support. Social value has so far been given limited focus within the Commissioning Academy, in part due to the range of other issues that commissioners need to tackle and the sourcing of free support rather than using specialists. Moreover, there is a lack of bespoke tools and information for commissioners on how to use and maximise the impact of the social value approach to commissioning.

Proposal

The Government should fund the creation of a **Centre for Social Value,** similar to the Centre for Social Impact Bonds.

The Centre would seek to:

- Support specialist training and education of commissioners and procurement officials on the implementation of social value and building effective strategies;
- Developing tools and templates for commissioners and procurement officials to implement social value (e.g. how to identify social value opportunities and how to measure social value);
- Support events between public bodies, businesses and charities to encourage collaborative working within a social value approach;
- Commission research into the benefits of social value and spread best practice;
- The Centre would bring together officials (national and local); outside experts, charities, social enterprises and businesses together to advance the implementation of the Act and ensure that all public bodies effectively implement it.

ii) Voluntary Sector Master-classes

The recent sector-led financial sustainability review identified a capacity crunch in the voluntary sector. Voluntary and community organisations, particularly those that are reliant on government income, are unable to free up new resources through increased efficiency to draw in new resources. The capacity-building that has been undertaken is rarely focused on the financial skills that will enable charities to get the most out of their resources.

Whilst voluntary and community organisations have demonstrated resilience in the face of significant funding changes – including a £2.3 billion reduction in government income since the recession – they have recalibrated their income streams by drawing upon their reserves, cutting or removing investment in their capacity as an organisation, and reduced spending on staff training and salaries. This has been done with a view to protecting front-line services.

The Government has sought to address this problem through the Local Sustainability Fund (LSF) which is an important first step in supporting medium sized voluntary organisations to review and transform their operating models. However, the application process has proved insurmountable for those organisations that are in most need for capacity building support. The Master-classes will offer a more flexible approach, ensuring that such organisations can access the support they need.

Proposal

The **Voluntary Sector Master-classes** will be a cross-sector partnership. It will complement the LSF by providing a range of technical training sessions that will equip voluntary organisations with the ability to improve their capacity and financial sustainability in the long-term.

There will be six master-classes that will address the following topics:

- Governance
- Financial skills
- Fundraising
- Commissioning
- Assessing impact/conducting evaluations
- Maximising resources – including finances, volunteers, work force and pro-bono support

This will be a three year programme. Each of the six master-classes will run four times a year in nine regions, for three years. The classes will be predominately targeted at managers and trustees of small and medium sized organisations responsible for developing and delivering the organisation's strategy. On the assumption that each master class sees a minimum of twenty organisations attending, we estimate these classes could help 12,960 smaller charities over the lifetime of the classes. This works out at a cost of £150 per charity attendee.

Master-classes should be offered to organisations for a minimal fee so as not to exclude the very organisations it is designed to support. In order to ensure that those organisations for whom attending training would result in closing their services, the provision of bursary funding should be considered so that such organisations can backfill or buy-in cover.

iii) Partnership Hubs

The voluntary sector plays a critical role in supporting people and communities and will play a key role in further public service reform and devolution. At a local level, a strong collaborative relationship between the sector, the local authority and commissioning bodies is essential for the development of services to meet the needs of the local community and to take a full role in devolution.

With the establishment of the Compact in 1997, the value of a strong working relationship between the voluntary sector and government, particularly local government, was recognised.

The Compact, backed-up by significant resources, such as the £125 million futurebuilders fund and the ChangeUp programme of investment, has helped to establish the voluntary sector as a key partner in public service delivery.

With the Devolution and Localism agenda continuing to gather momentum and as the voluntary and community sectors takes an increasing role in delivering public services, the relationship and understanding between the voluntary sector and local government is arguably more important than ever.

The effectiveness of the relationships between a local voluntary sector and a local authority is often dependent on one or two key people from both sides. Activity is often concentrated and siloed within local authorities. It is widely understood that for these partnerships to work, working with the voluntary and community sector should become normal practice across local authority departments.

Proposal

Together with voluntary sector partners, the 60 most deprived local authorities will be invited to bid for funding to establish a partnership hub.

The funding for these hubs will enable:

- Local authority staff, especially commissioners, to engage with their local voluntary sector to identify and understand the work that voluntary organisations do in the local community. This will be done with a view to identify gaps in provision, or where charities can receive support in the services that they are already providing so as to have a greater impact. This can be through grant or contract funding.
- Voluntary sector and Local Authority staff to develop contacts across departments and organisations and embed a culture of working together.

The focus of the hubs should be on prevention and public service provision. The aim would be to develop innovative solutions to support communities and reduce long-term demand for services.

Cost

The overall cost for these three proposals would be £**36 million over 3 years**:

i. Centre for Social Value: £3 million over 3 years

ii. Voluntary Sector Master-classes: £1.94 million over 3 years. Additional resources may be provided by partners from the private sector

iii. Partnership Hubs: £31 million over 3 years. This funding will include: a full time member of staff in a Local Authority to build relationships with the voluntary sector; remunerate voluntary organisations for the staff time; funds available to set up systems in order to embed partnership working; funds to run events and training sessions for both commissioners and voluntary organisations.

Estimated costs per year (£m) between 2016-17 and 2019-20

	2016-17	**2017-18**	**2018-19**	**2019-20**
Centre for Social Value	**-1**	**-1**	**-1**	N/A
Voluntary Sector Master Classes	**-0.7**	**-0.64**	**-0.6**	N/A
Partnership Hubs	**-11**	-**10**	**-10**	N/A

Scale

By funding these initiatives government will support thousands of voluntary organisations.

The voluntary sector master-classes, for example, will reach 12,960 small and medium sized voluntary organisations on the basis that each master-class can accommodate up to 20 organisations per session. There are no firm figures on the number of charities and social enterprises engaged in public service delivery, but the number of organisations is likely to be in the tens of thousands. Eligibility could be restricted to those organisations delivering public services.

Future public services will also benefit from these initiatives. The Commissioning Academy, is set to have supported 1,500 participants by 2016, with an average of 250-300 participants a year. We believe that a well-resourced Centre for Social Value could reach around 1,000 commissioners by the end of the Parliament.

There are over 600 public bodies in England, all of which which are subject to the provisions of the Social Value Act. The tools developed by the Centre will support the implementation of social value across all these public bodies.

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Direct unspent Apprenticeships Levy funds from charities towards investment in voluntary sector skills

Rationale

We welcome the government's commitment to creating new apprenticeships and developing the skills of young people in the UK. Indeed charities have already demonstrated their commitment to creating new opportunities for skills development. For example, a number of international development charities have partnered with City and Islington College in London to establish international development sector apprenticeships.

However, apprenticeship schemes in the sector are underdeveloped, something that we wish to see rectified.

Under existing Apprenticeship Levy proposals, employers will be given a 'reasonable amount of time' to spend the funds available in their digital accounts. Where employers do not spend these funds, they will be made available to other employers. This poses the very serious risk of charitable income allocated for public benefit leaving the sector to support private businesses.

A driving principle behind the levy is that employers will be able to get out more than they put in. However, unlike private businesses, the vast majority of charity funds are typically restricted to their cause. Given that the levy can only be used to cover the direct costs of apprenticeship training and assessment – rather than the costs of developing new apprenticeships, recruitment and salaries – this lack of unrestricted funds makes it difficult for voluntary organisations to find the room in their budget to employ apprentices on which to spend the levy.

The UK Commission for Employment and Skills (UKCES) survey 2015 found that 17% of voluntary organisations not investing in training cited lack of funds as the reason, compared to 7% in the private and public sectors. This disparity between charities and other sectors has increased since the UKCES 2013 survey.

Alongside this fall in investment, the sector lost its skills council in 2013. As such there has been a lack of investment in and strategic oversight of the development and quality of apprenticeships in voluntary sector.

Proposal

We propose that the unspent Apprenticeship Levy funds from voluntary organisations should be protected so that they do not leave the voluntary sector. This will ensure that money donated for charitable purposes is not redirected to private profit.

The government should consult with the voluntary sector on how unspent funds should be used to help develop skills in the sector and increase the number of apprentices. For example, the funds might best be used to establish a new skills council or fund programmes provided by existing infrastructure.

The unused levy should be distributed on the Barnet formula to allow the devolved nations to decide how best to use the funds.

Cost

This will be cost neutral to government overall, although given the need to develop infrastructure in the short term to successfully hit the apprenticeships target, government may need to outlay funding before the Levy is fully implemented – but government will be able to reclaim expenditure in the medium term through unused Levy.

Increase pay back of National Insurance Contributions for charities

Rationale

Following the welcome introduction of the National Living Wage (NLW) in April 2016, the National Minimum Wage (NMW) will increase to £7.20/hour, growing to £9 by 2020. The salary of every member of staff earning the existing NMW will cost an additional £1,150 by April 2016, excluding pension and National Insurance contributions.

In recognition of the challenges that businesses will face with the increased costs associated with the NLW, the Chancellor announced a package of support for businesses including further Corporation Tax Reductions, and increasing the amount that employers can claim back on National Insurance Contributions (NICs) from £2,000 to £3,000.

Cuts to Corporation Tax will save private businesses £6.69 billion over between 2015 and 2020, on top of the increased NIC allowance. We are calling for a relative package of support for the voluntary sector to that awarded to businesses.

Research from the Third Sector Research Centre shows that the total increased cost to the sector by 2020 will be £500 million. These figures will be higher once the subsequent increased cost of employers' National Insurance and mandatory workplace pension contributions are factored in.

Whilst other parts of the economy have recovered from the financial crash, the charity sector is effectively still in recession. Employers in the voluntary sector will be able to benefit from the lower National Insurance bill but this will not cover the increased cost of the NLW.

These additional costs will exacerbate the pressures on charitable funds. Without a meaningful support package for the sector, voluntary organisations will struggle to meet rising costs and will face the very real prospect of closure, potentially resulting in the loss of vital services for the most vulnerable in society.

These are organisations which raise tens of billions of pounds for public benefit and deliver vital support to people and communities. They are central to government's aim to open up public service delivery to the voluntary sector and to meet the needs of those most at risk. Government would be unable to achieve its 'assault on poverty' without these voluntary organisations. Over half of the sector's workforce (51%) is employed in a social work or residential public service care role which are two of the sectors expected to be hit hardest by salary increases.

The loss of voluntary organisations will also have an impact on the economy. The sector is a major contributor to the UK economy with a Gross Value Added of £12.1 billion, comparable to that of agriculture. The sector has an income of £40 billion per year, employs 821,000 people and catalyses the wider contribution of 13.8 million regular volunteers through social action, estimated to be worth £23.9 billion.

Proposal

Reflecting the help offered to businesses to offset rising costs, the government should develop a parallel package of support for voluntary organisations to alleviate the increased salary costs associated with the introduction of the National Living Wage.

We understand from the Minster for Civil Society that the government’s preferred mechanism for alleviating the pressure of employers’ increased wage bill is through NIC pay back.

We therefore propose that the voluntary sector receive support through introducing incremental increases in the amount that charities can claim back on National Insurance Contributions in line with the increases in the National Living Wage. This would have the benefit of using an existing system, thereby removing additional set up costs.

Moreover, in adopting this policy, the government will be adhering to the Low Pay Commission recommendation “to ensure funding is available to meet the extra burden the National Minimum Wage rise”.

Allocate 3% of the proceeds from government asset sales to support a Community Capital Fund

Rationale

Assets are critical for the development of strong communities and building social capital. There are many examples across the country of local assets being developed by voluntary and community groups to deliver social, economic and environmental impact, which meet the needs of their local communities. The government has recognised this potential through the development of policies such as Community Right to Bid, Community Right to Reclaim Land and support for Community Asset Transfers.

An unprecedented release of local government assets is expected in the coming years as councils seek to make further efficiency savings. The total asset base of local authorities in England is estimated to be worth £250 billion, and there is now an opportunity to ensure that vital community assets are safeguarded and continue to benefit local people, while also boosting the ability of community organisations to deliver public services and strengthen the local economy.

Assets are also important for the development of a sustainable voluntary sector. The recent sector-led financial sustainability review found that organisations which had best adapted to the impact of the recession had assets which could generate revenue, for example, renting buildings or hosting new services. In many communities, voluntary organisations do not own assets or have had to sell their assets to cope with the impact of funding cuts. There is a danger that this limits the potential for voluntary organisations, particularly working in deprived communities, to service their communities and generate income sustainably.

Proposal

Government has set a target of assets sales by central and local government over this Parliament at £5 billion. We propose that Government should allocate 3% of the proceeds of the sales towards creating a Community Capital Fund which would receive bids for voluntary and community groups to take over local authority assets. The Fund would:

a) Provide investment to organisations to support them in developing their plans, and to develop skills and capacity to operate the assets sustainably;

b) Fund central support and advice to help the process of asset transfer, undertake research and share best practice on how to develop community assets;

c) Provide capital grants to allow community organisations to lever in additional funding and finance to allow them to secure assets for sale.

The Community Capital fund should target the most deprived local authorities, where support is most needed to develop self-sufficient communities.

Strategic investment now would enable communities to take ownership of their assets during this narrow window of opportunity and support them in becoming self-sustaining for generations to come. We propose that Government should allocate funds to support a step change in community ownership of assets by investing in a programme of national support to local authorities, other statutory agencies and community organisations alongside a Community Capital Fund which would receive bids for charities and community groups to take over assets.

This investment would build on the legacy of the Community Ownership and Management of Assets programme, the community rights pre-feasibility grants programmes, the Empty Homes Community Grant Programme, and earlier government funding to support asset transfer.

It is important to ensure that such investment is focused on community ownership of assets, rather than broader social enterprise. For example, the new Power to Change and Access Foundation funding will provide support to community organisations in terms of developing enterprise, but are not focused on supporting community ownership of assets, and there remains a significant need for such support and funding.

Cost

Estimated costs per year (£m) between 2016-17 and 2019-20

	2016-17	**2017-18**	**2018-19**	**2019-20**
Allocate 3% of the proceeds from government asset sales to support a Community Capital Fund	**-50**	**-100**	**-150**	**N/A**

This will cover:

- £140m for grants for asset purchase over three years.
- £5m to fund research into best practice and impact of community assets over three years.
- £5m to operate the fund over three years.

Scale

The impact of the fund will depend on the number of assets which are purchased. The mean value of assets held by Locality members, a body which represents community-led organisations that develop assets, was £2.65m although 69% of members held assets worth less than £1m. This indicates that the average cost of purchasing assets of community value would be less than £2.65m.

However, if we assume the average alongside an average grant of £200,000 per organisation to operate the asset, this has the potential to reach a minimum of 49 communities across the country. As the cost of the assets is likely to be significantly less than the average figure quoted above, it is likely that the reach will be much larger.

The impact of a Community Capital Fund would be increased in some projects by the use of social investment in combination with the grant support, particularly with more opportunities now available to communities to access investment, helped by government initiatives over the last few years.

An increasing number of community assets projects have been funded through a combination of grants, loans, and equity through community share issues. The proportions of grant, loan and community contributions that may be appropriate will vary depending on the individual project, community capacity, and local circumstances, such as property prices.

Therefore, flexibility will be key. Grants, however, will be critical for the success of these projects, particularly during the pre-feasibility stages and early parts of a project's life, and for building community capacity.