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# Breakthrough Britain

*Briefing Paper 6*

## THIRD SECTOR

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**This is the Executive Summary of the Third Sector volume of the Social Justice Policy Group's *Breakthrough Britain* report. For further information, or to download the full report please visit [www.povertydebate.com](http://www.povertydebate.com)**

### *Introduction and State of the Nation*

In recent years, Britain has become materially more prosperous. However increased wealth has not been accompanied by improvements in the levels of many social problems. Indeed, rates of family breakdown, educational failure, economic dependency, addictions and serious personal debt remain stubbornly high. Vast amounts spent on public services have often made little impact.

Yet around the country there are countless examples of these and other social pathologies being successfully tackled, often by the voluntary - or third - sector. The sector includes small community groups, social enterprises and large national charities. Third sector organisations (TSOs) often succeed because they are prepared to do things differently, to take risks and innovate. They excel in providing second chances, especially when they can exercise more autonomy than their counterparts in the public and private sectors.

The war on poverty will only be won by liberating the third sector from the incessant pressure to do the government's work in the government's way. Innovative social entrepreneurs and grassroots projects need to be trusted and equipped to find new solutions to these intractable problems. It can be done.

Key findings from the Group's interim report:

- Growth in charitable giving in the UK has stalled. It equates to just 0.9% of GDP, compared to over 2% in the USA. Rates of corporate giving are pathetic, representing less than 1% of pre-tax profits. Charities only reclaim about two-thirds of the Gift Aid they are entitled to.
- Despite a plethora of initiatives, rates of volunteering remain low, especially among charities tackling poverty and communities suffering from social exclusion. Independent research suggests that perhaps only 19% of the adult population is volunteering at present.
- Polarisation of the third sector continues, as a small number of very large charities have become ever more dominant as their smaller peers struggle. Over 70% of total income is generated by just 2% of



the sector. Meanwhile 18 'mega-charities', each with an annual income in excess of £100 million, attracts one-eighth of the sector's entire income.

- Two factors are driving this divide. Firstly, it is more difficult for smaller TSOs to compete with large charities in fundraising as it becomes increasingly technical and expensive. Secondly, the concentration of government funding for charities in big contracts for the delivery of public services greatly favours the few TSOs capable of delivering them.
- Government has failed to fund the sector fairly. The Compact, agreed between the Government and the third sector in 1998, was intended to ensure fair dealing between them, particularly in funding. It contained essential principles of effective funding such as prompt payment, multi-year funding and charities receiving the full-cost of the services they provide. Almost ten years on, this voluntary agreement is still considered 'not worth the paper it's written on', so poor is the record of implementation.



### *Why has Government policy failed?*

- Government has failed to trust the sector to innovate and develop effective new approaches to tackling social problems. Rather it thinks it always knows best, and has concentrated ever larger sums on a few favoured charities, often to deliver government's work in the government's way through large, micro-managed contracts.
- The immense potential of smaller TSOs to play a large role in tackling poverty, especially through their preventative work, has been largely over-looked by Government. Sources of lightly-prescribed funding for these TSOs has rapidly dried up, jeopardizing many exceptional groups.

### *What are the Objectives of Policy?*

Government is responsible for ensuring that strong, independent charities have the greatest opportunities to fight poverty and fulfil their missions. The following objectives should guide policy-making to enable this:

#### ***Increase levels of volunteering and charitable giving***

Volunteers are the third sector's greatest asset. They can provide one-to-one care to vulnerable people in ways that are impossible for over-stretched paid caseworkers. Maximising rates of giving to the most effective charities is vital - currently around 35% of the sector's income comes from the public, without many of the strings attached to statutory funding.

#### ***Strengthen charities delivering public services and those that are not***

TSOs often excel in providing second chances to vulnerable people failed by mainstream provision. Government should therefore give charities greater opportunities to deliver services. However, without accompanying funding reforms, the sector's ability to act independently and innovatively will continue to

be compromised. It is also vital to remember that the vast majority of TSOs do not want to deliver services and deserve equal support in their essential poverty-fighting and other work.

***Direct a greater proportion of government money spent tackling poverty through the third sector***

In addressing Britain's most intractable social problems, the third sector is often more effective than the public sector in providing second chances. For this reason an increasing proportion of government funding spent on tackling poverty should be invested in the third sector.

***Make government funding fairer and simpler***

For the vital government-funded work of TSOs to be sustained, they need the security of fairer funding including prompt payment, multi-year funding and the re-imbursment of the full-cost of services provided. The unfair funding practices of government make many TSOs wary of engaging in publicly-funded work. Tax breaks to charities should be simple to understand and claim.

***Democratise government funding***

The growing trend towards fewer bureaucrats allocating large chunks of government funding to a small number of charities is stifling dynamism and innovation and must be reversed. Service users and local people should be empowered with a direct say in which charities receive public money, as they are often best positioned to assess effectiveness. Government funding must be distributed more fairly across the sector so that small and medium-sized TSOs getting good results are able to expand their work in fighting poverty.

***Strengthen the independence and vibrancy of the third sector***

Ensuring that government funding protects the independence of TSOs, which is often central to their success, should be a priority for public bodies. Although there are many individual examples of 'mission creep', the degree to which government funding is changing the sector is little researched. Policy-making on third sector issues can be based on patchy evidence. And for all politicians' enthusiasm for the third sector, its profile within Government remains low and there is little opportunity to discuss sector issues in Parliament.

***Sustainably reform the third sector***

Rushed action is rarely effective action. Although some radical changes are needed to maximize the third sector's effectiveness, many need to be thoroughly consulted on and piloted before full implementation. The public sector has sometimes been damaged by far-reaching reforms that looked good on paper but did not work in practice. New approaches should expand as and when they succeed, with success defined not by politicians but by those who simply cannot afford any more failed social policy.

***YouGov Polling***

During April-May 2007, YouGov polled a representative random sample of the British public on their views on third sector issues.

The following findings stand out:

***Charitable giving***

- 71% think there should be more incentives to encourage charitable giving to poverty-fighting charities;
- 54% would be more likely to donate to a charity that had been independently assessed as getting good results;

### ***Volunteering***

- 75% think that there should be incentives to volunteer; and 72% believe this will encourage more volunteering from people in disadvantaged areas;
- 62% agree that making volunteering part of the school curriculum is a good idea, and 61% believe that volunteering can help ex-offenders reintegrate into mainstream society;

### ***Government funding***

- 61% agree that charities fighting poverty should get more support from the government;
- 58% believe that there is a danger that government funded charities will become like government agencies;
- 74% think that local people are in a better position than government to judge which charities should get statutory funding; and 71% believe that people receiving government-funded care should have the right to choose from a range of providers;

### ***Faith based organisations***

- 70% think that charities should be given funding based purely on how well they help people regardless of whether they have a religious ethos.

## ***Policy Recommendations***

*To increase levels of charitable giving, especially to poverty-fighting TSOs, we recommend:*

### ***Gift Aid should be made easier to claim***

To make it easier for TSOs to reclaim Gift Aid, a certain percentage, perhaps 80%, of all individual donations should be assumed to come from taxpayers. This percentage of all individual donations would qualify for Gift Aid without the paperwork currently needed to 'opt-in'. This simplified system would generate a sizeable increase in fundraising revenue for many charities.

### ***Launch a 'Trustmarking' website***

An independent website should be created to accredit the work of smaller poverty-fighting TSOs and promote giving to them. Run as a social enterprise, the site would help funds flow to charities getting good results. Initially donations to trustmarked TSOs through the site would attract Enhanced Gift Aid at double the normal rate. A fixed fund of £50 million would generate an extra £150 million for participant TSOs.

### ***Introduce Charitable Remainder Trusts***

Charitable Remainder Trusts (CRTs) should be introduced as tax-efficient vehicles for planned giving. These enable a person to donate assets whilst receiving tax benefits and an income stream from them. Many assets such as second homes could be transferred to charities during their owners' lifetimes.

### ***Boost Corporate Social Bonds***

To raise levels of corporate giving, a drive should be launched to increase the number and value of Corporate Social Bonds. These raise funds from companies who forego capital growth and interest income on their investment, but are guaranteed it all back after five years. Accumulated capital growth and interest is invested in local projects.

***School Giving Vouchers***

Through this one-off initiative to help instill habits of charitable giving, all Year 6 pupils in England would be issued with a £5 giving voucher each term. After presentations on the work of poverty-fighting and other TSOs, they would donate their voucher to the charity of their choice.

***Prevent accumulation of excessive reserves***

Charities are currently holding reserves of approximately £35 billion. The Charity Commission must do more in this area to uphold fairness, protect the reputation of the sector and maximise the amount of Gift Aided public donations being put to work by charities. It should improve its extremely vague guidance that is leading some TSOs to hold excessive reserves.

*To increase rates of volunteering, particularly among poverty-fighting TSOs and socially-excluded groups, we recommend:*

***Launch a 'V Card' to boost volunteering***

Engaging young and socially excluded people in volunteering would be greatly boosted by the V Card reward scheme. Member charities would record the types and amount of volunteering done by participants, who would earn credits that could be redeemed for hard benefits such as concert tickets. The card would also record achievements that could be used by holders to build a CV.

***Promote volunteering in poverty-fighting areas***

Continued government funding for agencies such as CSV, Volunteering England and V that promote volunteering and provide volunteering opportunities should be made conditional on them doing more to increase rates of volunteering among poverty-fighting charities and socially-excluded groups.

***Volunteering at school***

To encourage young people to contribute to their communities, volunteering schemes should be introduced in schools. In time allocated to PSHE, Year 9 pupils should all be asked to design social action projects, vote on the most popular, and then execute it. Good citizenship is best learned through practicing it.

*To boost charities engaged in poverty-fighting work through fairer and simpler funding, we recommend:*

***Strengthen the Compact***

To ensure charities get a fair deal in funding and other areas, the Compact's principles - including multi-year funding, prompt payment and full-cost recovery - must be enshrined in legislation. Whitehall's 'Compact Champions' should operate at Grade 2 not Grade 3, and Local Area Agreements must include evidence of progress towards full Compact implementation by members of the Local Strategic Partnership.

***Greater third sector delivery of public services***

Spending Reviews should set out how each department, and Government as a whole, will give the third sector maximum opportunity to deliver services. Crude targets should be avoided if possible. To ensure

innovation and diversity in services, commissioning must be reformed to reverse the trend towards ever larger contracts. At a local level, the next round of Local Area Agreements should include strategies on maximising third sector delivery of services.

***Less bureaucratic and prescriptive funding***

Government funding, especially contracts, must be far less prescriptive, stating expected outcomes but respecting TSOs' capability to determine how best to achieve these, rather than micro-managing the sector. Increased use of schemes that improve outcomes data, from the National Outcomes Programme and PQASSO standard to trustmarking will help here. More standardised contracts should help reduce excessive reporting burdens.

***Assessing the burden of irrecoverable VAT***

Charities are unable to reclaim up to £500 million incurred annually on activities in pursuit of their charitable objectives. Finding the money to tackle this injustice would be very difficult. Further research is needed to establish whether reform would significantly benefit TSOs of different types and sizes, and how any changes might be phased in.

*To democratise funding, giving many more people and groups a say in which charities receive public money, and ensuring the funding is more fairly distributed throughout the sector, we recommend:*

***Shift from direct to indirect statutory funding***

Government funding of the third sector must include much more indirect funding (including tax relief, voucher schemes, asset transfer, match funding and community endowments) to balance the current overwhelming emphasis on top-down contracts and grants. The distinction between direct and indirect funding should be hardwired into all statutory funding and strategies implemented by every public funding body to facilitate this shift.



***Introduce voucher schemes***

Progressively empowering users of government-funded services with the ability to choose between providers will help drive up standards and ensure diversity of provision. Vulnerable people who are overcoming problems such as homelessness and addictions should be endowed with vouchers to acquire housing-related support throughout England. New relationship and parenting education programmes worth £166m annually will be funded by a voucher scheme enabling choice between third sector providers.

***Enable more opportunities to take over under-used public assets***

Legislation is needed to make it easier for TSOs to initiate the transfer of under-used public assets such as neglected buildings, and to do so from all public bodies rather than just local authorities. The Government's £30 million Community Asset Fund should be doubled to help TSOs take on these assets.

***Community Growth Trusts***

Smaller TSOs with significant growth potential could apply for the new legal status of Community Growth Trust. This would entitle visionary social entrepreneurs, faith based organisations, and community groups

to deliver a progressively increasing range of public services to their community as a reward for proven competence.

#### ***Community Foundation Challenge Fund***

A new £50 million Challenge Fund will significantly boost grant-giving to poverty-fighting TSOs by the national network of 55 Community Foundations. The foundations' track record indicates they could generate an additional £100 million in private sector giving, making a total £150 million Fund. Invested in an endowment, this would enable £7.5 million of grants to be distributed to poverty-fighting groups annually in perpetuity.

#### ***More effective use of National Lottery funds***

National Lottery money to good causes should be reformed to ensure more funding reaches smaller charities, especially those tackling the causes and consequences of poverty. At least half of Big Lottery Fund (BIG) funding should be allocated to lightly prescribed, demand-led programmes. A new £100 million funding stream, *Fair Share Plus*, would provide expendable endowments of £1million to around 100 communities to tackle social problems. Lottery funding for good causes needs to be protected from further Olympic-type raids.

*To strengthen the independence and vibrancy of the third sector, we recommend:*

#### ***Enhance the third sector's voice in Cabinet and Parliament***

Increasing the third sector's status in Westminster is important as society becomes ever more dependent on it to tackle poverty and provide second chances. The Minister of the Third Sector should be given Cabinet rank. A Third Sector Select Committee is proposed to scrutinise the work of the Office of the Third Sector, in a similar manner to other departmental select committees.

#### ***Create a level playing field for faith based organisations***

There is increasing evidence that effective faith based organisations (FBOs) are being discriminated against by statutory funders, with the vulnerable people they serve losing out as a result. To address this, legislation should be introduced to allow religious and non-religious charities to compete for public funding on equal terms, after a review of laws that FBOs consider are being used unfairly against them. A faith standard should also be used to help FBOs ensure the highest standards in serving clients from all backgrounds.

#### ***Establishing a third sector institute***

The evidence base for policy-making on many third sector issues can be patchy. An incoming government should heed calls for a third sector equivalent of the Institute for Fiscal Studies to be established by funding up to half its costs. Conducting a detailed mapping exercise to establish a much fuller picture of the extent and impact of state funding on the sector should be one of the body's first research projects.

## ***Conclusion***

Implementation of these proposals can create a stronger, more diverse and dynamic third sector, capable of maximising second chances. Rates of volunteering and charitable giving, the foundations of a healthy third sector, will be boosted. The pursuit of fairness in current funding regimes will be matched by a determination to democratise funding. Innovation will be safeguarded as funding is more equitably distributed to a broader range of groups. The

independence and vibrancy of the third sector will be further enhanced by increasing the sector's status in Westminster, ensuring a level playing field for faith based groups, and providing a good evidence-base for future policy making.

### THIRD SECTOR WORKING GROUP

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### ABOUT THE SJPG

The Social Justice Policy Group was commissioned by Rt Hon David Cameron MP, Leader of Her Majesty's Opposition, in January 2006 to make policy recommendations to the Conservative Party on issues of social justice.

The Policy Group is chaired by the Rt Hon Iain Duncan Smith MP, former leader of the Conservative Party and Chairman of the Centre for Social Justice, and its Deputy Chairman is Debbie Scott, Chief Executive of Tomorrow's People. The Policy Group's Secretariat is hosted by the Centre for Social Justice.

The work has been done through six working groups, which have examined key "pathways to poverty": family breakdown, educational failure, economic dependency, indebtedness and addictions. A sixth group has studied how the third sector might be supported to do more to give vulnerable people second chances and help them escape poverty.

For further information, or to download the full report of the Social Justice Policy Group, *Breakthrough Britain*, please visit [www.poverty.debate.com](http://www.poverty.debate.com)

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