



NCVO submission to the Treasury Spending Review

August 2010

Contact: James Allen
Tel: 020 7520 2475
Email: james.allen@ncvo-vol.org.uk

NCVO submission to the Treasury Spending Review

1 Executive Summary

1.1 NCVO is the largest general membership body for voluntary and community organisations (VCOs) in England. Established in 1919, NCVO represents over 8300 organisations, from large 'household name' charities to small groups involved in all areas of voluntary and community action at a local level. NCVO champions voluntary action. Our vision is of a society in which people are inspired to make a positive difference within their communities. A vibrant voluntary and community sector (VCS) deserves a strong voice and the best support. NCVO works to provide that voice and support.

1.2 NCVO recognises the current UK financial position, and the Government's identified priorities in significantly reducing the deficit over the life of this Parliament. It is essential that the Government makes, considered and evidence based decisions which fully consider the long term impacts of spending cuts to the VCS. The settlements made as a result of this Spending Review will need to fully assess the extent to which the overall effect is supportive of civil society.

1.3 VCOs play an important part in re-invigorating our democracy, empowering people and communities and driving genuine improvements to services. They not only provide the foundation for the Big Society, but make a vital contribution to the nation's social, economic, political and cultural well-being. We therefore welcome the Government's commitment to the VCS and to finding ways to enable the sector to do more. This submission suggests ways that Government can best support the sector in a difficult financial climate, by looking at both the overall impact of the spending review on the sector and the way in which individuals organisations are funded.

1.4 Statutory funding to the VCS represents just 2% of Government expenditure, yet has a social and economic impact much greater than this, not least through the sector's ability to draw in the resources of individuals, as both donors and volunteers and its ability to lever in additional resources from other sources. This means that short term cuts to the sector will have a disproportionate affect on people and communities and, in the longer term on the public purse.

1.5 Government should review spending on the VCS across all departments and ensure that the net effect of changes are at least neutral. Settlement letters from the Treasury should ask individual departments to be mindful of the need to strengthen civil society, and therefore to look at the impact of spending decisions on the VCS. They should also ask departments to consider how they might work with the sector to do things differently and more cost-effectively.

1.6 NCVO supports moves to devolve power to local councils and local people. VCOs play a vital role at this level, creating opportunities for people to participate in community life, to support each other and have a say in decisions that affect their lives. Government should therefore send a clear message to local authorities to remind them of the need to work with their local VCS to ensure that spending decisions take account of the impact on local communities, particularly the most marginalised. The VCS must be represented on Local Enterprise Partnerships.

1.7 Government should support and strengthen the Compact, ensuring that it is embedded within individual departments and giving powers to national and local ombudsmen to ensure effective implementation. The national compact should set the standard for local compacts. All statutory funders must ensure that they allocate resources in accordance with Compact commitments and make use of the full range of funding mechanisms, including grants, contracts and loans, using the most appropriate mechanisms for their purpose, in accordance with National Audit Office guidance¹. Funding agreements should be set for at least three years and should cover the whole of this Spending Review period where possible.

1.8 The current financial situation and the need to significantly reduce public spending should be embraced as an opportunity to transform public services, rather than attempting to reduce the deficit either through a 'more for less' or a 'less for less' approach. Commissioning decisions should take account of the impact on quality of life and community, for example by including provisions relating to social outcomes and social value in public sector contracts.

1.9 Commissioning needs to encourage tenders from a full range of providers and should not favour non-specialist, large providers. There must be a level playing for public procurement so that VCOs can compete fairly, for example bidding for contracts on the basis of price not cost. Further consideration should be given to the level of risk that civil society organisations are able to bear and their ability to access the capital needed to make the transition to a payment by results model or greater use of spot contracts.

1.10 Tax and fiscal policy makes a difference to charities. We welcome the Government's commitment to Gift Aid reform and urge that this results in a radical simplification of the system to reduce the administrative burden on charities. A wider examination of the tax system to incentivise giving and philanthropy, is also needed, for example through the introduction of Lifetime Legacies. We are also pleased that the Government has agreed to look at the question of VAT on shared services. However, the wider impact of the increase in the main rate of VAT should be taken into account when considering the net effect of Government spending decisions on the sector.

1.11 VCOs will need high quality support to maximise their contribution to building the Big Society, transforming public service delivery and enabling more effective citizen engagement. NCVO recognises that existing support services could be rationalised to become more efficient, effective and sustainable. We will work with other umbrella bodies and VCOs to achieve the change that is required. Government can assist this process by creating an enabling environment, for example by investing in this process. At the very least it should ensure that its decisions do not act as a disincentive to change.

¹ National Audit Office, 2006, *Financial relationships with third sector organisations, a decision support tool for public bodies in England*

2. Statutory Funding to the VCS

2.1 In 2007/08, the voluntary and community sector had a total income of £35.5 billion, of which just over a third (36% or £12.8 billion) came from Government sources. Whilst this is slightly lower than income from individuals, which stood at 37% (£13.1bn), it remains significant. Local government is the primary source of statutory funding for the VCS, providing 52% (£6.6bn) of statutory income in 2007/8. Cuts to funding channelled through both central and local government will therefore have an impact on the sector.

2.2 Statutory funding has increased year on year from £8.4 billion in 2000/01 to £12.8 billion in 2007/08. As a proportion of all income to the sector it now accounts for just over one third (36%), although as a proportion of government expenditure it is much less significant at 2%. Much of the increase in statutory income reflects the sector's greater role in delivering services under contract: earned income from statutory sources has increased by 128% since 2000/01 and now stands at £9.1 billion². It is now an important source of funding for organisations working in the fields of employment and training, housing, education and social services. For example, 70% of income for employment and training now comes from statutory sources.

The impact of cuts

2.3 Cuts to statutory funding are already having an impact on VCOs and their ability to work with communities and deliver services³. While many have so far been able to absorb funding cuts and have been able to make adaptations, others have already ceased trading as a result. Further cuts are likely to have a significant impact on organisations and therefore on the long term sustainability and resilience of the communities they work with. The high level of uncertainty, with cuts expected but precise levels remaining unclear is making planning very difficult.

2.4 Statutory funding to the VCS represents just 2% of Government expenditure, yet has a social and economic impact much greater than this, not least through the sector's ability to draw in the resources of individuals, as both donors and volunteers and its ability to lever in additional resources, for example from philanthropic foundations. Cuts in statutory funding could make it more difficult for organisations to lever in other resources. Public funding may also be a significant part of the funding for individual projects, even if it is a relatively small part of the organisation's overall income. Valuable projects will therefore be lost, even if VCOs are able to continue trading.

2.5 Statutory funding is particularly significant in some sub-sectors. The current economic climate means that a number of these services (for example, the employment and training and education sectors which will play an essential role in supporting people to find and retain jobs) will continue to be very important. Government should consider the resultant costs in both financial and economic

² Grant funding from Government has declined over the same period and especially in recent years, decreasing by £400 million between 2004/5 and 2007/8.

³ To quantify the likely impacts of cuts, NCVO has been conducting a 'Crowdsourcing the cuts' initiative, as part of which members have been encouraged to submit data on the impact of cuts.

terms should funding be cut in these areas, with the likely result of a decline in availability and quality of services.

Resilience

2.6 The impact of cuts is likely to be felt quickly as growth in the VCS over the last decade has not been accompanied by increased resilience. This has been exacerbated by the recession and difficult ongoing economic climate with demand for VCS services up 17%, and donations down by 11%⁴. This has exerted particular pressure in some sub-sectors, most notably employment and training. There are also, however, systemic challenges within the VCS which have impacted on resilience beyond the effects of the recession.

2.7 NCVO research has shown that more than one third of UK charities have no cash reserves, and many would therefore struggle to survive as a result of significant cuts. For charities that receive statutory funding, NCVO estimates that the average level of reserves is between 1 and 4 months. This is noticeable when looking at different sub-sectors: employment and training organisations typically hold only 4.5 months of expenditure in reserves, and playgroups and nurseries less than 2 months. The impact of cuts will therefore be felt quickly, particularly in some sub sectors which are the least resilient.

2.8 Improved funding practice would strengthen the sector's resilience. For example, although the Compact includes a commitment to three year funding, NCVO research suggests that few organisations expect this to be available: only 27 % of large, national organisations were satisfied with the availability of such funding, with all other organisations experiencing much lower rates of satisfaction.

2.9 This underlines the importance of an overall net effect that is neutral or positive on the VCS, as serious economic and social consequences would quickly result if large numbers of VCOs are unable to operate. It also highlights the importance of action taken at central and local government level to minimise the impact of cuts on the sector and promote better funding practice to increase sustainability and resilience.

3. Impact of the Spending Review on the VCS

3.1 Voluntary and community organisations contribute to a range of government objectives across all departments. It is therefore important that Government takes a fully considered view of the full impact of cuts across the board. For example it should consider the submissions of individual departments and then take a holistic view of the overall impact of cuts on the VCS. This should take account of both direct funding to the sector and the indirect impact of policy on spending in areas where the VCS is active. For example, the way in which changes to housing or other benefits may increase demand for VCS services. Such changes will need to be compensated for to deliver overall neutrality in terms of their net effect.

3.2 The scale of proposed spending cuts both necessitates and provides opportunity for a comprehensive, co-ordinated response across government.

⁴ Wilding, K (2010) 'Voluntary organisations and the recession' in *Voluntary Sector Review* 1,1 and Charity Forecast (NCVO, 2009): www.ncvo-vol.org.uk/charity-forecast-survey

Reduced spending should drive a move towards a more effective approach to funding, with cross-departmental working to tackle complex social and economic issues becoming 'business as usual'. This may necessitate changes to the scope of government spending items which currently fall under the Annually Managed Expenditure (AME) definition. However, it would make maximum use of increasingly constrained resources and allow for more investment in measures which will save the Exchequer money in the medium to long term.

3.3 In order to maximise effectiveness, to promote innovation and adaptation and to minimise the impact of cuts, there should be a 'level playing field' in terms of both the scale and speed of cuts. In the public sector, it appears that many cuts in spending can be achieved through natural wastage as they are phased in over a period of 4-5 years. For VCOs, the opportunity to phase in reductions to spending over time, in a way that minimises the impact on individual organisations, would allow a similar approach to be pursued, giving organisations more time to adapt, eg through collaboration or merger, thereby minimising the potential detriment to effective, if not resilient organisations.

3.4 The Compact provides a foundation for good relations between the Government and the sector and a way of working that can secure mutual benefit and benefit individuals and communities. The Coalition Government should champion and resource a renewed Compact with the sector to enhance partnership working. There should also be a commitment to strengthening the Compact, ensuring that it is embedded in individual departments with suitable resourcing and mechanisms to achieve effective implementation and accountability at both local and national level.

3.5 The intentions of central government, to fund VCS projects that deliver strong outcomes and add value, must be carried out by local authorities 'on the ground'. Councils should have a demonstrable strategy in place to implement spending reductions in a way that builds partnerships with their VCS and minimises their impact on local people and communities, particularly the most vulnerable. Again a strong commitment to the Compact and transparency about the level and type of support provided to the VCS would give a clear indication of the scope of the local relationship.

3.6 Voluntary and community organisations make a significant contribution to the local economy and economic regeneration; they also provide a vital link to local communities. They therefore have an interest in strategies for economic renewal and a role in engaging local people in the process of developing these. For this reason, it is essential that they are represented on Local Enterprise Partnership Boards

Recommendations

- Government should review spending on the VCS across all departments and ensure that the net effect of changes are at least neutral.
- Settlement letters from the Treasury should ask individual departments to be mindful of the need to strengthen civil society, and therefore to look at

the impact of spending decisions on the VCS, and to implement Compact commitments.

- Government should support and strengthen the Compact, ensuring that it is embedded within individual departments and giving powers to national and local ombudsmen to ensure effective implementation. The national compact should set the standard for local compacts.
- Government should send a clear message to local authorities to remind them of the need to work with their local VCS to ensure that spending decisions take account of the impact on local communities, particularly the most marginalised.
- Councils should be required to set out clearly how they will support and fund their local VCS. They should also take account of the economic contribution of VCOs and ensure that the sector is represented on Local Enterprise Partnerships.

4. Sustainable Funding

Good funding practice

4.1 Good funding practice can drive resilience in the VCS and produce better value for money for government in the longer term. Key elements of good practice are set out in the Compact and include, for example, making available a range of funding mechanisms and ensuring that these are used appropriately. This should include grants, loans and contracts as well as new, more innovative ways of funding the sector, such as social impact bonds. Different mechanisms are more suited to achieving particular types of outcome. For example, grant funding is most effective where outcomes are unpredictable, or best determined by users and communities, such as in advocacy or community development work.

4.2 Application and monitoring processes should be proportionate to the nature of the risk and the amount of funding being allocated. The emphasis should be on achieving outcomes rather than on inputs, outputs and process. Statutory funders should agree to commit funding for at least three years. This would allow organisations to plan their work more effectively and become more financially sustainable in the longer term.

Recommendations

- All statutory funders must ensure that they allocate resources in accordance with Compact commitments and make use of the full range of funding mechanisms, including grants, contracts and loans, using the most appropriate mechanisms for their purpose, in accordance with National Audit Office guidance⁵.
- Funding agreements should be set for at least three years and should cover the whole of this Spending Review period where possible.

⁵ National Audit Office, 2006, *Financial relationships with third sector organisations, a decision support tool for public bodies in England*

Commissioning

4.3 The current financial and economic climate is an opportunity to commission, procure, design and deliver services in a radically different way. Delivering genuinely different public services in a more efficient way requires a willingness to embrace new approaches. NCVO has long argued that public service reform should be driven by the desire to transform, rather than to simply transfer services.

4.4 To achieve transformational change, citizens and communities should be at the heart of the commissioning process: their views should inform decisions about local needs and how services can be designed and delivered to meet those needs. There should also be an emphasis on achieving wider social outcomes, such as the impact on social cohesion or the local economy, as well as direct outcomes for service users.

4.5 To deliver effective services, commissioners should not operate in silos. The needs of users and communities often cut across public sector boundaries and a more holistic approach is needed to deliver genuinely responsive and outcomes focused services. Moving toward pooled budgets could prove valuable in seeking to maximise limited resources and to deliver funding that is genuinely effective. Pooled budgets will help to create an approach that meets a range of needs, which often cut across and overlap and will not be met effectively through a silo approach.

4.6 At a local level, the early results of a place based budgeting approach are encouraging, but will need to move beyond looking at finance alone toward a more holistic approach to the whole process of service delivery to be fully successful. VCOs should be key partners and allies in this process. Cultural, as well as structural change may be needed to foster a culture of collaboration, both within the public sector and across sectors. Decisions should be taken at the most appropriate level, taking account of the cross-cutting needs of communities of interest as well as communities of place.

Recommendations

- Public sector contracts should include provisions relating to social outcomes and social value.
- Greater use of pooled budgets would ensure that commissioning processes maximise use of scarce resources and better meet the needs of service users.

Procurement

4.7 Government must urgently look at ways in which the procurement process can be an enabler to the VCS, rather than a barrier and resist the temptation to see larger scale contracts as the best way to drive efficiency. Tenders should be encouraged from a full range of providers and should not favour non-specialist, large providers. VCOs should be given the opportunity to 'scale up' over time and be supported to build up the necessary skills and resources to compete for larger contracts.

4.8 Increased competition for public service contracts must be accompanied by appropriate market management and the establishment of a level playing field to ensure that the market is fully functioning and delivering better outcomes. The lack of resilience in the VCS has been caused in part due to the lack of a level playing field, with the VCS unable to build up reserves in the same way as a private sector organisation to ensure that it has operating capital for the longer term.

4.9 Risk needs to be managed as part of the procurement process, and should be shared appropriately between commissioner and provider. Moves towards payment by results, or to replace block contracts with individual payments, could not only reduce the sector's capacity to innovate but also cause many effective providers to fail. Further consideration must be given to the level of risk that civil society organisations are able to bear and their ability to access the capital needed to make the transition.

4.10 The Big Society Bank should help to increase the availability of capital by supporting the development of a more mature social investment market; we look forward to more detailed estimates of the level of funding available to it. However, there is a need for greater access to finance in the short term, including from commercial lenders who currently have a poor understanding of the needs of civil society organisations.

Recommendations

- There must be a level playing for public procurement so that VCOs can compete fairly with other providers. VCOs should be able to bid for contracts on the basis of price not cost.
- Government and the Big Society Bank should consider ways of supporting social investment and encouraging appropriate lending practice from a range of providers.

5. Tax and fiscal changes

5.1 Tax relief is an important and valued source of income to the VCS. Known reliefs were worth an estimated £3bn in 2007/8, of which £2.2bn was claimed directly by charities. Gift Aid, for example, was worth an estimated £898m, with an estimated 34% of UK charities claiming. However, there is low awareness and take up of the scheme, with only 40% of donors using Gift Aid in 2008/09, and it is administratively burdensome. As a consequence it is estimated that a further £742 million is lost to good causes each year in unclaimed Gift Aid. To maximise benefit for the VCS from Gift Aid, simplification measures should be introduced at the earliest possible opportunity.

5.2 Further consideration should be given to the introduction of Lifetime Legacies. Although similar to a legacy, these have several important advantages to charities, for example they represent a clear and irrevocable commitment from the donor and provide security for capital projects. They also benefit the donor, giving them greater security by allowing them to use their assets to realise income.

5.3 VAT is a significant issue for VCOs. Irrecoverable VAT already costs the sector a significant sum every year, and this clearly presents challenges in an already difficult financial climate. An increase to the main rate of VAT to 20% in January 2011 will increase financial burdens on the sector and this will need to be part of the overall calculation about the future net effects of spending changes.

5.4 Increasing VAT means that the issue of VAT payable on shared services must be tackled urgently. The cost of this disincentivises collaboration and the push for VCOs to find smarter ways of working by sharing back room services. We therefore welcome the Government's intention to consult on this issue in Autumn 2010.

5.6 The Finance Act 2010 introduced a new definition for tax purposes of charities and other organisations entitled to UK charity tax reliefs, including a requirement that to be a charity an organisation must satisfy the 'management condition', which means its managers must be considered 'fit and proper persons'. The term 'fit and proper person' should be defined in legislation, with clarity about the basis on which a decision should be made. The Charity Commission, as the independent regulator for charities, should have primary responsibility for making the decision.

Recommendations

- Radical simplification of Gift Aid and a wider examination of the tax system to incentivise giving and philanthropy, including through lifetime legacies.
- Government must review and address the question of VAT on shared services.
- Regulation must be proportionate and workable, urgent clarity is needed on the Fit and Proper Persons Test

6. Support for voluntary action

6.1 As noted above, voluntary and community organisations have a vital role to play in building the Big Society, transforming public service delivery and enabling more effective citizen engagement. In the current economic climate there remains much to be done to equip the sector with the knowledge, skills and support necessary to achieve these goals and adapt to the changing needs of their beneficiaries. To realise the potential of civil society will require the right support, resources and frameworks to be put in place. Organisations will need access to high quality support to enable them to:

- respond effectively to a changing external environment, for example through good governance and financial management and identifying more sustainable ways of working;
- secure new resources and diversify their income;
- improve the quality of their services and their ability to respond to the needs of their users and beneficiaries, and demonstrate their value;
- co-ordinate their activities and act collaboratively; and
- have a collective voice on shared concerns and be able to shape and influence their environment.

6.2 Support should be provided at different levels:

Nationally to set standards; develop and share good practice; influence the external environment and give organisations a say on issues that affect them.

Locally, to provide more personalised, on-going support and an understanding of, and opportunity to shape their local area and context; co-ordinate local voluntary action and build links between VCOs and local decision-makers.

Specialist support is also needed to provide specific expertise and voice to particular sub-sectors or communities.

6.3 There is a role for central and local government funding for such support, as this will ensure that help is readily available to VCOs, including the smallest groups, when they need it. This will go a long way towards building the resilience of VCOs and enabling them to give more effective support to the people and communities they work with. There may also be a need for demand-led schemes, whereby organisations are given grants to access particular types of support from a provider of their choice, but these should be additional to mainstream provision.

6.4 Existing support organisations have a wealth of experience and expertise, as well as strong links with their members and the wider sector. However, there is a need to review the existing provision to strengthen the effectiveness and sustainability of the services available, support closer joint working, more shared services and increased collaboration at national and local levels and avoid duplication.

6.5 This should be part of a planned process of change that takes account of different needs and circumstances and strengthens links between national, local and specialist provision. Organisations themselves will need practical and financial support, eg to review the governance and legal implications and make a robust business case for change. The sector must lead this process, but Government can help by creating an enabling environment, for example by investing in change.

Recommendations

- NCVO will work with other umbrella bodies and VCOs to achieve the change that is required. Government can assist this process by creating an enabling environment, for example by investing in this process. At least it should ensure that its decisions do not act as a disincentive to change.

Conclusion

In a more austere financial climate, it is more important than ever that Government works in partnership with the sector to deliver shared objectives and maximise benefit to people and communities. It is therefore important that the overall effect of the Spending review is supportive of civil society and that Government funds VCOs in ways that strengthen their resilience and sustainability.

NCVO Policy Team
August 2010