Rt Hon Philip Hammond MP
Chancellor of the Exchequer
Her Majesty‟s Treasury
1 Horseguards Road
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Dear Chancellor

Seizing opportunities and meeting challenges

We are writing to you ahead of the Autumn Statement to present a number of policy proposals that will enable Britain to seize the opportunities and meet the challenges facing Britain in a post-Brexit world.

The voluntary, community and social enterprise sector is an essential partner for the government for achieving its goal of stimulating sustainable economic growth in all areas of the UK whilst addressing social inequality, supporting cohesive communities and galvanising democratic participation for all.

Voluntary organisations are significant economic actors in their own right. The Gross Value Added by civil society to the UK economy every year stands at £12.2 billion – equal to that of the agricultural sector. The sector employs 827,000 people and mobilises 14.2 million volunteers which is worth over £24 billion each year. The sector also drives innovation with social enterprises increasing the number of new products by 59%, compared to the 38% developed by SMEs.

All of this is geared towards delivering public benefit, in many cases underpinning the work of public services or delivering preventative interventions which save public money over the long term. The sector is largely made up of specialist and local organisations that have typically developed in response to a local need, ensuring everyone can access the services that enable them to fulfil their potential. 97% of the sector has an income of less than £1m and 83% less than £100,000.

As the beating heart of a vibrant democratic society, small and medium-sized charities enable Government to understand the aspirations and needs of communities across the country and work towards a society where barriers to opportunity are eliminated. Indeed, Government cannot achieve its mission of making Britain a country that works for everyone without them. Yet there is a critical need for Government to find a more effective, joined-up and strategic way of working with the sector to maximise its potential and achieve its mission faster.

We know that these organisations are expert at doing more with less. Supported by an army of volunteers, they already deliver high levels of value across some of society‟s most intractable social issues. Yet despite their entrepreneurial approach demand for services continues to rise and access to funding is becoming increasingly difficult.

In short, many voluntary organisations are facing considerable challenges, particularly those with an income of under £1m. These are the organisations that are embedded in the communities they serve, trusted by those who need support and who provide person-centred, holistic services that address the root causes of the challenges people face.

The policy options presented in the attached document are the result of a collaborative process between the leading umbrella bodies in the voluntary, community and social enterprise sector across the areas that we that the government can add the most value. These are:

1) Economic growth
2) Supporting people to take ownership of their local areas
3) And harnessing and driving innovation in technology

This isn’t just about spending more money, but making better use of existing resources by drawing on the full range of policy levers open to the government.
We are keen for this to be the start of a new dialogue between the sector and the government, so together we can better tackle the challenges we all face. We would like the opportunity to meet with you to discuss the opportunities and challenges highlighted in this document.

Yours sincerely

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Policy proposals

1) Economic Growth

The voluntary and community sector makes a major contribution to the UK economy and wider society. They employ 821,000 people and mobilise 14.2 million regular volunteers which is worth nearly £24 billion each year and they add £12.2bn in Gross Value Added to the UK economy every year.

As the UK continues to adapt to the economic environment post-Brexit, it is important that the voluntary sector is seen as an important and valuable economic actor in its own right.

The vast majority of the voluntary's sector employees are in 76,627 small and medium sized organisations and we have focused our proposals on those areas where the government can best support these job-creating and capital-creating organisations in every area of the UK, making sure no area is left behind.

Policy option: Reduce irrecoverable VAT for charities				
Estimated Costs per year (£m) between 2017-18 and 2020-2022				
2017/18	**2018/19**	**2019/20**	**2020/21**	**2020/22**
-270	-540	-810	-1080	-1350

What is the problem under consideration?

The latest available estimate for the cost of irrecoverable VAT for charities is £1.5bn per annum according to the Charity Tax Group.

Irrecoverable VAT is the gap between what the sector pays out in VAT and the amount it receives in VAT. The direct impact of irrecoverable VAT is significant and is equivalent to £9,204 for every charity in the UK.

This gap is the unforeseen circumstance of the exemptions and exceptions that charities received when VAT was created in order to ensure that they were not forced to charge beneficiaries for their services. However, this redirects charities' resources away from their beneficiaries and creates an uneven playing field for charities that wish to engage in public service delivery as public bodies already have a rebate mechanism for their irrecoverable VAT.

The tax system should be fair to charities, and resources should not be wasted due to complexities within the VAT system that was not designed with the unique position of charities in mind. In Autumn Statement 2014 and Budget 2015, the government set up a rebate scheme for hospices, blood bikes and search and rescue charities, proving reform is possible without the need for European action. This should be the start of a process to develop a sector wide rebate scheme.

Overview of policy options:

- *Phase in rebate scheme to enable all voluntary organisations to reclaim VAT incurred on non-business income over five years.*

- *Convert existing ‘exemptions’ into ‘zero-ratings’ or ‘options to tax’ so that VAT can be recovered.*

A rebate mechanism would not lead to all the irrecoverable VAT, but it would significantly reduce the burden facing providers of services in social welfare, education and health care services. These are often areas where voluntary organisations are complimenting the services that are provided by the state.

A rebate mechanism would need to be complemented by converting current VAT exemptions into zero-ratings (or options to tax) for business activities so that the levels of irrecoverable VAT are substantially reduced for the charity sector.

Not all irrecoverable VAT would be recovered under these schemes, but if we assume that 90% can be reduced via these methods, then this would cost £1.35bn – if the latest estimate is accurate.

We appreciate that this could not be implemented overnight and there would need to be time for the rebate mechanism to be developed as well as negotiation about the exact process of covering VAT exemptions into zero-ratings/options to tax. It would be prudent, therefore, to spread this out over a five year period to ensure that it is properly implemented and spread the cost for the Exchequer.

What are the policy objectives and intended effects?

The aim of the policy is to reduce the costs for charities so that more can be reinvested into delivering charitable activities.

This will have a number of positive benefits including increasing the amount of services that charities can deliver at a time of rising demand and level the playing field between public sector providers and voluntary organisations that wish to deliver public services.

Policy option: Strategic approach to voluntary sector funding		
Estimated Costs per year (£m) between 2017-18 and 2019-20		
2017/18	**2018/19**	**2019/20**
-	-	-

What is the problem under consideration?

Since 2013, the government has committed over £450m of Libor fines to good causes – predominately, military charities, air ambulances and health charities. These funds have been a welcome income boost for the individual organisations that have been able to benefit from them.

However, this funding was allocated without reference to the strategic funding needs of the wider voluntary sector. All voluntary organisations and communities are operating in a challenging environment. To have the biggest possible impact on the economic participation and resilience of voluntary organisations, funding for the sector outside of normal departmental spending should focus on the strategic issues facing it as whole rather than individual sub-sectors. Establishing protocol for the strategic distribution of funding to the sector would also help address concerns expressed by the Public Administration and Constitutional Affairs Committee that Libor fines were not administered objectively and transparently.

Overview of policy option:

The establishment of a process to ensure funding for voluntary organisations outside of normal departmental spending is distributed on an impartial basis according to the sector's strategic needs.

The proposal could be achieved by adding to existing Treasury spending and procedural policies, for example, by inserting a new section into the HMT [Managing Public Money] handbook. Rather than specify the particular needs funding should seek to address, the new section would specify the deliberative and consultative processes that would be used to establish the distribution of funding that falls under this category. These would be developed in consultation with the sector.

What are the policy objectives and intended effects?

The aim of the policy would be to provide a transparent, evidence-led process for determining the distribution of direct Treasury funding for voluntary organisations, as well as funding allocated to the voluntary sector outside of normal departmental spending.

The process would ensure, for example, that any future windfalls that the government decides to allocate to good causes, such as Libor fines and dormant assets, are subsequently distributed according to the best available evidence on the voluntary sector's strategic funding needs. The process would explicitly exclude normal departmental spending, as well as spending by local government, non-government departments, NDBPs, and quasi-public bodies.

2) Supporting people to take ownership of their local areas

Britain's vote to leave the EU demonstrates an appetite in communities to have greater control over the decisions that affect them. The voluntary and community sector already work with, by and for the people they support by providing space for communities to come together to address the issues that affect them, and through supporting local authorities in designing and delivering services in their local area.

However, more can be done to support people to take a bigger stake in the future quality of life in their local area. There are two key ways in which we think the government can play an important role in this:

1) Supporting voluntary and community organisations to own assets
2) Support partnership working between local authorities and the voluntary and community sector

Community Asset Ownership

Community asset ownership is critical to the development of strong communities and building social capital. The government has recognised the potential of empowering communities through asset ownership through the Community Rights and support for community asset transfers. Across the country, there are many examples of local assets being developed by voluntary and community groups to deliver social, economic and environmental impact. Keeping assets within the community help to ensure the benefits stay in the community and contribute to its development, rather than investments which are focused on particular areas and see profits leave to a centralised fund.

In the context of, reinvigorating common assets locally can be a route in helping to ensure that people have a stake in the important activity in their neighbourhoods.

Crucially, asset ownership can also provide a sustainable foundation and robust financial basis for the growth of community and civil society organisations, empowering communities to lead and be the change they want to see in society.

The recent voluntary 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. However, in many communities, civil society organisations do not own assets or have had to sell their assets to cope with the impact of funding cuts, limiting the ability of these organisations, particularly working in deprived communities, generate income sustainably and service their communities in the long term.

Policy option: Community Capital Fund		
Estimated Costs per year (£m) between 2017-18 and 2019-20		
2017/18	2018/19	2019/20
-25	-50	-50

What is the problem under consideration?

The unprecedented disposal of local government assets is expected in the coming years as councils seek to make further efficiency savings and are encouraged to generate revenue through asset disposal. For the first time, councils are now able to spend capital receipts from sales of assets on the revenue costs of service transformation project, and the drive to maximise revenues from assets is particularly acute in areas with high land and property values There is an important opportunity to ensure that vital community assets are safeguarded. With the right support, local authorities can generate additional social value from these assets through community asset transfer, while also boosting the ability of community organisations to deliver public services and strengthening the local economy.

Transferring assets to community ownership, whilst not generating the same returns as a commercial sale, can deliver long-term social return as well as financial savings, opportunities for public service transformation and a sustainable income base for local civil society organisations.

Overview of policy option:

*Government should create a **Community Capital Fund** to provide central support and resources for asset ownership, with a particular emphasis on supporting community asset transfer. This fund could form a critical plank of a larger community asset investment plan, which would bring together support from a range of investment streams and funders, including funds identified from the Dormant Assets Commission. The Fund would:*

a) *Provide investment to organisations to support them in developing their plans, include pre-feasibility funding to increase viability of 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 with local authorities, in particular how other local authorities have accounted for and delivered additional social return through asset transfer;*

c) *Provide capital grants to allow community organisations to lever in additional funding and finance to allow them to secure assets, particularly where assets of community value are subject to rapid disposal by land agents.*

It is important to ensure that such investment is focused on community ownership of assets, rather than social enterprise. As programmes which already exist to support developing enterprise, for example new Power to Change and Access Foundation funding, does not have a focus on supporting community ownership of assets, and there remains a significant need for such support and funding.

The Community Capital fund should target some of the more deprived local authority

areas, with a particular focus on those areas that have seen the biggest falls in voluntary organisations' incomes (such as the North East and North West), and where the cost of assets pushes them out of the market (such as London and the South East). There is also a particular need to strengthen asset ownership in BAME communities, where research from Locality and the Ubele Initiative demonstrated that the future sustainability of community buildings is particularly insecure. BAME charities have been faced particularly severe funding challenges, yet by working 'with, by and for' the communities they serve, they are typically the only organisations to understand and reach those who do not access more generic services.
What are the policy objectives and intended effects? Interest in and demand for Community Asset ownership is higher now than ever, and the public sector is poised to divest itself of significant amounts of the public estate – at a time when commercial property value is at a historic low point, bringing all the dangers of "fire sales", land banking and decades of dereliction and decay. The public sector does understand these dangers, and knows there will be an alternative in many cases. 95% of local authorities expect Asset Transfer to play an increasingly important role in the next 5 years. So there is an unprecedented opportunity to: - capitalise huge swathes of the community sector; - deliver vital services and address cohesion and isolation issues at a time of massive pressure on the public purse; - save significant and iconic community buildings from an uncertain fate.

Building partnerships

As vehicles for economic growth, delivery of public services and building strong communities, the voluntary and community sector is a vital partner in public service reform and the localism and devolution agendas. Charities are trusted in their communities, offering services and a voice for those who do not engage with the state. They are often the only organisations which provide holistic, person-centred services to those with complex needs who would otherwise drive the highest cost to the public purse due to the failure demand of more light touch services.

Policy option: Partnership Hubs		
Estimated Costs per year (£m) between 2017-18 and 2019-20		
2017/18	2018/19	2019/20
-11	-10	-10
What is the problem under consideration? 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. In too many areas this does not happen. This is in part due to a lack of resources within both local authorities and the local voluntary sector to develop these partnerships. Often, the effectiveness of the relationships between a local voluntary sector and the local		

authority is dependent on one or two key people from both sides. Local voluntary organisations can bring experience and expert knowledge of the local area, the challenges the people and communities they serve are facing, and ideas on how to solve these, to co-develop the services that people need. However, without sufficient partnership working, this expertise often does not reach the commissioners and decision makers in the local authority. Furthermore, commissioning processes are consistently acting as a barrier to those organisations with the local expertise to deliver services that work. Overly complex processes, excessive specifications and misinterpreted legislation are seeing small and medium-sized charities shut out of public service delivery. This is concerning because these organisations are often best placed to deliver the most effective services and long term value. Without effective partnership working local authorities are often unaware of these barriers and how to tackle them.
Overview of policy option: *60 Partnership Hubs should be established in the most deprived local authorities. These authorities, in partnership with the local voluntary and community sector, will be invited to bid for funding to establish a partnership hub in their local areas.* *This funding will provide:* - *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.* 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. The Hubs will also bring together other funders, including local businesses, to identify how they can all work better together to address the challenges the local areas face.
What are the policy objectives and intended effects? The Partnership Hubs will enable local authority staff, especially commissioners, to engage with their local voluntary sector to identify and understand needs and solutions 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, whichever is the most appropriate. This will embed a culture of collaboration between local authorities and the voluntary sector.

3) Harnessing and driving innovation in technology

The UK's economy is increasingly underpinned by digital infrastructure and the government has invested significantly in developing UK's cyber security. For example, the Cyber Security Knowledge Transfer Partnerships – a fund jointly financed by DCMS and Innovate UK – provided grants to cyber security companies and academic institutions to help businesses improve competiveness and productivity. A £1m cyber security innovation vouchers scheme was also established last year to provide specialist advice to small and micro businesses.

The voluntary sector is not immune to the threat of fraud and cyber security. Fraud costs the sector £1.6 billion in 2016, an increase of 73% since 2013. The lack of adequate software and hardware means that charities cannot protect themselves adequately. This is especially a challenge for those small and medium sized charities with limited unrestricted funds that can be spent on such core costs.

As well as helping charities to protect themselves, innovations in technology can help address some of the biggest social challenges that voluntary and community organisations are trying to address, as well as progressing and developing new ways to access income and meet the needs of the communities that they support – whether these are local communities, interest groups, or (inter)national communities.

The policy proposals presented below will help to place the voluntary and community sector on a par with the support available to the private and public sector. Importantly, it will embed partnership working between the tech and the voluntary sectors which will in turn encourage growth in the voluntary and community sector, increase the output of social technology, as well as ensure the sector has equal opportunity to innovate and adapt to the ever evolving digital landscape.

Policy option: Voluntary Sector Technology Fund		
Estimated Costs per year (£m) between 2017-18 and 2019-20		
2017/18	2018/19	2019/20
- 1	-1	-1

What is the problem under consideration?
Charities with income under £100,000 make up 83% of the sector, and 97% have an income below £1 million. The financial cost of software, hardware and internet access for these organisations is prohibitive, preventing them from being able to deliver the most effective services to their beneficiaries.

As pressures of meeting increased demand on services grow, as data protection regulation becomes more urgent (not least because if the increased cost to charities of a data breach) and as compliance moves online, charities are not immune to the immediate need for improved technological capability.

However, small charities often lack the necessary resources to invest in new technology – a similar challenge to that faced by small businesses. As such, they can lack the basics such as computers, telephones and internet connection.

This can not only prevent them from keeping up to date with relevant regulation and delivering on their charitable aims, but also from applying for funding which is often advertised and applied for online. Investment in technology could help charities to find new and simpler ways to operate, cutting time and costs which could otherwise be diverted to their front line activities.
Overview of policy option: *A grant scheme available for charities in need of support to purchase new software and/or hardware equipment. Charities will be able to bid for up-to £10,000. The scheme should be centrally administered.* This would help charities demonstrate their impact (which is needed to attract funding) and maintain a standard seen in the public and private sector and could allow them to use resources more effectively. This fund should be specifically targeted to those organisations working with hard to reach communities – as they are particularly likely to have a lack of resources or the necessary networks to have access to individuals who can donate resources.
What are the policy objectives and intended effects? This would allow for the small charities to become more dynamic. Many charities are struggling to put into practice their innovative ideas due to limited access to the right technology. Greater technology would allow charities to fight against fraud, protect their data and would give donors and beneficiaries more confidence. For those charities responsible for handling sensitive personal data – often on particularly vulnerable people – it is important that they have adequate resources to ensure this data is protected. As technology is increasingly dominating people's lives charities that rely on it more can potentially reach out to a wider group of people than through traditional means.

Policy option: Connect for Good		
Estimated Costs per year (£m) between 2017-18 and 2019-20		
2017/18	2018/19	2019/20
-1	-1	-1
What is the problem under consideration? There has been a lack of tech development specific to the sector. This has been a result of: 1) A lack of capacity in small and medium sized charities. 2) Low levels of understanding of voluntary organisations' unique business models. 3) Low levels of understanding of the work that the voluntary sector does. Because of the shortage of tech skills in the sector and a lack of available resources in the sector (specifically for smaller charities and community groups), the deficiency of tech development in the sector will be best addressed through collaboration between tech experts and voluntary and community organisations themselves.		

Overview of policy option: *Connect for Good is initially a three year programme that will bring together graphic designers, interface designers and project managers, to collaborate with charities on software projects in events around the country with specific focus on reaching deprived communities.* *The programme will provide grant funding to tech companies and charities to work in partnership to implement successful innovations across the sector as well as to support charities and tech companies to collaborate and develop tech programmes beyond the face-to-face events.* The aim of this programme is to create ready-to-use products that charities can use immediately as well as identifying and responding to future issues.
What are the policy objectives and intended effects? The programme will: - Bring together the technology sector and charity sector annually to help them understand each other. This will result in the creation of ready-to-use products as well as longer-term projects that are accessible to voluntary and community organisations and meet the needs of their beneficiaries. - Improve skills within the sector and would give the sector a competitive element. It would also benefit tech companies who could promote good examples of corporate social responsibility. The government has pushed hard to support corporate social responsibility within the private sector and this would help with public perceptions of the role of the private sector. - Aid the reduction of cybercrime, thereby protecting beneficiaries, donors and employees - Enable charities to be more efficient throw giving access to new technologies – thereby enabling them to provide improved services to people and communities - Improve charity governance by providing access to the necessary software and/or hardware.