



**Response to the OTS  
consultation on the  
economic downturn:  
Proposals for an Action  
Plan to support the  
voluntary and community  
sector**

**December 2008**

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## 1. Introduction

1.1 The National Council for Voluntary Organisations (NCVO) is the largest general membership body for charities and voluntary organisations in England. Established in 1919, NCVO represents over 6,700 organisations, from large 'household name' charities to small groups involved in all areas of voluntary and social action at the local level. NCVO champions voluntary action, our vision is of a society in which people are inspired to make a positive difference to their communities. A vibrant voluntary and community sector deserves a strong voice and the best support. NCVO works to provide that support and voice.

1.2 On 24<sup>th</sup> November 2008 Kevin Brennan, Minister for the Third Sector, and Stuart Etherington, CEO of NCVO, co-chaired a summit meeting of third sector leaders to discuss the potential impact of a recession on the sector and how best the sector, with government, could work to manage that impact. The Minister committed the Government to producing an Action Plan early in the New Year.

1.3 The Office of the Third Sector (OTS) has indicated that the Action Plan will focus on six themes:

- Addressing potential income issues through local and national level funding and maximising charitable giving;
- Modernisation of the sector;
- Meeting demand for public services, particularly in deprived areas;
- The role of social enterprise;
- Good quality contracting and commissioning;
- Building social capital and tackling worklessness.

1.4 Our response sets out a range of proposals which will help address the issues identified by the OTS. These proposals are underpinned by the following principles:

- Government should take sensible steps to ensure the sector can cope with the economic down turn.
- Commitments to fair funding and contracting must be met.
- We expect parity with the treatment of other sectors.
- Government must not act in ways that create additional financial problems for the sector.
- Government must involve the VCS in discussions about the future shape and structure of our society and economy.
- We need to continue to monitor the impact and review how we are responding to the recession.

1.5 To discuss any of the points made in this submission please contact Ann Blackmore on 020 7520 2477 or email [ann.blackmore@ncvo-vol.org.uk](mailto:ann.blackmore@ncvo-vol.org.uk)

## 2. Context

2.1 Voluntary and community organisations (VCOs) play a vital role in our communities. The purpose of any action plan the Government produces must be to

ensure continuity of the support, advice and services they provide to some of the most vulnerable and disadvantaged people in society. The Government must also take into account that our sector helps to create vibrant, thriving communities where people want to live and work. During a period of recession the contribution that the voluntary and community sector (VCS) makes to society will be critical.

2.2 At the recession summit on 24<sup>th</sup> November, NCVO presented its research findings on the recession to date. This paper does not repeat or add to those findings, which are available as a separate document. However our thinking has been informed by consultation and discussion with our members over the last two months. This has flagged up several issues, including:

- The need to ensure that commitments to fair contracting processes are honoured;
- Fears that statutory funders (particularly at the local level) may cut funding, or focus more on cost than effectiveness;
- Problems with cash flow, as VCOs find it harder to access credit;
- Growing concern about how to manage deficits in defined benefit pension schemes, and the impact these liabilities have on VCOs;
- Increased pressure to provide services, without an increase in resources to fund those services;
- An expectation that VCOs can provide solutions to the problems experienced by individuals and communities (through the services they provide, or the opportunities for volunteering) but without engaging the sector in the design of those solutions, or recognising that undertaking these roles has costs.

2.3 It is of course important that all, both in the sector and in government, recognise that voluntary and community organisations are independent organisations. The first responsibility is for each organisation to take action wherever possible to enable it to operate effectively within a downturn. NCVO, and other umbrella organisations, also have an important role to play in providing advice, support and capacity building to their members. We will be developing, and will publish separately, a plan setting out the support and services we intend to offer.

2.4 However, there are also a number of important areas where we can legitimately expect government to act, where it shares the objectives of the sector and wants to encourage the role of our sector. And we also expect the Government to take action to ensure that government policy does not create additional problems or financial burdens for our sector. This paper addresses those areas where we believe the Government can provide support and leadership.

2.5 We are aware that in developing its Action Plan the Government has indicated that all proposals will be assessed against the following six principles:

- A whole sector approach;
- Having a measurable, positive social and economic impact;
- Make efficient use of limited public finances;
- Are sustainable and address mid and long term challenges;
- Promote collaboration and partnership working, and

- Are achievable (do not require primary or secondary legislation).

We agree that these principles are sensible when identifying immediate and short term actions. However, we also believe that there are a number of longer term issues that can and should be addressed, if the sector is to play its full part in building stronger communities, encouraging engagement and building social capital. These may require longer term solutions, where it will be appropriate for the Government to introduce legislative change.

### **3. Government should take sensible steps to ensure the sector can cope with the economic down turn.**

#### ***Addressing potential income issues through local and national level funding and maximising charitable giving***

3.1 The primary function of the Government in terms of addressing potential income issues must be to ensure that the current environment operates as effectively as possible: we appreciate that there is limited scope for government to provide additional resources specifically for our sector. However it will be important that the Government does not act in ways which create greater financial problems for the sector, and that, where it can, it acts to improve the financial environment.

3.2 It will be essential that government, at all levels, makes sensible use of the full range of funding options for the sector: **there needs to be a balance between grants and contracts**. There is a real risk that funders may reduce or end grant schemes as pressure on their own resources grow. There may also be a greater move towards contracting. It will be imperative that funders continue to provide funding that is appropriate for both the activity, and for the type and size of organisation it is working with.

3.3 Individual giving is an essential part of the funding mix. The sector will be working to encourage donors to continue to support our sector. However, despite the recent review of **Gift Aid**, reforms have still not be introduced. HM Treasury needs to give further thought to simplifying the giftaid system, to ensure that charities can more easily recover taxes paid on donations. We recommend that HMT pursue the following two measures:

- The adoption of an accounts based system for giftaid. This will minimise bureaucracy on both sides whilst maintaining the essential link between giftaid and tax rates.
- Tax paid at higher rates should also be gift aided to charities, not the individual. It has been argued that this might be a disincentive to the wealthiest donors. However it should be noted that the vast majority of higher rate taxpayers do not fall into this category. HMT should separately investigate alternative schemes for the wealthiest potential philanthrocapitalists

3.4 There will be increasing pressure on all funding streams for the sector. New funding streams, such as those which will be provided via the **dormant bank and building society accounts** legislation, will prove extremely important. The

Government therefore needs to ensure that the scheme is put into place as quickly as possible and that all banks are actively encouraged to participate in the voluntary scheme. We particularly expect government to exert their influence on those banks that they have stabilised.

3.5 A growing number of VCOs are experiencing serious problems because of liabilities arising from defined benefit pension schemes. This is affecting the credit rating of these organisations, and diverting resources to address notional deficits, which could be put to better use in the current climate to provide crucial support and services. It is obviously important that VCOs operate in ways which are financially prudent. However the current regulations impose an unnecessarily tight timeframe within which deficits must be recovered. We therefore endorse CFDG's position and recommend the introduction of a temporary reprieve period for valuations and recovery plans. Government should also work with the regulator to review the difficulties charities with defined benefit schemes with deficits are facing when trying to merge or restructure.

3.6 The Government's consultation on the economic downturn asks what is needed to enable VCOs to help meet the demand for public services: irrecoverable VAT imposes a direct financial cost on many charities that provide public services. This longstanding issue of **irrecoverable VAT** must now be addressed.

3.7 Government must adhere to its commitment not to divert further **lottery funding** towards the Olympics. The principle of additionality also remains extremely important; the lottery should not be used to replace government funding. Given the critical role of VCOs within communities, and as pressure on resources grows, we now believe that 100% of BIG funding should go to voluntary and community organisations. The current strategic review of BIG funding provides an opportunity for the Government to commit to this new, higher level of funding for the sector.

#### **4. Resilience fund/package Modernisation of the sector**

4.1 The majority of the actions we are seeking relate to enforcing existing policy more effectively, or to reviewing the impact of wider policies. However there is a need for a limited level of financial support for the sector from the Government at the current time. The purpose of this support is three-fold. Firstly, to provide a resilience package, to ensure that VCOs are able to survive in the short term; secondly to create a modernisation package to enable VCOs to move forward and provide support and services more effectively; and thirdly to help the sector to be stronger when the country emerges from the recession.

4.2 We believe that the Government should provide a resilience/modernisation package of a minimum of £100m. This will provide critical support in the following areas:

- Access to short term loans for those with cash flow problems. There is a real risk that viable organisations providing essential services could be forced out of business simply because of problems with cash flow: VCOs have low levels

of reserves, many are finding it hard to access loans, and some funders are delaying payments. There is a real need in the sector for short term loans.

- Creation of a small loans and grants fund for VCOs and social enterprises who want to provide services to help build social capital in areas experiencing local tensions and increased social exclusion as a result of the recession. These loans should be for a period of at least ten years, with repayment deferred for the first two years to enable the service to be properly established.
- A support fund for organisations looking to restructure/merge or create new long-term cost savings in order to improve outcomes for beneficiaries. This fund will help meet some of the (often high) one off costs that come with restructuring/merger and provide advice on how best to do this. NCVO is seeking to invest extra resources in our support and advice programme on collaborative working. And the Charity Commission have also committed to working to make merger and restructuring more straightforward. The availability of financial support to meet these one off costs could make a significant difference to many organisations seeking to review their operations.
- Support initiatives that enable and encourage people to take up employment in voluntary and community organisations.
- Promote the community asset transfer programme by enabling the sector to invest in assets that will provide long term benefit at a time when the market is low. This fund could be used to ensure that where a VCO purchases a community asset it can be brought up to an acceptable standard and any outstanding liabilities can be met. This may result in additional knock-on benefits for other industries, such as construction, that are impacted by the recession.

## 5. Good quality contracting and commissioning

5.1 Government has committed to full cost recovery, payment in advance where need can be demonstrated, prompt decision making for the award of grants and contracts and proportionate management processes. Our members have expressed concerns that statutory funders may ignore these commitments in the current climate. **Commitments to fair funding and contracting must be met.**

5.2 We have already heard examples of statutory funders effectively obtaining credit by delaying payments. There are also concerns that, as contracts come up for renewal, or as new contracts are negotiated, statutory funders may try to reduce funding, or change contract terms in ways which are detrimental to the effective provision of the activity they are funding. As part of our ongoing work to monitor the impact of the recession, both the sector and government need to allocate resources to monitor what is happening to contracts.

5.3 It is important to make clear that we are not asking for special treatment for the VCS. We simply **expect parity with the treatment of other sectors**. In particular we are aware that the Government announced some weeks ago a package of support for small and medium enterprises, all elements of which could and should be made available to VCOs. We are therefore looking for the package of support that DBERR have made for SMEs to also be made available to our sector (particularly the **commitment to payment within 10 days**). DBERR and the Institute of Credit Management have also issued a prompt payment code for

suppliers to help small businesses. Government should make clear that this code applies to VCOs as well as to businesses.

5.4 There is particular concern about funding at the local level. **The Minister should write to all local statutory funders** asking them to honour key commitments including:

- Prompt payment of invoices;
- 3 year funding;
- Full cost recovery;
- Payment in advance where need can be demonstrated;
- Prompt decision making process for grants and contracts;
- Proportionate management processes.

5.5 One area of contracting which needs to be urgently reviewed is employment contracts based on payment by results. These contracts were negotiated at a time of high employment. However circumstances have now significantly changed, and in a way that no contracting organisation could reasonably have been expected to prepare for. It would be unreasonable for government to expect VCOs to bear the full risk in these contracts.

## **6. Government and other agencies must not act in ways that create additional financial problems for the sector**

6.1 We have become aware of a number of issues where the actions of government, or of other agencies, are having adverse consequences on the operations of VCOs. It should always be the case that the Government avoids acting in ways that create extra, unnecessary burdens on our sector, and should encourage others agencies to act in supportive ways. However this is even more important in the current climate.

6.2 Over the coming months we expect the Government to pay particular attention across the range of its legislative and regulatory programme to understand and minimise the burden on the sector. One immediate action the Government could take would be to ensure that the proposed changes to music licensing are reviewed. Charities must continue to benefit from the exemption from paying royalties to Phonographic Performance Limited and from receiving a reduced rate of tariff for payments to the Performing Rights Society because the income generated provides a public, not a private benefit.

6.3 We also expect the Government to use its influence over other agencies to ensure that VCOs are able to continue operating effectively. In particular we want to ensure that banks – some of which have been nationalised, and others which have received significant public funding – treat VCOs fairly. A range of issues have been raised with us, relating to access to loan finance, personal guarantees required from trustees for overdrafts and future of long-standing corporate social responsibility programmes.

## **7. Government must involve the VCS in discussions about the future shape and structure of our society and economy. (*Building social capital and tackling worklessness*)**

7.1 In the first instance our focus must be on providing a package of support to VCOs to ensure that the vital advice and services that they provide to individuals and communities can continue. This must include specific resources targeted directly at those they work with who face unemployment.

7.2 However, there is widespread consensus that there also needs to be a longer term review of how we want to structure our society and what we want our social and economic priorities to be. We need to ensure that the VCS is enabled to play its full part in these debates. NCVO will be publishing a new civil society strategy early in 2009, setting out what we believe to be the key issues, and how the sector should contribute.

7.3 Government must ensure that in focusing on providing support to the VCS in its role in providing public services, it does not overlook the equally important role our sector plays in building social capital, engaging individuals and communities and addressing issues of social cohesion. This recognition will need to be embedded across all government departments. As a first step, the **VCS must be represented on the new Regional Economic Councils**, and VCOs should be encouraged and supported to give evidence to the REC and to contribute to regional economic strategies.

## **8. Next steps**

8.1 We are currently entering into the economic downturn. At this stage it is not clear how long or deep it will be, nor what the impact will be on society and in turn on the VCS. At the recession summit, the Third Sector Research Centre, NCVO and others agreed to continue to work together to develop our understanding of these issues. However, in order to ensure that we are targeting support and resources effectively, and to understand how our sector contributes, **we recommend that the Government provides additional resources for a period of at least twelve months to enable the sector to undertake proper monitoring and research.** This work should be additional to that being undertaken by the Third Sector Research Centre.

8.2 Finally, in order to monitor progress against the OTS Action Plan, to share experience and to consider the need for any additional actions that may be necessary to support VCOs, the recession summit, co-chaired by the sector and government, should reconvene every six months until the country moves out of recession.