

Breakthrough Britain

Ending the costs of social breakdown

Volume 6: Third Sector

Chairman: Orlando Fraser

Policy recommendations
to the Conservative Party

Social Justice Policy Group
Chairman, Rt Hon Iain Duncan Smith MP

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Executive Summary

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 only 19% of the adult population formally volunteers once a year or more.
- 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-imburement 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 thor-

oughly 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.

Section 1

Undervaluing the third sector in the fight against poverty

The overarching problem: the stifling of the third sector, particularly in fighting poverty

In its interim report, the Social Justice Policy Group identified five key themes of breakdown in Britain today, and also how little and badly used the third sector (comprising charities, voluntary bodies and social enterprises) was in tackling this breakdown.

The Group is therefore focused on establishing how the third sector can be most effectively equipped to address the problems identified in *Breakdown Britain*. Its unique potential to tackle many of the most acute forms of poverty is being stifled by a general lack of resources and a raft of government policies that hold it back. This must be addressed, or a generation of Britain's vulnerable will be left further excluded from the rest of society.

Furthermore, given the importance of the whole third sector in generating social capital, and encouraging social responsibility and social cohesion, the Group is concerned to ensure that its broader policy proposals benefit every charity.



Anthony shows Orlando Fraser, Chairman of the Third Sector Working Group, his artwork at YESS in South London

The Group's December 2006 interim report – summary of causes

During 2006 the Third Sector Working Group conducted an enormous amount of research into the third sector, and published, as part of *Breakdown Britain*, its own interim report entitled *Denying the Vulnerable a Second Chance: Undervaluing Britain's Third Sector in the Fight Against Poverty*.¹ It set out challenges for the Government, the public, and the third sector itself to ensure that its potential to tackle social breakdown is maximised.

1 Referenced as *Breakdown Britain* interim report, Volume 6

Some of the main challenges facing the sector are only partly the responsibility of government. These include relatively low rates of charitable giving and volunteering to poverty-fighting third sector organisations (TSOs).

However, the Group found that the potential of TSOs to ameliorate many of the country's social challenges was undervalued, from the failure to fund preventative relationship education with a proven record of reducing family breakdown, to the huge numbers of residential rehabilitation places for addicts that remain unfilled. And when the state *does* fund poverty-fighting TSOs, it is done in such a controlling and stifling manner that much of the potential value has been lost. With the trend towards large public service delivery contracts, funding has increasingly gone to large TSOs, with smaller charities' incomes drying up. In poverty-fighting, the Government is in danger of creating a third sector that is effectively a mini public sector – doing the Government's work in the Government's way, with Britain's disadvantaged suffering as a result. Many TSOs themselves admit that they are taking on prescriptive contracts that take them away from their core mission.²

However, the interim report also found however that these problems are not confined to the third sector's poverty-fighting work. Excessive government control and regulation of charities extended throughout the sector; smaller voluntary organisations were increasingly under-resourced; charitable giving was low throughout the UK; and rates of volunteering were disappointing across the board. Recent studies published in 2007 have confirmed many of these findings.³

The Group's December 2006 interim report – detailed findings

Below is a summary of the detailed findings of the Group's interim report on the main challenges facing the third sector.

Charitable giving

Charitable giving, the life-blood of an independent and innovative third sector,⁴ is in need of a serious boost. Growth in giving appears to be in a long-term decline, and overall giving in the UK comprises 0.9%⁵ of GDP compared to over 2% in the USA.⁶ Corporate giving, meanwhile, represents less than 1% of pre-tax profits.⁷ Although it is difficult to isolate individual

2 Charity Commission, *Stand and Deliver: The future for charities providing public services*, 2007

3 Charity Commission, *Stand and Deliver: The future for charities providing public services*, 2007; National Audit Office, *Implementation of full cost recovery*, 2007; Nick Seddon, *Who Cares?*, Civitas, 2007

4 *Breakdown Britain* interim report, Volume 6, Chapter 10, paras 1-5

5 *Ibid*, Chapter 10, paras 6-7

6 *Ibid*, Chapter 10, paras 6-7

7 *Ibid*, Chapter 10, para 9

factors identified with this general low level of giving, important areas identified were a lack of positive promotion of the culture of giving in the UK,⁸ and, perhaps linked, the lack of clear personal and corporate benefits from giving.⁹ Although the present tax regime for giving is seen as good, there are increasing concerns that the administration of Gift Aid is becoming unnecessarily bureaucratic, with a take up rate of only 60%.¹⁰

There was particular concern that TSOs fighting poverty are relatively unsuccessful in attracting donations. Contributing factors may include the lack of ‘sexiness’ of a cause, the lack of evidence that these charities get good results, the lack of personal connection to the problems being addressed, and the feeling that people in poverty being helped are at least partly to blame for their predicament. Linked to this, the Group was concerned that smaller, local charities are increasingly being ‘outgunned’ by larger charities in fundraising – to such an extent that the Charities Aid Foundation expressed fears for the survival of such groups.¹¹



Dance Dolls, made by members of Westminster House Youth Club, a small community group

Volunteering

The Government’s record in stimulating volunteering is distinctly mediocre. Despite a plethora of initiatives, formal volunteering remains low, particularly amongst hard-to-reach communities. Independent reports suggest that only 19% of the adult population formally volunteer, and even Government reports suggest that only 44% formally volunteer once a year or more. The Group’s consultations suggest that rates are even lower for TSOs tackling poverty.¹² Corporate volunteering was exceptionally low, with only 5% of employees volunteering once a year through corporate programmes.¹³

A number of factors were identified that were preventing volunteering having the impact it could. These included the repetitious regulation of Criminal Records Bureau (CRB) checks, the need for more hard and soft benefits, the need to address blocks on benefit claimants volunteering, and the need to help TSOs manage the risks related to volunteering.¹⁴

8 Ibid, Chapter 10, paras 36-37

9 Ibid, Chapter 10, paras 33-37

10 See Section 3.1.1 - Gift Aid reform

11 *Breakdown Britain* interim report, Volume 6, Chapter 9, paras 12-17; and Chapter 10, paras 44-55

12 Ibid, Chapter 11, paras 8-16

13 Ibid, Chapter 11, paras 35-38

14 Ibid, Chapter 11, paras 41-58

State funding

The Group's research showed an overall failure of Government to commission sufficient services from TSOs working in the five key areas identified by the Group, in spite of the sector's acknowledged record of excellence. The Group also found that the Government's promises to give TSOs much greater opportunities to deliver services in these areas have not been met.¹⁵ It is not expected that Gordon Brown will further this process significantly.

The evidence also shows that smaller, local TSOs are particularly missing out on statutory funds. This is a major reason why such organisations are under great threat – and why the 87% of UK charities with an income of under £100,000 hold just 5.4% of the sector's income, compared to the largest 2% of TSOs which now generate over 70% of the sector's income.¹⁶

The Group unearthed significant evidence from across the sector that overly prescriptive statutory commissioning was undermining the Government's goal of greater innovation and effectiveness in services – presumably the reasons it commissioned the sector in the first place.¹⁷

The Group also found that the terms of statutory funding of individual TSOs has often been less than fair. The Compact, the Government's voluntary agreement of good practice with the third sector, is routinely disregarded by central and local government.¹⁸ Full cost recovery, one of the key funding principles of the Compact, has not been properly implemented. According to the Charity Commission only 12% of charities delivering public services achieve it in all circumstances.¹⁹ The result is that TSOs are effectively subsidising public services, putting both them and the services they provide in jeopardy. Other key concerns include the short-term nature of much government funding, and also the preponderance of late payments – again, both in breach of the Compact.

Faith based organisations

The Group's research has shown increasing evidence that statutory commissioners have an institutional bias against funding faith based organisations, even where such organisations provide the most effective service. If this is allowed to continue and grow, then large sections of the vulnerable will lose out. Single mothers, homeless people, and drug addicts in prison have all lost out in recent times due to discrimination against faith based groups serving them. Statutory commissioners currently lack clear guidelines on relating to faith based organisations, who often appear alien to the public sector in terms of outlook, language, and organisation. Furthermore, the perceived

15 Ibid, Chapter 12, paras 5-18

16 Ibid, Chapter 9, paras 12-18; NCVO, *UK Voluntary Sector Almanac 2007*, 2007, p2

17 Ibid, Chapter 12, paras 5-24

18 Ibid, Chapter 12, paras 25 to 39

19 Ibid; Charity Commission, *Stand and Deliver: The future for charities providing public services*, 2007

tension between the diversity and the religious agendas (accentuated by 2007 SORS regulations) is likely to exacerbate rather than ameliorate this situation, to the loss of the rest of society. If not addressed the work of many faith based organisations may be curtailed, with the neediest people suffering the greatest consequences.²⁰

Independence

The Group's research has demonstrated growing concern from inside and outside the sector about the nature and extent of statutory funding. It is felt that the growing dependence of many TSOs on government money will compromise their independence and stifle innovation. As the Group is in favour of increased statutory funding of the sector, it is essential that new ways are found to fund TSOs that preserve the sector's value.

Conclusion

Reflecting on these problems and others, the Group's interim report concluded that *'Britain's vulnerable are being denied the true second chance that the third sector could give them'*. The Group is now pleased to outline proposals to address these issues, and looks forward to their implementation – not only to strengthen the work of Britain's third sector, but to give our society's most vulnerable second chances and win the war against poverty.

20 See Section 3.5

Section 2

Public perceptions

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

- 48% believe that not enough money is given to charity today;
- 71% think there should be more incentives to encourage charitable giving to poverty-fighting charities;
- 55% agree that businesses should donate some of their profits to charity;
- 54% would be more likely to donate to a charity that had been independently assessed as getting good results;

Volunteering

- 89% consider volunteering to be important to British life today;
- 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;
- 49% believe that businesses should play a role in encouraging volunteering;

State funding

- 61% agree that charities fighting poverty should get more support from the government; and 43% concur that charities and voluntary groups are often more effective than government in delivering services, and should be funded in preference to government agencies;
- 58% believe that there is a danger that government funded charities will become like government agencies, and 48% feel that the government should not interfere too much in charities it funds – although 56% consider that safeguards to ensure value for money were important for government funded charities;
- 54% believe that charities independently accredited as getting good results should receive government funding with fewer strings attached;
- 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;

- 58% say it would make no difference to their willingness to give to a charity if it got most of its money from the government;

Faith based organisations

- 60% agree that social problems such as drug addiction and homelessness are so serious that the government should be funding any charities that get good results, even if they have a religious ethos;
- 70% think that charities should be given funding based purely on how well they help people regardless of whether they have a religious ethos;
- Only 36% agree that Britain is a secular country and that faith based TSOs should not be given government funding; and only 31% concur that religious groups cannot be trusted to give equal treatment to gay people and therefore should not receive government funding; and



XLP, a faith-based organisation, has a mobile youth centre serving estates in North London

Independence of the third sector

- 58% think that there is a danger that charities receiving an excessive amount of government funding could become like government agencies.

Directory of Social Change Survey, April 2007

The Group also commissioned a smaller survey of professionals working in the voluntary sector, with the assistance of the Directory of Social Change, in April 2007. This survey had a limited number of responses, but did indicate some interesting attitudes within the sector, which are included within the report where relevant.

Section 3

Policy proposals to support the third sector

3.1 Charitable giving

Before outlining the proposals on charitable giving, the Group believes that it is worthwhile to establish how poverty-fighting TSOs can transform lives with relatively small amounts of money.

Bristol Community Family Trust can provide a one day relationship education or marriage preparation course for just **£100** per couple, or a series of six parenting sessions for **£80**.²¹ This contrasts with the annual costs of family breakdown which average between **£680** and **£820** per taxpayer, with direct costs at an estimated **£20-24** billion per annum.²²

£2,000 to **£2,500** puts a child through Reading Recovery, the intensive literacy programme. One-to-one tuition is provided to the lowest achieving children. Under Reading Recovery, 80% of children are brought up to the expected reading level for their age in a few weeks, enabling them to access the whole curriculum and fulfil their academic potential.

TSOs providing employment support cost less per job created than all New Deal programmes. The gross cost per job is around **£3,500** for the New Deal for Young People and **£4,100** for the New Deal 25+, compared to as little as **£2,050** for the most effective TSOs.²³

£2,500 enables Crisis, the homelessness charity, to fully support a trainee in gaining an NVQ Level 1 qualification in one year at Crisis Skylight. **£3,000** funds Crisis' SmartMove Scheme to set up six homeless people in a home, providing support so they can live independently and start to address their training and educational aspirations.

£10,000 funds St Mungos, a homelessness charity in West London, to help 100 new workers bridge the gap between welfare benefits and their first pay cheque, by covering their first month's travel costs and clothing expenses.

21 See Volume 1 (Family Breakdown) Section 2.2

22 Extrapolated from Lindsay, *The Cost of Family Breakdown*, Lords and Commons Family and Child Protection Group, 2000

23 See Volume 2 (Economic Dependency) Section 3.1.3

£12,000 will put a heroin addict into residential rehabilitation at Phoenix Futures, which has success rates of up to 90%.²⁴ The social costs associated with failing to rehabilitate an addict are vastly higher. The total estimated cost of drug misuse was £12 billion in 2000, equating to £35,456 for each problem drug user.²⁵

£20,000 equips Rainer to recruit, train and support a team of 40 volunteer mentors for one year, offering vital support to some of the most vulnerable young people in the UK.

Charitable giving proposals

In order to encourage charitable giving,²⁶ particularly to poverty fighting organisations, the Group makes the following proposals:

3.1.1 Gift Aid reform

Problem

The expansion of Gift Aid by this Government has been a welcome step. At present Gift Aid is worth 28p in the pound to charities but changes announced by Gordon Brown in the most recent Budget will reduce this to 25p. Nevertheless, Gift Aid has undoubtedly provided considerable benefits to Britain's third sector.

However, uptake of Gift Aid is still not nearly as high as it should be. The significant administrative costs associated with Gift Aid means that many TSOs do not reclaim the tax they are entitled to. A TSO's ability to claim Gift Aid relies on individual donors actively indicating that they are UK taxpayers. Generally this involves ticking a box or signing a declaration. As a result of this 'opt-in' requirement Gift Aid is estimated to be used by just one third of individual donors.²⁷ Street donations, for example, are automatically excluded because the TSO collecting cannot get Gift Aid declarations from passing members of the public. Therefore TSOs are losing large sums because many taxpayers have not 'opted-in'.

Even charities with declarations (particularly smaller ones) do not always claim Gift Aid because of the administrative burdens involved. Research by the Charities Aid Foundation (CAF) demonstrates that 61% of charities with income of less than £100,000 made a Gift Aid claim, compared to 92% of those over £100,000. It was found that the main reasons for smaller organisations not claiming were that they did not have the systems, time, or staff.²⁸ Many larger TSOs dedicate several members of staff to Gift Aid administration: Cancer Research UK, for example, employs the equivalent of seven full-time workers for this purpose.

24 Paul Taylor, Northern Regional Manager, Phoenix Futures speaking to Addictions Working Group, March 2007

25 Godfrey et al, *The economic and social cost of class A drug use*, Home Office, 2002

26 Which 48% of the British public believe is too low - YouGov survey for Social Justice Policy Group, April-May 2007

27 Charities Aid Foundation, *Promoting Tax Effective Giving: Report on research to establish baselines for the Institute of Fundraising*, 2006

28 Ibid

In the same way that Gordon Brown's tax credits are so complicated that many of the most needy do not claim, so many smaller TSOs that badly need Gift Aid are missing out because of its bureaucracy. It is estimated that the scale of this partial uptake means that only 60% of the Gift Aid that should be reclaimed actually is.²⁹

Proposal

The Group believes that an incoming Government should reform Gift Aid to make it easier for TSOs to reclaim the tax they are entitled to.

Gift Aid should be reformed to assume a certain percentage of all individual donations come from taxpayers, and therefore that the same percentage of all individual donations should qualify for Gift Aid without an 'opt-in' requirement. An incoming Government should decide on this percentage figure in light of further evidence – but it appears that it could be as high as 80-85%.³⁰

This simplified Gift Aid system would generate a sizeable increase in revenue for the vast majority of fundraising charities. Whilst this scheme would benefit the sector as a whole, the Group is particularly aware of the vast number of medium and smaller-sized TSOs that are heavily reliant on Gift Aid, but are only able to reclaim a fraction of the money they are entitled to.

As well as facilitating increased financial support for the sector, this reform would dramatically simplify Gift Aid, reducing administrative burdens on both TSOs and government. TSOs would no longer need to collect 'opt-in' declarations, but rather declare how much money they had received in individual donations. The Group has sought to quantify the likely savings, but the Treasury has been unwilling to divulge the current costs to itself and the third sector in administering Gift Aid.

Several other options for reforming Gift Aid have been considered following the Group's consultations with the sector. One proposal that has gained popularity among TSOs is charities being given access to HMRC's taxpayer register so that TSOs could exclude non-taxpayers from their Gift Aid claims. The Group has concerns about this idea, however, firstly on grounds of confidentiality, and secondly that it would still leave a significant bureaucratic burden on TSOs. The Group therefore believes that its proposal offers the best way forward.

3.1.2 The trustmarking site

Problem

Rates of charitable giving to small local poverty-fighting charities are low.

²⁹ Based on CAF/NCVO figures

³⁰ Data provided by CAF and the NCVO suggests that in 2005/06 around 85% of the value of all individual donations came from taxpayers. The figures show that £5.2 billion is donated in 'Gift Aid-able' ways by individuals in a year, of which £4.5 billion comes from UK taxpayers

Part of the problem lies in the dominance of other causes in the charitable giving market. Put simply, the work of many TSOs tackling poverty is seen as 'unsexy'. Furthermore, smaller TSOs often do not have the capacity to promote their achievements to charitable givers beyond their immediate locality. Smaller charities are increasingly outgunned by their larger peers as fundraising becomes more expensive and specialised. Another factor is a lack of trust in the effectiveness of such groups to deliver good results, with givers more confident that bigger charity brands will spend their money well.

The Group's YouGov survey shows that 54% of the British public would be more likely to give to a charity that had been independently assessed as getting good results – and 72% agreed with the idea of an independent kitemarking scheme for charities.³¹

There is currently no website that combines information on the effectiveness of charities with an ability to give directly (and tax-effectively) to local charities that are getting good results.

Proposal

An incoming Government should therefore help launch³² an independent third sector website dedicated to promoting charitable giving to smaller TSOs fighting poverty in the UK.³³ The website will be run as a social enterprise and backed by a £50 million government match-funding scheme.³⁴

Website content

The website will have both an editorial and a direct giving function.

The editorial function would be significant, and would involve experts in the fields covered by the website, together with experts in the quality assessment of TSOs. The experts would identify and assess every applicant organisation. The assessments would involve a visit from the assessors and will be predominantly results or outcomes based.³⁵ Passing the assessment and appearing on the

31 YouGov survey for Social Justice Policy Group, April-May 2007

32 Perhaps in collaboration with a suitable web-based CSR partner

33 With the potential to become a leading 'social responsibility' website

34 Overseen by a Board of Trustees (with self-regulating powers of replacement/substitution), which would be composed of independent third sector figures with a broad and relevant range of expertise, and have to act in accordance with the social enterprises' charitable objects - namely to promote charitable and state giving to UK poverty fighting third sector organisations. The estimated £10 million start-up costs and £50 million Enhanced Gift Aid would be found from projected increases in Government funding for TSOs. Therefore these – and the other costed third-sector specific proposals in this report – do not constitute additional spending commitments. Currently public funding for charities is £10.2 billion which is increasing by £400 million per year (in real terms).

35 So, for example, a typical assessment of an organisation working with families might be carried out by a leading family practitioner (such as senior member of a Community Family Trust), together with a leading third sector quality assessor, such as an analyst using New Philanthropy Capital principles, or an Outcomes' Champion from Charities Evaluation Service' National Outcomes programme

website would mean that TSO was trustmarked. Assessments would be published in full on the website, and will indicate that the TSO can, in the informed opinion of the website, get good results with additional funds.³⁶ The website will reassure donors that their money is being directed to charities with a proven record of delivering good results and changing lives.

In editorial terms, the trustmarking site will therefore be a more comprehensive and high-profile version of the few current websites that currently exist (such as New Philanthropy Capital). The editorial function would need an 18 month period of research before it could go live (which should give time for at least 500 organisations to be trustmarked), and would be updated continuously thereafter.

The giving function of the website would integrate the best features of current donation websites, such as JustGiving. This site has raised nearly £150 million in seven years for 2,500 charities, with £67 million in the last year alone, and has dramatically boosted the income of the charities it features. Each group's entry would set out their funding needs and what they could achieve with donations of various sizes. There would be an eBay element to the site allowing TSOs to set out their own funding and volunteering requirements on a prominent badge or widget – indicating the remaining funds or work necessary for a particular project. Volunteers could also register for TSOs on the site. The management of the flow of funds could be on the JustGiving basis – i.e. centrally managed using trust accounts at a major clearing bank, and distributed to TSOs subsequently.

Educational campaigns

Given the depth of the assessing expertise, and the expected success of the website, the website would also be the natural springboard for major educational campaigns to promote the giving culture more widely amongst people in the UK.

Public service links

As the website's reputation for quality TSO recommendations grows, it could have at least two potential public service links – namely (a) providing a reference for residents looking for reliable TSO public service provision in their area (i.e. social care, drug agencies etc); and (b) website TSOs (having been validated by experts in their fields) could have advantages in the local commissioning process in terms of lighter regulation, less monitoring, and increased resources.

Cost

The website's overall cost is unlikely to exceed £5 million annually, when up and running. This would be good value for such a website, given the funds it

36 Such a trustmark assessment being renewed periodically, every three to five years

will raise in charitable giving, and also its value to the public sector commissioning process.³⁷

By way of comparison, New Philanthropy Capital's own TSO assessment enterprise costs approximately £1.5 million a year to run – and has recommended approximately 100 charities in five years,³⁸ perhaps assessing five times that in that period, with a staff of 30.

As a social enterprise, the website will be expected to pay its way after an initial period of government or corporate funding (amounting to say £10 million, or 2-3 years initial funding). The website will pay its way by a combination of management fees on donations,³⁹ advertising fees on its website, and donations. After the initial funding period the government can match fund its income until it reaches break-even.



Rainer run mentoring, advice and training programmes across the UK, providing support and guidance to vulnerable young people

Timespan

There will be an 18 month set up period from approval by the government. An initial pilot could be set up in London or elsewhere. 500 TSOs from across the country would feature at the launch, increasing every year subject to variables such as field expansion, renewed assessments, and staff increases.

Government match-funding – Enhanced Gift Aid

Donated funds to trustmarked TSOs on the site will initially attract the Group's proposed Enhanced Gift Aid. This will double the contribution from government from 25% to 50%. The duration of this scheme can be flexible, but the Group suggests that it initially last up to five years, and that government sets aside a fixed fund of £50 million to pay for it. For example, a charity that receives £10,000 of individual charitable giving income during a year will, under the recent changes to the tax system,⁴⁰ be able to claim £2,500 in Gift Aid. As a trustmarked TSO they will be entitled to a further £2,500 of Enhanced Gift Aid. The Enhanced Gift Aid scheme can generate at least an extra £150 million for UK poverty-fighting TSOs through the website.

Trustmarked TSOs could receive on average an extra £100,000 each.⁴¹ This would mean five years-worth of volunteer mentoring for clients of Rainer; or 1,000 homeless people in West London helped by St Mungo's off the streets. This will be new funding, generated at a fraction of the costs of normal marketing – i.e. approximately 2% in comparison to the usual 15-25%.

37 See Section 3.3.5 - Lessening bureaucratic burdens

38 New Philanthropy Capital, *Funding Success*, 2005

39 JustGiving charges 5%; NPC approximately 2.5%; Community Foundation network 10% - perhaps an appropriate level would be 2%

40 The reduction in the basic rate of income tax to 20% means that Gift Aid will reduce from 28% to 25% from April 2008

41 Assuming £150 million distributed over 1,500 organisations over five years (the website beginning with 500 TSOs, and finishing with 2,500 at the end of year five)

The Group's YouGov polling shows that 71% of the public think that there should be more incentives to give to poverty-fighting charities.⁴² The DSC survey shows that voluntary sector professionals believe that government match-funding, together with greater public awareness of TSO's work, is the most effective way to raise charitable funds.⁴³

This will benefit poverty-fighting TSOs in two ways. Firstly, by significantly increasing the value of charitable donations they receive, thereby ensuring greater freedom and innovation that unrestricted fund-

ing allows. Secondly, it is expected that the site will encourage further charitable giving in key poverty-fighting areas. If a person knows that every £10 they give will be matched by £5 from government, then they are more likely to give.

Gordon Brown has already set a precedent for targeting greater charitable giving to charities working in particular fields through the Millennium Gift Aid scheme, which resulted in a significant boost in charitable giving to international development TSOs.⁴⁴

3.1.3 Charitable Remainder Trusts

Problem

Rates of planned giving could, and should, be strengthened.⁴⁵ Whilst significant improvements have been made to favour tax efficient giving,⁴⁶ the Group believes that further incentives are needed to increase giving by the affluent. Charitable giving is dependent on many factors. For many, concerns about having sufficient income later in life can make it difficult for potential donors to commit as generously as they perhaps could or should.

Proposal

The Group proposes amending the existing taxation code to introduce charitable remainder trusts (CRTs) as tax-efficient vehicles for planned giving.

A CRT enables an individual to donate assets, receive a current tax benefit and an income stream from those assets, for himself and/or loved ones. The assets are put in a tax-exempt trust which pays out an income stream to a named beneficiary. At the end of the trust term, these assets are transferred to a nominated charity.

Presently, if a donor makes an irrevocable gift to a charity but still retains an interest in that asset, the charitable portion is not recognised in the tax system. The Group believes that the British taxation system should be amended to reflect the donor's commitment and allow the relevant tax relief on the asset given.

42 YouGov survey for Social Justice Policy Group, April-May 2007

43 DSC Survey, April 2007

44 Such as the British Red Cross

45 *Breakdown Britain* interim report, Volume 6, Chapter 10

46 Through Gift Aid, Share Giving and Payroll Giving

This mechanism is widely used in the United States and the Group believes that introducing a version suited to the UK would greatly increase the level of planned and total giving, as it provides a much needed tax incentive for donors and recognises their concerns regarding their future income needs. Not only does the mechanism allow donors to give to the charity immediately, rather than leaving the assets as a legacy, but they are able to give more generously and to develop a relationship with the charity during their lifetime.

The definition of ‘charity’ in the 1988 Taxes Act presents obstacles to introducing CRTs. The definition, ‘*any body of persons or trust established for charitable purposes only*’⁴⁷ prevents the establishment of CRTs or a similar mechanism in the UK as a tax efficient way of giving. Donors are fiscally disincentivised from entering into such an arrangement. Therefore the reliefs sought by the Group to make the vehicle attractive to UK taxpayers cover three main areas: enabling Gift Aid relief on gifts into the trust; enabling gifts in to the trust to wholly qualify for Capital Gains Tax (CGT) relief; and ensuring that gifts into the trust should benefit from the full inheritance tax (IHT) exemption.

Under CRTs, the beneficiary charity receives an irrevocable gift from the donor, typically a house, although shares and other assets can also be donated. The future income guaranteed by this gift gives the charity freedom to strengthen its works, for example by using it as security for loan on capital projects.

The costs of introducing CRTs would be limited. As seen in other countries, take-up is likely to be low initially, while donors, charities, solicitors and financial advisers become aware of this tax-efficient means of giving. Whilst funds placed in CRTs in the USA exceed \$100 billion, the mechanism there has a 35 year history. In the UK it is estimated that in time the value of assets held in CRTs might reach £10 billion.⁴⁸ Indeed, it is a relief that would always have been available under the current regime; the CRT mechanism simply enables donors to realise that relief earlier. In addition, the income received from the gifted capital is subject to tax. Whilst the Treasury would certainly be forgoing some Capital Gains Tax (CGT) and Income Tax, the sums forgone are likely to be very small when set against the overall capital injection to charity and the relevant total tax receipts.⁴⁹

There have been concerns that CRTs would only be used by very wealthy donors. However the Group has adopted this proposal to increase giving primarily

“Planned giving is an increasingly important area of fundraising in the US. With the huge rise in property values and the decline in family size in the UK this is a significant potential source of funding.”⁵⁰

Sir Peter Lampl, Founder of the Sutton Trust

47 Section 506(1) Taxes Act 1988

48 Lord Lyell in the House of Lords, 7th Feb 2006

49 Whilst several efforts by concerned parties have been made to elicit projected costs of CRTs from the Treasury, they have been less than forthcoming

50 The Institute of Philanthropy, November 2004

among the vast numbers of moderately affluent, who are asset rich but relatively cash poor. This constituency is understandably concerned to set aside sufficient wealth for the future. CRTs allow those who are living on pensions the comfort of continuing to receive income from the assets they have given away, or to continue living in the home they have donated. Whilst many have voiced concerns that CRTs are too complicated and might be open to abuse, these obstacles have been successfully overcome in other countries, where CRTs have produced an important new source of funds for charities.

Like many of Britain's increasing number of affluent families, the Smiths have a second home, with a market value of £500,000, originally acquired for £300,000 with a built in capital gain of £200,000 and therefore a potential capital gains tax (CGT) exposure of £80,000. The couple no longer wish to use the second home.

The charity that the Smiths regularly support has asked the couple to consider increasing the value of their regular donation. The Smiths would like to give more to the charity but are worried that their personal circumstances and future concerns would not allow such a commitment.

Under present taxation rules the Smiths could give an asset, such as their second home, to the charity, retaining no benefit and receive income tax relief on the value of the gift. There would be no CGT on the proceeds of the sale if it were sold by the charity. For the couple this is a tax inefficient way of giving provided they retain no interest.

By using the CRT mechanism, they could retain an interest and the arrangement could still be tax efficient. The Smiths, who want to retain an income stream from their charitable donation, will gift the asset into a trust, with appointed trustees including a representative of the beneficiary charity. The trust would then specify that the Smiths receive a fixed annual annuity sum (perhaps 5%) for the balance of their life or for a term of years out of the proceeds of sale of the asset. HMRC calculates the present value of an annuity of 5% of £500,000 for the life expectancy of the donor. That sum is deducted from the total value of the gift, leaving the amount on which income tax relief is available.

If the present value of an annuity interest of 5% of £500,000 for the donor's life was £200,000, the donor would be treated as retaining £200,000 for his own benefit and the charity is treated as receiving £300,000. Therefore the donor's income tax relief is restricted to £300,000.

However, under CRTs HMRC would continue to receive income tax on the annuity amount each year. Under both arrangements, an outright gift of a CRT, there is no CGT on the sale of the asset and no IHT.

3.1.4 School Giving Vouchers

In order to cultivate a culture of giving, the Group recommends the launch of a one-off year-long national School Giving Vouchers scheme to encourage charitable giving among the young.

“ Kids charity vouchers could herald a sea change in giving by the next generation. The idea is really exciting. ”

Mark Astarita, Director of Fundraising at the British Red Cross

Initially, all Year 6 primary school pupils in England would be issued with a £5 Giving Voucher each term. At £15 per pupil per year,

with an estimated 500,000 pupils per year, this would cost just £7.5 million.

The system could be administered in a similar manner to Charities Aid Foundation vouchers.

Poverty-fighting charities could be encouraged to visit schools to give presentations of their work, instilling in children an understanding of why social issues are important and how they can directly help solve them. It would be an ideal precursor to volunteering at school projects,⁵¹ which will further strengthen a culture of active citizenship among the next generation.

3.1.5 Corporate Social Bonds

Problem

British businesses have recently enjoyed unprecedented growth and profitability. However, in spite of the increased prominence of Corporate Social Responsibility (CSR), many companies have failed to match their success with generosity.⁵² Whilst shareholder responsibility and market uncertainty are undoubtedly factors in this, the Group believes businesses should exercise a greater degree of responsibility for their local communities.

Proposal

In order to attract higher levels of corporate giving into the whole third sector (and poverty fighting organisations in particular), the Group proposes that an incoming Government launches a drive to increase the number and value of Corporate Social Bonds (CSBs). CSBs raise funds from companies for charitable purposes, enabling firms to fulfil CSR obligations and resource local TSOs.⁵³

CSBs have a proven track record. For many years the TSO Citylife has been issuing Bonds to companies that are willing to forego capital growth and interest income on their investment, but who are guaranteed it all back after five years.⁵⁴ Loans are guaranteed by banks or housing associations. The accumulated capital growth and interest is invested in local projects.

CSBs are capable of leveraging significant additional funding into hard-pressed areas. In its lifetime, Citylife has generated £35 million in investment into local communities, with £10 million from Bond subscriptions and a further £25 million leveraged from statutory sources such as the European Social Fund. The Group proposes that an incoming government examines ways to increase take-up of CSBs.

Under the present tax system, an investment in CSBs is not eligible for any tax relief on the interest forgone on the Bond. They are therefore a tax inefficient way to give, potentially disincentivising donors. Some tax relief could be considered on interest payments. Whilst the Group recognises this would

51 See Section 3.2.3 - Volunteering at school

52 *Breakdown Britain* interim report, Volume 6, Chapter 10 paras 9-14

53 This mechanism is particularly attractive to a business looking to raise its CSR profile, as the donation will neither appear on its profit and loss account, nor will it disrupt any current charitable giving commitments an organisation may have

54 The bonds have been guaranteed by major banks and housing associations

North East Enterprise Bond

Launched in April 2006 and active since January 2007, the North East Enterprise Bond raised approximately £3.85 million from a variety of sources.

The North East of England suffers from low levels of entrepreneurship and business start-ups. Therefore, when the North East Enterprise Board was launched in January, it was decided to focus on facilitating the creation of new businesses. The original bond investment has been loaned to Places for People, a not-for-profit organisation which finances regeneration projects. The interest is subsequently used to fund social action projects promoting business and social enterprise.

Among the projects funded by the Bond is Launchpad, a fully mobile and interactive space, which can be used as a classroom or presentation facility, staffed by specialist trainers who are able to deliver advice and support to people wishing to start up their own business. Since January, over 400 people have been funded through skills training programmes and 45 businesses have been helped through Launchpad.

One individual who benefited from the Enterprise Bond is Joan Oliver. Joan had been on sickness benefit for over six years, until she saw an opportunity for a local second hand furniture shop. With the help of various agencies involved in the Bond, including Shaw Trust, Newcastle Employment Action Team and Northern Pinetree Trust, Joan developed a business plan and had been trading successfully since.

mean the provision of tax relief for both the charity and the company, it would be an effective means of tackling the low levels of corporate giving, particularly from smaller and medium sized businesses.

The CSBs themselves, which should be focused on tackling poverty in the UK, could be focused on a particular social problem (e.g. helping people with addictions), or geographical area, and would involve distribution to a basket of relevant TSOs, linked to the proposed trustmarking website⁵⁵, or enabling potential entrepreneurs to start up small enterprises. Building the CSBs need not be costly⁵⁶ and could be the work of a social enterprise, whilst the bonds themselves could be guaranteed by government, to maximise the confidence of investors.

Establishing new bonds nationwide would realise the potential of match funding from private sources, for which Citylife has produced a leverage⁵⁷ of private to public funds at a rate of 2.5. Citylife has many distinguished supporters and sponsors, including: Charities Aid Foundation, Esmée Fairbairn, Northern Rock, Bradford and Bingley, Braun and Diageo. The Group believes that there is great potential to extend this support even further. Projected match funding would come from a diversity of sources, including central and local government, European funds and business.

55 See Section 3.1.2 - The trustmarking site

56 Martin Clarke, Development Director of Citylife, estimates that for each bond, initial start up costs for an 18 month period are estimated to be £100,000 (working on the basis of one employee to initial and run the scheme at £20-30,000pa, a marketing budget). This figure would vary according to area and duration

57 £10 million investment lead to £25 million investment from UK and EU

3.1.6 Community Foundation Network

Smaller charities are often overlooked by donors when they are considering which causes to give to.⁵⁸ In part this is due to the dearth of accessible and reliable information on small, local TSOs. The Group believes that through the trustmarking website⁵⁹ and the strengthening of community foundations this trend can be reversed.

Community foundations are charities which operate across the UK, managing funds donated by individuals, charitable trusts, and private companies which they distribute through small grants to community organisations. There are approximately 60 foundations across the UK, which distributed over £70 million in 2005-06 alone. Grants from foundations average approximately £3,000.

Community foundations enable donors to see their money making a difference at a local level. They can also facilitate rewarding relationships with beneficiaries which can further increase levels of giving. The Group believes that community foundations capture perfectly the spirit of charitable giving, enabling all givers to make a positive impact on the community groups in their area, with as much, or as little, involvement as they wish. Crucially, foundations are also locally governed, reflecting in-depth knowledge of an area's needs.

In addition, whilst there are a multitude of TSOs fulfilling vital roles within the community, they may not be registered charities. Giving through a community foundation, with its registered charity status, provides a tax efficient way to ensure that funds can filter down to those most in need. The Group proposes to help strengthen and expand the work of community foundations, stimulating giving at a local level and increasing their national coverage. The proposal, discussed in detail below,⁶⁰ advocates a £50 million challenge fund which would generate an additional £100 million of private sector giving.

3.1.7 Further recommendations

Recommendations are short of an immediate policy proposal, and mean a recommendation that the matter be considered by the Conservative Party over the coming months, and into an administration.

Increasing levels of legacy giving

Currently just 3% of people leave a legacy in their will. As a consequence, just £1.6 billion of the £49 billion transferred between generations each year is left to charity.⁶¹ As the average legacy is worth three times the total that an individ-

58 *Breakdown Britain* interim report, Volume 6, Chapter 10

59 See Section 3.1.2 - The trustmarking site

60 See Section 3.3.8 - Community Foundation Network funding

61 Jonathan Parris, *Remember A Charity*, in consultation with the Social Justice Policy Group, March 2007

ual will donate during their lifetime, increasing rates of legacy giving could lead to a step-change in the charitable sector's income. Trustees and fundraisers should be encouraged to secure more legacy funding, since £1 spent will reap an average return of £31.⁶²

Legacy giving is 100% exempt from inheritance tax and the Group recommends that this continues. Potential givers should be asked to consider committing a percentage of their estate rather than a fixed sum as this generally leads to a much larger sum being donated. This could be facilitated by supporting the Financial Services Authority in educating Independent Financial Advisers (IFAs) and lawyers to promote legacy giving with their clients.

Jonathan Parris of Remember a Charity told the Group that there is considerable scope to improve the level of legacy giving. By doubling the amount bestowed through legacies, radical changes to the voluntary sector funding structure could take place, bypassing major insecurities about provision for the future. This exciting opportunity should not be lost.

Recycling excessive reserves

Reserves are an important buffer for many TSOs whose income streams are unpredictable. Many TSOs have been forced to hold increasingly large reserves because of uncertainties related to statutory funding and the failure to implement the Compact's funding principles.

Yet with charities currently holding reserves totalling £35.5 billion,⁶³ many TSOs that the Group has consulted have expressed concern that some TSOs hold excessive sums in reserve. Although there are a handful of the largest TSOs with exceptionally large reserves (such as the International League for the Protection of Horses), Charity Commission research shows that it is medium-sized TSOs (with income between £10,000 and £249,999 annually) that are generally holding the greatest proportion of annual income in reserve.⁶⁴

Government has a legitimate interest in the levels of reserves held by charities. Generous tax relief is given to organisations with charitable status, and charitable status gives TSOs the credibility to raise sums greatly in excess of the value of this relief alone. Government therefore should ensure that meaningful safeguards are in place to maximise the amount of public donations boosted by Gift Aid that are being actively used for charitable purposes. Excessive reserves should not be sitting in bank accounts or investments by TSOs continuing to fundraise from the public.

62 Ibid

63 Charity Commission, *Tell It Like It Is: The extent of charity reserves and reserves policies*, 2006, p3

64 Ibid, p15

The Group appreciates that it is important for charities to hold some funds in reserve, and that the appropriate level of reserves may vary, according to numerous factors such as the size of the TSO, the nature of its work and the consistency of its funding.

As the recently enacted Charities Act made its painfully slow progress toward the statute book there was a vigorous debate about the need for charities to transparently demonstrate public benefit. Where excessive reserves are held it is arguable that the charities are not acting in the public's benefit. Even if only 5% of

total reserves were considered to be excessive this would represent £175 million of charitable income (£100 million more than the amount that will be lost through recent changes to Gift Aid, which has rightly caused consternation within the third sector).

The Group believes that the Charity Commission needs to provide much more meaningful guidance on appropriate levels of reserves for TSOs of different sizes and types. Currently the Commission appears satisfied as long as charities have a reserves policy in place. Whilst it is concerning that 28% of charities holding reserves still have no policy in place for their management,⁶⁶ the existence of a policy in itself does not necessarily mean that the charity is keeping to it, or that the policy is robust enough.

The Commission requires charities to include a statement on reserves in their annual report, yet 16% still do not.⁶⁷ Trustees are also required to report any excessive reserves. The Commission states: *'If a charity has more resources than it could reasonably need to fulfil all of its purposes, the trustees should contact us.'*⁶⁸ Unsurprisingly, the Charity Commission is unable to tell the Group of a single occasion where a charity has contacted them about their possibly excessive level of reserves. The Commission does have the power to open a formal enquiry if a charity is thought to be in breach of their regulations – however, again the Commission is unable to tell the Group of a single instance in which an enquiry has been initiated.

“ Charities with substantial reserves tend to be bigger and better known, and find it easier to raise money. The double whammy is that the offenders on this issue tend to be the bigger charities with more obviously appealing causes. Little community organisations – doing valuable work – rarely have the pleasure of worrying about their reserves as they agonise about how they will meet next month's bills. ”

Baroness Neuberger, Chair of the Commission on the Future of Volunteering⁶⁵

65 Julia Neuberger, *Opinion: Charities must be more open about their reserves*, Third Sector, 15th November 2006

66 Ibid. As a result, the Charity Commission believes that £3.6 billion of reserves are currently unaccounted for

67 Ibid

68 Charity Commission, *Charities' Reserves*, 2002, p12

To protect the reputation of the third sector, ensure Gift Aided charitable donations are being put to good use, and uphold fairness, the Charity Commission should prioritise issuing proper guidance on appropriate levels of

YouGov polling showed that whilst the public was divided over whether it was a good thing or not for charities to hold over six months' reserves, the public was markedly more in favour of a proposal that a proportion of such reserves should go to smaller charities if the relevant charity continued to raise funds.⁶⁹

reserves. Levels of liability of TSOs should be a key factor in helping determine these. With Compact funding principles enshrined in standard contracts and legislation by an incoming Government, as the Group proposes elsewhere, TSOs

will have much less need to hold on to large reserves. An incoming Government should consider mechanisms to ensure excessive reserves are put to good use.

One idea presented to the Group is that a TSO with financial surpluses greater than a certain proportion of its annual expenditure – possibly six months – should be required to transfer a percentage of their reserves (such as 5%) into a Social Investment Fund, such as Charity Bank. Whilst participating charities would be able to withdraw all their capital if necessary, the fund would accumulate capital growth and finance projects by smaller TSOs in line with that organisation's charitable objectives.

This, along with other options, may have to be seriously considered by an incoming Government. However, if the Charity Commission issues proper guidance and statutory funders fund fairly with the strengthening of the Compact, the number of charities holding what would be considered excessive reserves is likely to decline sharply.

Payroll giving

Since its introduction in 1987, payroll giving in the UK has been underused, both by employers and employees. Whilst giving through this means has not been insubstantial (in 2005/06 almost £85 million was received and distributed by payroll giving agencies to charities from around 600,000 employees donating their pre-tax pay⁷⁰), the Group regrets that it is not more widely used. Indeed, at its inception, estimates of payroll giving's potential were nearer £100 million per annum.⁷¹ The Group therefore looks forward to future proposals from the sector on how to restructure the initiative to achieve its full potential. The Group notes that the Institute of Fundraising is undertaking a major research project on payroll giving, and recommends an incoming Government to take heed of its findings.

69 YouGov survey for Social Justice Policy Group, April-May 2007

70 The process does not depend on charities reclaiming Gift Aid, or the higher rate taxpayer to claim back their additional tax paid

71 Michael Brophy, ex-Chief Executive of CAF, to the Social Justice Policy Group, May 2007

3.2 Volunteering

Volunteering plays an invaluable role in building social capital and helping individuals to understand themselves, society and their potential role in alleviating poverty. Iain Duncan Smith MP helpfully summarised the value of volunteering in a speech to Third Sector magazine:

*'Firstly many vulnerable people receive great love and care from volunteers. Secondly – and just as importantly – volunteering makes us better people. Volunteering is the glue that binds communities together as sacrificial love unites families. Its power in shaping character heals us as we help others. Without it, the work of charities can be as cold and contractual as that of state agencies.'*⁷²

The Group is particularly keen to encourage volunteering among TSOs tackling our five key areas of family breakdown, addictions, educational failure, economic dependency, and personal indebtedness. There is an enormous untapped reservoir of volunteering talent in this country. The Group believes much more can be done to harness the talent and compassion of citizens in tackling poverty.

89% of the public thinks that volunteers are important to British community life and society today.⁷³

3.2.1 Promotion of volunteering in poverty-fighting areas

Problem

Volunteering has a crucial role to play in fighting poverty in the areas identified by the Group, not only in supporting the many TSOs doing important work in these fields, but also in benefiting socially excluded members of society who volunteer. For example, Springboard for Children's volunteers offer specialised literacy support to children falling behind at school, and Bristol Community Family Trust relies on volunteer couples to mentor ex-offenders and their partners in their relationships. However, the Group's consultations have confirmed that levels of volunteering are particularly limited in some of the areas where it is needed most. Stephen Howlett of the Institute for Volunteering Research told us:

'What we see from volunteering is the whole idea of social inclusion, it's a way of people becoming involved in communities, and maybe the stepping stone to paid work, maybe because they don't or can't access paid

⁷² Iain Duncan Smith MP to Third Sector's Most Admired Charities Awards, 3rd November 2005
⁷³ YouGov survey for Social Justice Policy Group, April-May 2007

work. It is a way of being involved in communities, but actually, organisations are more reluctant to take those people as volunteers.'

The Group therefore believes that more needs to be done, not only to encourage greater volunteering in poverty-fighting TSOs, but to engage vulnerable and under-privileged communities in volunteering themselves.

Proposal

The Group proposes that the next government introduces clearer requirements for volunteering bodies⁷⁴ in receipt of government funding to promote volunteering in key poverty-fighting areas and among socially excluded groups.

Several organisations do vital work both in promoting volunteering and providing volunteering opportunities. These include CSV, Volunteering



SHINE is a community initiative which places students from London universities as volunteer tutors in local primary schools, providing support in a variety of different ways (Photo: CSV)

England, and the Government's own charity, V. These charities rightly receive considerable government funding and support. CSV, for example, receives around £25 million, or 55%, of its annual funding from central Government (mostly from the Learning and Skills Council).⁷⁵ The Government has committed up to £100 million over several years to support V.⁷⁶ These organisations are successfully engaging many in their communities. CSV estimates that it helps over 200,000 people a year get involved in volunteering, while V is reaching young people through its recently launched 'vinspired' website, which advertises a broad range of volunteering opportunities.

The Group believes these organisations can play a crucial role in expanding the number of volunteers supporting poverty-fighting TSOs. An incoming Government should therefore strive to maintain high levels of funding for them, but with conditions to ensure that more is done to increase the rates of volunteering in poverty-fighting TSOs and among social excluded groups.

3.2.2 The V Card

Proposal

The Group recognises that for many people a hook is needed to engage them in community action. This might require both 'hard' benefits (such as cinema tickets) as well as 'soft' benefits (for example, the opportunity to develop particular skills).

The V card would be held by volunteers and feature a unique number, accessible by a charity's volunteer manager. Information could be stored through the card in an online account and added to at any point.

74 Such as V and Volunteering England
 75 CSV, *Annual Review 2005/6*, p18
 76 HM Treasury, *Budget 2007*, p125

The V card is an exciting reward scheme, with the potential to stimulate greater interest in volunteering, especially among the young and socially excluded. With the V card, volunteers would be able to accumulate credits over a period of time which could be exchanged for rewards such as music downloads, concert tickets or sporting equipment, and document the skills and qualifications they gather at such volunteer placements for use in future job hunting.

If participants were to achieve early student status, the wider benefits of encouraging more young people to investigate the possibilities of higher education might materialise. Furthermore, the card could become a proof of age card, and disincentivise anti-social behaviour, as the card (with credits) would be annulled in the event of misconduct.

How would it work?

Participant TSOs would record online the activities, training courses and voluntary work undertaken by the V card holder. This could be presented to future employers, perhaps in lieu of formal qualifications and references. The V card would also store accumulated points which would be exchanged for rewards.

75% of the public believe that there should be more incentives to do charitable or voluntary work; and 72% agree that this would help new groups, especially young people from disadvantaged areas, to volunteer.⁷⁷

V cards would initially be available to young people aged 16-25, the target group for many volunteering agencies, and distributed through charities and schools. Launching a new stand-alone organisation to deliver the V card could create unnecessary costs. The Group's preference would be for a partner to be found, perhaps an existing loyalty card scheme with established technology, corporate partners and infrastructure. The Office of the Third Sector would take responsibility for making the V card happen and raising the finance. There would be great scope for securing significant private sector sponsorship, as the Home Office did in establishing youth volunteering charity V.

Criminal Records Bureau checks for volunteers

The Group has also considered whether the current bureaucracy associated with getting CRB checks could be minimised through the introduction of the V card. A CRB check is required by organisations whose volunteers have substantial and exclusive contact with vulnerable people. Whilst this check performs an important role in safeguarding vulnerable people, the check itself is valid only when issued, can be used by a sole agency and can take up to five months to be issued.

⁷⁷ YouGov survey for Social Justice Policy Group, April-May 2007

The Group considered addressing this frustrating situation by incorporating the CRB element into the V card. The V card online account would have stored the volunteer's CRB information,

which volunteer managers could access online via the V card number, with additional security functions such as a pin number.

This would remove the current nonsensical situation whereby volunteers have to apply for separate CRB checks

Many charities are experiencing a drain on their number of volunteers due to delays in CRB checks. Gracia McGrath, chief executive of Chance UK, a charity providing mentors to vulnerable children, has been losing 50% of volunteers because checks are taking five months. The majority of Chance UK volunteers are prepared to make a volunteering commitment of a year, *'but when the checks take around five months, mentors will often lose their impetus.'*⁷⁸

for all the charities they volunteer for. Since each application can often take several months, it greatly limits the scope for much volunteering. This approach could have the potential of reducing the significant delay and administration that is involved in the current system of CRB check applications.

3.2.3 Volunteering at school

Problem

Much of the true value of volunteering lies in its potential to help young people appreciate that they are part of something greater than themselves, that they have the potential – and the duty – to contribute to society. It can provide a constructive sense of belonging that will encourage a lifetime of active citizenship, and in many cases act as a bridge between generations in their community. However, many young people are never given either the encouragement or opportunity to volunteer.

Proposal

The Group proposes introducing volunteering opportunities in the school curriculum, through which young people can gain a sense of belonging to their local community. It will also help them develop into responsible adults who contribute to society. The Group believes that enabling young people to understand their role in society, and to see volunteering as integral to that role will help bind communities together.

62% of the general public think that introducing volunteering into the school curriculum would be a good way of getting people involved in their communities, as well as helping local charities and voluntary groups.⁷⁹

There are several ways in which this could be implemented. The Group believes that there are particular junctures in schooling at which such a programme

⁷⁸ *CRB delays cause volunteer drain*, Third Sector, 19th October 2005
⁷⁹ YouGov survey for Social Justice Policy Group, April-May 2007

might be particularly effective. The Group's preference is that 13-14 year olds in Year 9 Personal, Social and Health Education (PSHE) classes are divided into small groups, and each student asked to design a project. This could focus on helping vulnerable local groups, such as taking a group of elderly people on an outing. Each participant would initiate an idea and the group would then vote to decide which of the ideas to support, planning the chosen project as a team. At the final session, as well as individual presentations, the group would present their plan to an invited audience of teachers, parents and pupils before executing their project.

This would teach students to think beyond themselves, to communicate and present ideas, understand the basic concepts of citizenship and teamwork, and, most importantly, allow them to experience the 'buzz' achieved from volunteering. It also encourages an entrepreneurial, 'can do' attitude, pushing children to draw upon a variety of different resources and develop an appreciation of their key role in fighting poverty.⁸⁰

Such projects could be sponsored by local businesses and delivered in conjunction with volunteering agencies and local TSOs who would also provide mentoring to the children throughout the process.

Believe schools volunteering project

Believe, a Bristol based charity, designed a schools volunteering project. It was piloted successfully in Cardiff, Merthyr Tydfil and Leeds, and run as a coaching programme designed to help Years 9, 10 and 11 fully engage with their education.

The programme has proved to be a good motivator for students and was credited by a Headteacher in Cardiff with improving GCSE results by 6%. The young people involved are identified by teachers as those in need of a significant boost to their morale and self esteem. Integral to the programme is the volunteering component, which is the design and delivery of a group project of value to the school or community.

'Rachel was a shy and often bullied girl who was achieving well below her academic ability, largely due to a lack of confidence and a difficult family background. As a way to draw out her potential, she was chosen by her teachers to take part in Believe's Begin coaching programme.'

'Participating in the project transformed Rachel's levels of confidence, showing her that she could make a difference. Her parents attended the project presentation and for the first time felt pride in their daughter. Rachel was able to discover something of herself that gave her the motivation to really engage with her education, achieving results far beyond her expectations.'

80 Believe, a coaching and mentoring charity, ran a similar project

3.2.4 Reassurance for benefit claimants wishing to volunteer

Problem

Fear of losing welfare benefits is a major disincentive to volunteering for claimants, many of whom are socially excluded.

Whilst an individual claiming Jobseeker's Allowance (JSA) is permitted to volunteer for a maximum of 15 hours per week, this is only on the condition

that this is declared to the benefit office *and* that the individual is available to accept any offers of work. Many claimants are uneasy about the impact of such conditions on JSA.

When this is combined with the general lack of motivation that many long term claimants experience,

“ People with no income might feel, “Oh no, I can't do it because social might jump on me.” I want to do voluntary work but social is going to say if that person can do voluntary work that person can get ordinary work. But I don't see that – you are not getting paid, you are just sitting, talking, helping. ”

Volunteer with a disability⁸¹

the potential of volunteering to act as an important route back into work is not being realised. The Group believes that measures are needed to address this.

The Group believes in creating a culture in which the search for work should be undertaken with the same commitment as employment itself. A change in the rules relating to the receipt of unemployment benefits is needed both to make the transition back to work easier and to give unemployed people the maximum opportunity to volunteer.

The initial assessment an unemployed person undergoes should gauge what level of help will be required to make them work-ready. Many claimants will be ready for work immediately, but hard-to-reach individuals, for whom even vis-

iting the JobCentre is a struggle, will need a great deal of support before they are likely to find work.

For claimants in the hardest-to-reach categories, vol-

unteering provides a meaningful step in the process to employment. For example, a second or third generation benefit claimant, who has never been in the labour market, might need to create a basic employment history, to build a CV, and to demonstrate her ability to turn up to work on time and be relied on, building her own confidence and that of her employer.

In many cases volunteering is the most effective way of re-engaging long term unemployed and vulnerable people with the world of work. Therefore the

62% of the general public believes that volunteering is a good way back into paid employment for the excluded.⁸²

81 Institute for Volunteering Research, *Volunteering for All? The link between social exclusion and volunteering*, 2004

82 YouGov survey for Social Justice Policy Group, April-May 2007

Group recommends that TSOs play an increasingly vital role in getting the long term unemployed back into work. Although the Group does not advocate compelling job seekers to volunteer, it proposes that all organisations in receipt of contracts for employment services (whether private or voluntary) should be expected to provide volunteering opportunities for their clients as part of a broader strategy to help them back into work, without fear of their benefits being jeopardised.

The number of volunteering hours would need to be realistic and allow opportunities for job searching. Whilst volunteering, claimants would be available for full time work and to attend interviews. The choice of charity in which to volunteer should be left to the individual, as the Group believes this is likely to have a greater prospect of success.

Implementing this measure would create several advantages. Not only would it increase the number of volunteers, but it would give job-seeking individuals the opportunity to gain useful work experience, helping socially excluded people, such as ex-offenders,

“ Many of those who are unemployed are so due to events in their past: ex-prisoners, drug addicts or those in serious debt. Many of them have low self esteem and a poor or non-existent employment record. They need to reintegrate into society, to feel needed and to feel they are “paying their way” as a valued member of society. Volunteering not only enables the individual to show a potential employer what they can do, even just get to work on time, properly dressed, but it gives them the feeling of self worth and self respect.”

Amber, a charity offering residential support to the unemployed, drug and alcohol addicts, and those with chaotic lives

A4E, a private company, run a highly successful mentoring scheme. The scheme recruits volunteer mentors who talk through particular issues or barriers that the mentored client is experiencing for half an hour every week, for a minimum of eight weeks. Not only does the scheme provide the volunteer with valuable experience and training courses, it also allows the opportunity to attain accredited and recognised qualifications. The scheme has proved particularly successful in moving both mentors and those being mentored into work.⁸³

Phylisa claims income support. She told the Social Justice Policy Group:⁸⁴

“ When you haven’t worked for a long time it’s because of a lack of experience. Some people who haven’t worked for a long-time do not have confidence. Volunteering can help. If you’re at home you gradually draw into yourself. If I want to do something for myself I have to go out and get it. I do voluntary work for four hours a week. It keeps my CV and work history going. You find otherwise you don’t speak to anybody.”

83 Gary Buckley, Mentoring Manager at A4E

84 The Group spoke to Phylisa at a drop in clinic at A4E employment agency, March 2007

assemble a CV and positive references which could be used to secure future employment.

3.2.5 Promoting volunteering through the trustmarking website

As well as encouraging greater charitable giving to poverty-fighting TSOs, the new trustmarking website⁸⁵ will also be an important gateway to volunteering opportunities. By highlighting the work of effective TSOs, the website will inspire potential volunteers to get involved with the groups profiled. A 'volunteer' link for each TSO on the site will give details of how it can be supported through giving time. The website will host a portal of access to the V card, and the volunteer's online account. This account could hold information to facilitate volunteering, such as a CRB check, whilst enabling the volunteer to review the credits they have gained, the rewards they might be eligible for, and the skills and qualifications they are working towards. It would allow TSOs to target their search for volunteers and quickly assess the suitability of candidates.

3.2.6 Further recommendations

Employee volunteering

The Corporate Social Responsibility (CSR) agenda has led to a much greater profile for employee volunteering. Larger companies in particular appear to be embracing the opportunities it provides. In 2006, FTSE companies spent £50.5 million freeing staff time for charitable or community activities, an increase of over 30% from the previous year.⁸⁶ Since employers are eager to enhance their CSR profiles,⁸⁷ the Group believes in incentivising them to initiate volunteering programmes.⁸⁸

Whilst some tax relief is available to firms who second employees to TSOs, a significant proportion of volunteering employees do so in their own time, thus their businesses cannot be claiming this relief. Just a quarter of volunteers receive paid time off work to volunteer while 17% receive time off in lieu and 15% account for the time through flexitime.⁸⁹

The Group is excited by the potential benefits to all concerned of expanding employee volunteering. It is recommended that an incoming Government considers further potential incentives for companies to develop volunteering schemes and second employees to TSOs.

85 See Section 3.1.2 - The trustmarking site

86 Consultants Context cited in The Guardian, *FTSE 100 giving drops to 0.8%*, 6th November 2006

87 41% of commercial companies' CSR programmes are design to enhance their image - NCVO, UK Voluntary Sector Almanac 2006, para 11.3 - see also *Breakdown Britain* interim report, Volume 6, Chapter 11, para 36

88 This is a view shared by 49% of the general public, YouGov survey for Social Justice Policy Group, April-May 2007

89 43% of employee volunteering occurs out of work hours - Department for Communities and Local Government, 2005 *Citizenship Survey*, 2006

Deutsche Bank believes that volunteering schemes can provide an essential way to positively access the community in which it works and relies on. The company's Volunteer Manager puts employees in touch with a variety of projects, managed by innovative and pioneering charities. This includes CSV, the UK's largest volunteering and training organisation. Deutsche Bank and CSV have been in partnership since 1999, placing volunteers in schools, helping pupils through mentoring and reading tuition.

Residential volunteering programmes

The Conservative Party should continue its support for residential 'rite of passage' programmes such as the Young Adult Trust's, which include volunteering, coaching, adventure training and a range of activities that help young people become socially responsible adults capable of contributing to their communities.

Risk aversion in volunteering

Concerns over public liability can prove a major concern for TSOs in attracting volunteers. Activities in which volunteers participate will often include elements leading to liability, either for the volunteer, or the TSO. Many TSOs are driven to using paid staff rather than volunteers for certain tasks or ceasing to carry out some activities altogether.⁹⁰ An unsuccessful Private Members' Bill presented by Julian Brazier MP permitted a volunteer to present a 'Statement of Inherent Risk', setting out the principal risks which are inherent to the activity or activities taken, including risks of personal injury and risks to property. Whilst encouraging backbenchers to block the Bill, the Government did at least acknowledge the problem.

Subsequently, the Compensation Act 2006 was introduced, including⁹¹ a provision about the deterrent effect of potential liability. This invites, but does not compel, the courts to take account of the consequences for the activity of awarding damages, seemingly providing volunteers and their TSOs with some protection with regard to allegations of negligence or breach of statutory duty. Other countries such as the USA and Australia have gone much further in protecting adventurous activity, despite, in the case of the United States, having far more general litigation.

It appears that an effective way to remove such risks for volunteers would be an insurance solution. Whilst larger TSOs may be able to purchase insurance in this regard, many smaller TSOs may struggle.

There are various types of insurance that it would be desirable for volunteers to be covered by, depending on the associated risks. These include: employee

⁹⁰ *Breakdown Britain* interim report, Volume 6, Chapter 11, paras 46-49

⁹¹ S1 of the Compensation Act 2006 came into force on 25th July 2006

liability insurance, requiring a premium to cover volunteers; personal accident insurance covering contingencies in the event of an accident; and public liability insurance covering legal liability to third party persons and damaged to third party property.

An incoming Government must work with local authorities to ensure that when funding is made available to TSOs, it is sufficient to ensure adequate insurance can be purchased for all activities funded, along full cost recovery principles.

3.3 Funding the third sector

Our most vulnerable people will only be able to fully benefit from the third sector's life-changing work if the sector receives secure and effective funding. This is still an illusory hope for most of the many effective TSOs consulted by the Group.

An immediate priority for an incoming Government must be to ensure that the existing funding regime is made fair. Essential to this is full implementation of the Compact and its funding code. After almost ten years, the Compact's lack of legal status has contributed to an abject failure in achieving the promised full-cost recovery, multi-year contracts and other essentials of good funding practice. Some TSOs have been driven out of business as a result; many more have had their vital work severely compromised by chronic cash-flow problems and an inability to plan.

Improving the current funding regime is vital. But so too is developing new, more effective ways to resource the sector. The current trend is for statutory funding to be disbursed by relatively few bureaucrats, exacerbated by the aggregation of services into large contracts.

It is time to reverse this trend and democratise funding. A much larger number of people, including local residents and service users, should be given a say in which TSOs receive public funding. Also the trend towards concentrating

government funding in relatively few large TSOs must be reversed. Understandably – and often for good reason – the public sector is instinctively cautious and risk averse. However, the failure to make sufficient progress in tackling many social

problems suggests it is time for more boldness in commissioning a wider range of TSOs to do so. Harnessing the 'wisdom of crowds' in this process will result

Polling for the Group shows that 74% of the public believe that local people are in a better position than government to judge which charities should get statutory funding; 71% believe that people receiving government-funded care should have the right to choose from a range of providers.⁹²

92 YouGov survey for Social Justice Policy Group, April-May 2007

in a broader cross-section of groups with a greater range of approaches being given the opportunity to do more in the fight against poverty.

Partly this will be ensuring that the choice agenda that New Labour has been tentatively embracing is properly delivered. The users of government-funded, third sector delivered services should increasingly be endowed with the choice in who delivers them. Service users such as disabled people receiving social care at home or ex-homeless people receiving housing-related support would be empowered like never before. For the first time the public will have the opportunity to reward innovation and success by TSOs, driving up standards in an increasingly responsive third sector.

Strengthening smaller, local TSOs that contribute so much in the fight against poverty is urgently needed as their sources of funding dry up. That is why several measures are proposed to increase investment in grassroots TSOs by the national network of community foundations. Lottery funding, while not government money, is still partly directed by the state. More of this should be made available as lightly-prescribed grant funding to help underpin the work of local TSOs.

With the cross-party consensus on enabling and equipping TSOs to do more, statutory funding is likely to continue to represent the largest single source of income for TSOs, accounting for approximately 40%. To protect the independence, diversity, and ultimately the effectiveness of the sector, this funding must be more effectively channelled. As well as continued top-down direct support from central and local government, ambitious targets should be set to increase the proportion of indirect state funding of the sector. Means of indirect giving include voucher schemes, tax relief on charitable giving and the use of intermediary bodies such as community foundations to disburse funding. The distinction between direct and indirect statutory funding should be hardwired into all public bodies' funding policies.

Another aspect of the current funding regime that the Group believes requires further consideration is the unjust burden of VAT faced by TSOs who are unable to reclaim the tax on activities in pursuance of their charitable aims. As a consequence several hundreds of millions of pounds are lost to the sector's work. Whether and how this burden can be relieved requires further work, particularly as there is a lack of research on its impact across the sector.

STRENGTHENING THE COMPACT

Problem

The Compact is an agreement between government and the third sector, designed to help ensure fair dealing between them. Originally launched in 1998, it has been updated to encompass codes of good practice on issues such as volunteering and funding. Local Authorities have also produced local compacts to improve relations between TSOs and councils. In launching the Compact, the Government committed to implementing principles essential for

productive partnership with the sector such as full cost recovery and multi-year contracts. Crucially, the Compact has remained an entirely voluntary agreement with no legal status.

Almost ten years after its launch, the Government's record on implementing the Compact is shameful. Many TSOs consulted by the Group have said that for them the Compact 'is not worth the paper it's written on.' The sector's betrayal is illustrated by the recent Charity Commission research showing that only 12% of charities receive full cost recovery in all cases.⁹³ This highlights the

“The NAO report states that no department has undertaken a proper review to ensure third sector organisations can achieve full cost recovery. Five years after the government made a firm commitment to the principle, this is truly staggering.”

Stephen Bubb, Chief Executive of the Association of Chief Executives of Voluntary Associations⁹⁵

complete failure to implement one of the central planks of the Compact, in spite of a clear commitment in the 2002 Cross-Cutting Review to achieve full-cost recovery across every government department by April 2006.⁹⁴

Since the Group's last report, the Compact Advocacy Programme (CAP), a sector-led initiative with no formal powers, has exposed the abject failure of both central and much of local government in implementing the Compact. Of the 101 cases it handled between 2003 and 2006, more than three-quarters were breaches by central government departments and 23% by local statutory agencies. Overall, 60% of Compact breaches were for funding and procurement and 25% for failing to give TSOs enough time to respond to consultations.

Ironically, the Home Office – until 2006 the department responsible for the Compact – was identified as the worst offender. Its breaches included axing funding to TSOs without warning, failing to fund in advance for the delivery of services, and not paying for the full cost of agreed work. Saskia Daggett, CAP manager at NCVO, says: '*Government agreed to the Compact almost 10 years ago, but our caseload suggests too often government is not playing by the rules.*'⁹⁶ That is putting it mildly.

At a local level, the Compact has also not delivered as hoped. However there are examples, including Croydon, Enfield and Hertfordshire, where local authorities have championed the Compact and developed excellent local Compacts with the third sector in their areas.

However, levels of ignorance and indifference to the Compact throughout the country are still high. For this reason, the Group does not believe that simply more encouragement, education and exhortation will, on their own, be

93 Charity Commission, *Stand and Deliver: The future for charities providing public services*, 2007. The Group's own DSC survey confirmed that full cost recovery and short-term contracts remained significant problems with public body contracts - DSC Survey, April 2007

94 HM Treasury, *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*, 2002, p40

95 National Audit Office press notice, *The implementation of full cost recovery*, 6th June 2007

96 The Guardian, Government shame over third sector, 28th March 2007

enough to ensure the Compact's potential is fulfilled. After ten years, the time has come for the Compact to be strengthened. This can only be done if the Compact is given greater status and made a higher priority, both in central and local government, and if the Compact Commissioner is given more power.

3.3.1 Legislation to enshrine Compact principles

Legislation is needed to enshrine the Office of the Commissioner and Compact principles, placing a duty on all public bodies to take account of the Compact and its codes. The first Commissioner for the Compact, John Stoker, was appointed last year. In this role he is expected to '*champion its full implementation at every level of government to enable voluntary and community organisations to operate in effective partnerships with the broader public sector.*'⁹⁷

The Government's failure to endow the Commissioner with powers of adjudication was a squandered opportunity. The Commissioner has no ability to investigate statutory bodies that disregard the Compact. Sanctions cannot be imposed for breaches.

This means that public bodies can, in NCVO's words, '*breach the Compact with impunity.*'⁹⁸ TSOs consulted believe that neither the Treasury nor the Cabinet Office appears to view Compact compliance as their responsibility. Scant Parliamentary scrutiny of government's dealings with the sector does not help. (The Group therefore proposes elsewhere⁹⁹ that in order to preserve the independence of the sector, third sector policy must be given greater status both within Parliament and the Cabinet.)

The Compact Commissioner must be given greater powers to deal with non-compliance by public bodies. In the first instance his Office should facilitate mediation between disputing parties. If mediation fails, both sides should be encouraged to agree to binding arbitration that could include the imposition of sanctions. Again, this would be conducted by the Office of the Commissioner. In rare circumstances TSOs might opt for litigation. Although they would be given that right under the legislation, with the Office of the Commissioner able to facilitate both mediation and binding arbitration, it is thought that such instances would be rare with TSOs eager to avoid both the punitive costs and loss of goodwill risked by this course. NCVO has found that the current Compact Advocacy Programme is ill-suited for smaller organisations seeking redress as it is too cumbersome and costly.

Although compliance with its codes is vital and must be enforced, it is also vital that the Compact is not seen as an extra bureaucratic burden on already overstretched public bodies. Rather it is best seen as the third sector and the state working together in a constructive way that can greatly help in ensuring both improve their performance. However if its potential is to be fulfilled, it is

97 www.thecompact.org.uk

98 *Strengthening the Compact*, NCVO submission to Social Justice Policy Group, 16th April 2007

99 See Section 3.6.2 - Enhancing the third sector's voice in Cabinet and Parliament

vital that steps are taken to ensure that the Compact's status is enhanced at all levels of government and that TSOs have proper opportunities to seek redress.

The Government's commitment to standardised contracts to '*embed the highest quality procurement practice*'¹⁰⁰ is welcome, but is painfully slow. It is essential that such contracts explicitly embed Compact principles of full cost recovery, prompt payment and multi-year funding, and that the Government provides model standard contracts for local statutory commissioners.

3.3.2 Local Area Agreements

The 'statement of community involvement' in Local Area Agreements should also be required to report on progress towards full implementation of the Compact by all members of the Local Strategic Partnership. Every Local Strategic Partnership should have a functioning Compact as a pre-requisite to LAA sign-off.

3.3.3 Compact Champions

In Whitehall, the 'Compact Champions' that have been appointed at Grade 3 level in government departments should henceforth operate at Grade 2 level. Feedback from the sector suggests that the champions' effectiveness is currently hampered by the fact that they are not senior enough to exert sufficient influence at the top of their departments (for they do not sit on their boards) nor junior enough to have much influence on relevant operational matters.

FAIRER FUNDING

3.3.4 Greater third sector delivery of public services

At central government level

As already outlined, many of Britain's most acute social problems, from long-term economic inactivity to chronic addiction, can only be solved by enabling the third sector to do much more. That is why the Group is committed to significant increases in the quality and quantity of public services being delivered by the third sector. Despite all the enthusiasm for the third sector exhibited by ministers in recent years, still only 2% of public services are delivered by TSOs. There are already suggestions that Gordon Brown will resist allowing TSOs to take a greater role in addressing such problems as economic dependency.¹⁰¹

Producing the step-change in third sector delivery of services will require a concerted effort led from the top of government. This is why the Group proposes that the Office of the Third Sector be led by a minister of Cabinet rank.¹⁰²

100 Cabinet Office, *Partnership in Public Services: An action plan for third sector involvement*, 2006, p4

101 Patrick Wintour, *Leak shows Treasury has consigned Blair welfare privatisation to the back burner*, The Guardian, 20th April 2007

102 See Section 3.6.2 - Enhancing the third sector's voice in Cabinet and Parliament

Each Spending Review should set out how each department, and Government as a whole, intends to give the third sector maximum opportunity to deliver services. However, crude targets should be avoided as a primary means of producing this change (such as the recent 10% contestability target for the National Offender Management Service). There is great scope for such targets to be subverted. (For example, an NHS trust that had committed to tendering out much of its frontline delivery to TSOs established a ‘social enterprise’ to which it promptly awarded multiple contracts on very favourable terms). Although achieving at least 10% delivery of correctional and many other public services is a reasonable – and achievable – aspiration, the rapid expansion of third sector delivery should not be pursued for its own sake. More important is that the transfer occurs in a sustainable manner that allows the sector to maintain the quality of its work.

One of the biggest obstacles stifling TSOs in their desire to deliver excellent public services is the Government’s increasing centralised stranglehold on commissioning. In areas from drug treatment to employment services, the trend is for fewer, larger contracts that only the largest third sector (and private) providers are able to compete for. Greg Clark MP, Shadow Minister for Charities, helpfully summarises the basic positions of the main parties on commissioning and the delivery of public services:

‘You could defend the status quo, a closed approach to both provision and commissioning; the Old Labour position. In partial contrast, there is the New Labour position; which is to open up provision, but keep a stranglehold on commissioning. Diametrically opposed there are those who favour decentralised commissioning, but closed provision – the Liberal Democrat position. The Conservative position, however, is to open up both delivery and commissioning – in other words our policy is one of double diversification.’¹⁰³

The Group shares this commitment to double diversification and its breaking up of the monopolies that have exploited the sector. Power needs to be devolved not just to local government, but down to the level of communities, neighbourhoods and individuals.

“ My charity is well run, extremely productive and well thought of locally, however local government funding does not match the local perception and reputation of the project. It should be easier for small local charities to access funds. It seems that the money is always directed at the larger national charities locally which is unfair for the small local charities which do an excellent job locally. ”

A charity worker’s response to the Group

103 Greg Clark MP, speech to NCVO, May 2007

The Government's preferred methods of increasing the number of TSOs that can participate in service delivery are greater sub-contracting to TSOs by 'prime contractors' and encouraging them to form consortia. However there is no evidence that such an approach is either wanted or will succeed in ensuring the potential of the sector is realised.

The Freud review recommends that services to help the long-term economically inactive back into work be delivered by independent providers. Regrettably Freud advocates that eleven prime contractors be appointed, who would then sub-contract with private and third sector bodies in their area. Freud admits that the prime contractors are likely to be private companies, for only they will have sufficient capacity and finance to deliver services on this scale. Realistically, TSOs could therefore only aspire to sub-contracting. There would be little scope for innovative small and medium-sized TSOs to enter the market and expand as they succeed – the prime contractors would thwart any potential competitors. Thus, under Freud, TSOs are consigned to doing the Government's work in the Government's way, while private prime contractors cream-off most of the profit from lucrative large contracts.

Already there are numerous examples of how the trend towards larger contracts is undermining the third sector's excellent work with vulnerable groups. Kevin Curley of NAVCA cites the example of how in one large northern city Home-Start, a local charity using volunteers to do preventative work with young families, lost its £150,000 annual contract. The local authority said it was pleased with Home-Start's work and wanted to continue funding. However a specification was prepared which required one organisation to deliver a package of services, only part of which Home-Start was qualified to do. The contract, worth £1 million, went to a large national charity.

Central government must ensure that in its understandable drive for efficiency and economies of scale, it does not damage the capacity of proven TSOs to help vulnerable communities. Wherever possible, commissioners should award contracts of varying sizes to allow the maximum range of third sector groups to deliver services. The prime contractor model primarily benefits the interests of a few favoured providers. It will not enable the level of innovation and diversity of provision needed to successfully tackle our most acute social problems.

At local government level

Given the importance of local authority commissioning to the third sector's delivery of public services (accounting for approximately 70% of all public funding of the third sector), and of the difficulties of procuring the implementation of the Compact at local level, effort must be made to ensure local government takes advantage of the opportunities to increase the quality of its public services through working with the sector.

The Government's Local Government White Paper, published in October 2006, states that a new duty will be introduced to require local authorities to

'take steps, where appropriate, to ensure the participation' of local TSOs.¹⁰⁴ However, it is unclear what exactly this will entail or achieve.

The next round of Local Public Sector Agreements, or Local Area Agreements (should they have largely superseded the LPSAs by then) will be negotiated in 2009 by government regional offices and the 300 or so county authorities. Central government should insist that these LAAs include a strategy on maximising opportunities for third sector delivery of services, as well as a comprehensive community engagement strategy that complements the local Compact. NAVCA's call for every Local Strategic Partnership to have a functioning Compact as a pre-requisite to LAA sign-off is entirely reasonable and should be insisted on.

An incoming Government must closely monitor the rate at which TSOs take on delivery of public services in its first 2-3 years. If significant progress has not been made by 2012, primary legislation should be considered to compel local statutory commissioners to procure more services from independent providers including TSOs.

3.3.5 Lessening bureaucratic burdens

Problem

As the Group's interim report has concluded, there is not only too little Government support for poverty-fighting charities, but also the nature of its financial support is too tightly-restricted and bureaucratic, preventing TSOs from delivering services as effectively and with the added-value they otherwise would.

A major part of the problem lies in local statutory commissioners' lack of trust in the effectiveness of such independent organisations to deliver the results they want. This is partly due to the lack of reliable results-based information TSOs provide about their services. This can make a statutory commissioner, responsible for public funds, nervous about trusting TSOs to deliver services.

Such nervousness and lack of confidence from bureaucrats often results in

“ At one time contracts used to recognise the expertise, innovation and creativity available in the third sector: the fact that we could 'reach the parts that others can't reach'. We could use our particular qualities to effectively deliver the required outputs and outcomes in ways that played to the strengths of the voluntary sector and its roots in community. Nowadays tenders increasingly prescribe the numbers of staff to be employed, their qualifications, the methodology to be used, the software data is to be collected on and generally micromanage the contract delivery in advance. This effectively makes us an extension of the statutory sector, managing only in the sense that we deliver at the cutting edge of cost and bear all the financial risks. ”

Colin Cripps, Chief Executive, In-Volve

104 Department for Communities & Local Government, *Strong and Prosperous Communities*, 2006, p56

The general public recognises the obvious danger of state bureaucracy, with 58% believing that there is a danger that charities could become too much like government agencies.¹⁰⁵

the overly-restrictive and prescriptive nature of state funding, whether it be through contracts, service level agreements, or grants.

Proposal

An incoming Government should resolve this problem through several measures.

First, the third sector needs to continue improving the quality and reliability of information it provides about itself, as statutory commissioners need

safeguards that ensure public money is well spent.¹⁰⁶

New Philanthropy Capital is doing excellent work in pressing the third sector to do more to prove the value of its work through the use of quantitative and qualitative data. A significant expansion of the National Outcomes Programme¹⁰⁷, together with further development of the PQASSO standard, is required. However, smaller and more local groups need help in adopting the scheme.

Therefore a fund should be

created to enable small and medium sized TSOs to improve the quality of their outcomes-based information. The Group's proposed trustmarking website¹⁰⁸ should also improve the quantity and quality of information on TSOs' outcomes, as it will contain only TSOs that can demonstrate good results. Its success should encourage many TSOs to improve their own monitoring in this way.

Better outcomes data should enable statutory funders to be less prescriptive in their funding of TSOs. Assessors should be satisfied that TSOs have met the

“Government targets mean nothing to me ... and the reason they mean nothing to me is because it's not a fair representation of the work that we do as an organisation, and I've got managers that are working to these performance targets without any real commitment to the target...I've been in contract meetings where the contract has literally been waved in my face, “if you don't hit compact 2, 95% month on month, we're going to retract your contract, we're going to draw it back and you're going to lose your funding”. Now, that is no motivation to me as a chief executive.”

Chief Executive of a TSO working with drug addicts

105 YouGov survey for Social Justice Policy Group, April-May 2007

106 This is a view shared by 56% of the public - YouGov survey for Social Justice Policy Group, April-May 2007. Albeit, perhaps unsurprisingly, the sector itself is nervous about giving more quality assessment information - DSC Survey, April 2007

107 A programme to improve the results-based reporting of UK third sector organisations, run by the Charities Evaluation Service, lead partner in the Government's Performance Hub. The CES also runs the PQASSO programme

108 See Section 3.1.2 - The trustmarking site

required standards in terms of need, risk, governance and access; and the TSO's high outcomes approval rating will mean that issues such as value for money, performance criteria and pre-existing contracts become irrelevant.¹⁰⁹ Depending on the funding-stream, this more proportionate approach can be linked to a defined kitemark, or a basic PQASSO-type standard, or other outcome measures.¹¹⁰ Adoption of these standards will mitigate the increased risk which the statutory commissioners will have to accept to derive the greatest benefit from the third sector's work. The likely future round of Local Area Agreements to be negotiated from 2009 onwards could include the relevant provisions, providing assurance to local commissioners concerning any increase in risks.

“ It is often the case that the grassroots organisations do the most effective work, but suffer from the most vicious supervisory schemes which quickly kill good initiatives and local enthusiasm. ”

A charity worker's response to the Group

Third, the Group supports the service charity website Guidestar is currently developing for local authorities. Its Local Intelligence service provides online information to councils, such as the best available financial information on charities (and in due course all TSOs) operating in their area. Guidestar funds this by charging local authorities. Such initiatives ought to reduce the time and money spent by charities on form-filling for councils. It is recommended that an incoming Government reviews Guidestar's progress, and ensures that, up to a fixed cap and subject to such review, Guidestar's efforts do not fail due to lack of funds.

The Government's commitment to increased use of standardised contracts appears to be a positive development, but it is essential that any such contracts seek to reduce bureaucratic burdens on TSOs and embed Compact principles such as full cost recovery.

3.3.6 Irrecoverable VAT

Problem

Irrecoverable VAT remains a significant and unfair burden on the third sector that is estimated to cost UK charities £400-500 million a year.¹¹¹ The problem is essentially that a charity that does not operate as a business but that incurs expenditure in carrying out its charitable activities or fundraising will not charge output VAT. It will therefore not be able to register for VAT and so will be unable to reclaim the input VAT on its expenditure.

109 Again, 54% of general public agree that better TSO outcomes assessment should result in fewer strings attached to Government funding - YouGov survey for Social Justice Policy Group, April-May 2007.

110 Such as, for example, membership of a Community Foundation which has its own results-based quality accreditation system

111 *Breakdown Britain* interim report, Volume 6, Chapter 12, paras 48-50. The Group's DSC Survey, April 2007, indicated that for many it was a problem that needed resolving

Irrecoverable VAT costs **The Home Farm Trust** £700,000 a year – the charity could otherwise use this amount to employ 35 extra staff to support many more people in registered care homes, advocacy, supported employment and day services.

Sense loses out on over £600,000 annually through irrecoverable VAT – funds that would be better spent providing direct support for a further 700 families with disabled children.

Sue Ryder Care's irrecoverable VAT bill is £560,000 a year – money which could fund round-the-clock care for ten people with severe long-term neurological conditions.¹¹²

Ed Miliband MP, Minister for the Third Sector, seems indifferent to the problem, commenting that *‘Two reviews have looked at this issue and neither found an equitable way of separating some organisations from others... tax itself remains a matter for the Treasury.’*¹¹³ However there is still significant cross-party support in Parliament for reform.¹¹⁴ Furthermore, 60% of the public think that charities should pay no tax at all.¹¹⁵

There are strong arguments for addressing the injustice of irrecoverable VAT. Firstly, it is a matter of basic justice. Reform here would obviously enable the many TSOs affected to maximise their life changing work. Politicians from across the political spectrum increasingly recognise the vital role TSOs will play in providing public services for the most vulnerable, such as helping the long-term unemployed back into work. It is vital that TSOs have a level playing field on which to compete for such contracts. The situation is not helped by the inconsistent application of VAT to TSOs by different tax offices in different parts of the country. This is inexcusable and should be addressed by HMRC as a matter of urgency.

EU law prevents major changes to VAT laws, such as significant increases to existing VAT zero rates. Therefore any proposal to tackle irrecoverable VAT would have to be based on a grant/reimbursement scheme.

The cost of relieving TSOs of the burden of irrecoverable VAT would be significant. £500 million represents approximately 5% of current statutory funding of the third sector. This money could not be found easily.

112 Case studies provided by the Charity Tax Group

113 Quoted in Third Sector, 7th June 2006

114 MPs signed an Early Day Motion calling on the Government to remove the financial burdens of irrecoverable VAT, 17th May 2005

115 YouGov survey for Social Justice Policy Group, July 2006

Recommendation

The Group recommends that the Conservative Party commissions further work on whether and how the burden of irrecoverable VAT can be lifted. Before making any spending commitments, the Conservative Party must be convinced that reform in this area would produce significant benefits to large sections of the third sector, not just a few of the largest TSOs delivering public service contracts. There is currently a lack of research on how VAT reform would benefit TSOs of different types and sizes.

If VAT reform were pursued, it would probably therefore be necessary to phase its abolition over several years. There are several ways in which this might be done. For example, initially only a proportion, such as a quarter or half, of each TSO's VAT could be re-imbursed each year. Further examination of the VAT reforms for charities recently introduced in Denmark, as well as existing schemes in Canada and New Zealand, merit detailed examination.



St Mungo's knows it is important to provide homeless people with more than a roof. They build clients' skills and confidence too through activities such as art projects

EMPOWERING FUNDING

The Shadow Chancellor George Osborne MP has astutely predicted that, under Prime Minister Brown, we will be told that instead of 'choice' in public services, what the public wants is 'voice', a say in how these services are delivered.

The Office of the Third Sector, under the leadership of Brownite minister Ed Miliband MP, recently produced a blueprint for third sector delivery of public services.¹¹⁶ It promises '*giving local people a greater say in the delivery of their services*',¹¹⁷ but nothing on facilitating actual choice between services. However, as Osborne points out, it is only *choice*, the power to walk away from a sub-standard service, that ensures the user's *voice* is heard.

“So instead of trying to deliver choice from on high, we should bring choice and power over budgets closer to patients and parents. For there is nothing like control of money to give a person voice and choice. And we have to give them different providers to choose between.”

George Osborne MP¹¹⁸

116 Cabinet Office, *Partnership in Public Services: An action plan for third sector involvement*, 2006, p5

117 Ibid, p6

118 George Osborne MP, *The emerging battle for public service reform*, speech to Policy Exchange, 30th May 2007

There is great potential for increased statutory funding for the third sector to make significant improvements in the lives of vulnerable people served by TSOs. However this potential can only be maximised by increasing the number of people determining where the money goes. Risk averse politicians and public servants are not always best at nurturing able social entrepreneurs and rewarding innovation. For that reason, third sector funding needs to be democratised, giving local people and service users a much greater say in which charities receive public money. Government should aim to significantly increase the proportion of government funding being channelled through indirect funding streams, such as tax relief and stakeholder mechanisms. This will produce a more dynamic sector that rewards success and encourages innovation.

3.3.7 Vouchers in third sector funding

Under Tony Blair, the Government made tentative and slow progress in giving the users of mainstream public services a much greater say in where they are treated. For example, public funding was to increasingly follow the patient within the NHS. In social care too, the Government has made slow steps towards giving service users greater choice and control over their support arrangements. 'Individual Budgets' are being piloted after public consultations revealed strong support for developing models of care that place the individual at the centre and give them more choice and control over the care they receive.¹¹⁹ In the 13 local authority areas where they are being piloted, Individual Budgets are intended to enable people needing social care to secure services they need. Key features include:

- A transparent allocation of resources, giving individuals a clear cash or notional sum for them to use on their care or support package;
- A streamlined assessment process across agencies, meaning less time spent giving information;
- Bringing together a variety of streams of support and/or funding, from more than one agency;
- Giving individuals the ability to use the budget in a way that best suits their own particular requirements; and
- Support from a broker or advocate, family or friends, as the individual desires.

Relevant government departments have developed a starting model for Individual Budgets which include various income streams including council-provided social care services, the Independent Living Fund and Supporting People.

The results of the two-year pilot are not expected until April 2008. Although

119 www.dh.gov.uk/en/Policyandguidance/Healthandsocialcaretopics/Socialcare/DH_4125774

the Department of Health states that decisions on the future of the initiative cannot be taken until the results are known, it states:

‘The government is clear, however, that expansion of choice and control is the direction of travel.’¹¹⁹

Such statements are welcome. However they have to be considered alongside the Government’s poor record of delivering choice for service users. There are

indications that even the modest progress that has been made in the last ten years may be halted by a Gordon Brown premiership. Young ministers tipped for promotion are referring to calls for greater choice in public services as a ‘fetish’ and ‘obsession’.

The Group’s last report highlighted how West Country charity Amber, that serves young adults with severe and complex needs, has been unjustly punished by current funding arrangements. Despite the acknowledged success of its Tottenham House residential centre in helping a client group of ex-offenders, homeless people and addicts, Wiltshire County Council withdrew Supporting People funding in 2005 partly because an insufficient number of its clients came from the county.

This highlights a fundamental weakness of Supporting People, which provides housing-related support to hugely diverse client groups. Locally-commissioned services to relatively stable and static client groups such as the elderly and people with a disability are appropriate. However for other vulnerable groups served by Supporting People it makes little sense. Ex-homeless, people with addiction problems and ex-offenders are a transient group often leading chaotic lives. For those seeking to change for the better, there is a strong rationale for them moving to another area to make a fresh start, for example to escape the influence of particular drug dealers. Smaller local authorities may also not be able to justify finding a specialist service for socially-excluded groups on their own, yet there is little evidence of cross-border or pooled funding by local authorities to fund such services.

A relatively small number of the most vulnerable people have received particular attention from central government, most recently through the Cabinet Office’s Social Exclusion Task Force. It is important that the neediest individuals are able to receive help from the best third sector providers, irrespective of where the charity is based or where the client has come from.

For these reasons the Group proposes that the proportion of the Supporting

In the April/May 2007 YouGov survey for the Social Justice Policy Group 69% believed that people in receipt of government funded care should be able to choose who provides it

120 www.dh.gov.uk/en/Policyandguidance/Healthandsocialcaretopics/Socialcare/DH_4125774

People budget funding allocated to ex-homeless, ex-offenders and people with addiction problems be used to create a new, nationally administered funding stream to provide residential support to this client group. This funding stream would allocate an individual, transferable budget to eligible clients that would be used to access services throughout England. The budget would vary according to the needs of the individual with those assessed as most needy receiving more money. Once an assessment had been made, the service user would be issued with a budget certificate entitling them to receive a certain level of support throughout the coming six months. Individuals would be helped to identify the service most appropriate for them from approved organisations (initially existing Supporting People providers with trustmarked agencies added in due course). Once the agency accepted the referral they would receive the service user's budget certificate allowing them to receive payment in advance for the services provided.

Once the client was placed with an agency, their needs would be re-assessed after six months. With significant progress expected to have made in their journey towards independence, their lower support needs would generally require a lower level of funding subsequently. Such a system would encourage participating TSOs to move people through to work and self-reliance. There would be obvious advantages in attempting to integrate other streams of funding these clients would be entitled to - such as Learning and Skills Council money for training - into the voucher system.

Some argue that choice is an obsession of the affluent, that socially-excluded groups either are not interested or not capable of exercising choice in services. However pilots in London of mechanisms providing greater choice in healthcare showed no correlation between wealth and the take-up of choice, indicating that choice is not something that can be enjoyed by the middle classes alone. Furthermore, homelessness charity Crisis argue that choice and empowerment of the individual must be central tenets of Supporting People. It suggests that homeless people be assisted by 'Service Navigators', coordinating professionals who would work with the client to assess options, make choices and plan care.¹²¹

The Group also notes and supports the nationwide voucher scheme proposed in relationship counselling by the Family Breakdown Working Group which will be a major move forward in terms of promoting grass-roots funding of the third sector, as well as a dramatic increase in the third sector's role in that area of government policy.

The Group is also encouraged by the proposal made by Cheryl Gillan MP, Shadow Secretary of State for Wales, in January, in which a nationwide vouchers scheme was suggested to further grassroots funding of the third sector, by linking it to their volunteering popularity. Although the Group believes that the scheme as articulated is too broad to endorse formally at this stage, it warmly supports the

121 Crisis, *Creating Sustainable Communities: Crisis' Response to the ODPM consultation on 'Supporting Independence: a strategy for the Supporting People programme'*, 2006

Conservative Party's embrace of the principle of grassroots funding in this way, and trusts that this will continue into the foreseeable future.

3.3.8 Community Foundation Network funding

The nationwide network of nearly 60 community foundations has a proven track record of channelling funding from a broad range of donors to effective smaller charities. They are the largest funders of small community based groups in the country, usually donating to TSOs with turnovers of under £100,000 per year. With grant funding becoming increasingly scarce for smaller TSOs, community foundations are likely to become an enormously important source of funding for them. This multi-pronged proposal will not only generate substantial donations from individuals and businesses, but it will create a fund for the remaining six areas without a community foundation, and simultaneously enable £7.5 million of grants to be distributed to TSOs per annum in perpetuity.

Proposal

A £50 million challenge fund is proposed to boost giving by community foundations to grass-roots poverty-fighting projects, supported by a £3.3 million grant to cover development costs. On the basis of the foundations' work thus far, it can be confidently predicted that this would generate significant additional philanthropic giving through foundations. On the basis of the foundations' track record, it can be reasonably estimated that within two years this £53.3 million investment would generate a minimum of £100 million additional private sector giving, therefore £150 million in total. This would provide £7.5 million of grants per annum in perpetuity for community organisations (assuming a 5% return net of costs).

Making the challenge fund an endowment in perpetuity has several key advantages. Firstly, it is likely to take more than a year to maximise the additional funding that would be generated. Furthermore, the foundations do not have the capacity to prudently invest all the money at once. Also the ongoing management of the endowment and its role in sustaining good donor relations is likely to yield further charitable funds.

Another smaller challenge fund should be set up to establish community foundations in the six areas of the country that are currently not served by one. A small pot which communities without a foundation could apply to for funding to meet initial start up costs would help the network achieve total coverage throughout the UK.

3.3.9 Community Asset Transfer

The Government has wisely accepted the recommendation of the 2003 Conservative Party green paper *Sixty Million Citizens* that TSOs should be given more opportunities to manage or assume ownership of under-used public assets such as buildings.

In December 2006, a £30 million Community Assets Fund was announced to facilitate the transfer of management or ownership of assets from local

YESS – Youth Education Support Service

Camberwell in South East London experiences its fair share of the serious social problems common in inner cities.

In 2003, Camberwell resident Mina Mawson, who has 30 years of teaching experience, felt compelled to do something to address appalling levels of educational failure. With the help of a £2,000 start-up grant Capital Community Foundation, she founded YESS.

YESS is an alternative education centre serving young people from the local community, many of whom have been excluded from school. Students, usually aged between 15 and 18, are generally referred from local schools but Mina is currently focusing on the hard-to-reach young people who may have dropped out of the system altogether. YESS takes a holistic approach to students' development, helping them to work through emotional, behavioural and family problems whilst providing sound educational tuition. Mina and her teaching team offer intensive tutoring – often one-to-one – leading to the attainment of qualifications such as City and Guilds Key Skills and GCSEs. Most YESS students have performed consistently well, seeing staggering improvements in their grades, and many go on to university or college.

'When I was at school I was on a grade E. Now I am on grade B' said one student who had been so badly bullied at school that she truanted for six months. Such is the transformation that YESS has on children who might otherwise have continued on a dangerous cycle of deprivation. Mina and her staff recognise not only the need for stability, secure accommodation and a disciplined environment for children to flourish, but also for someone to believe in them.

authorities in England to the third sector, by offering capital to refurbish assets. The Big Lottery Fund has agreed to manage the Fund on behalf of the Office of the Third Sector, which launched a consultation on the programme, suggesting that awards should be in the £250,000 to £500,000 range. As the Directory of Social Change points out, this modest amount of funding on offer would equate to about 7-14 awards per English region. This is insufficient to fund even one award per local authority area.

Community asset transfer has received considerable attention recently. The Government's review of community management and ownership of public assets led by Barry Quirk,¹²² Chief Executive of Lewisham Council, backed greater asset transfer, and it is clear that the Government will follow this route. Whilst this is to be welcomed, the Group is concerned that the Community Assets Fund will not be financed sufficiently to achieve much impact nationwide. The Group does not share Quirk's confidence that greater education and exhortation of local authorities, combined with the modest funds provided by Government, will, on their own, produce the step-change in asset transfer that is necessary. The Government's £30 million Community Asset Fund should be doubled to help maximise opportunities for TSOs to take on assets.

There is currently also no easy process by which TSOs can apply to take over public assets they consider to be underused. A Public Request to Order Disposal allows a local TSO (or individual) to request that the relevant

122 Barry Quirk, *Making Assets Work: The Quirk Review of community management and ownership of public assets*, 2007

Secretary of State directs a local authority to dispose of an underused asset, but this scheme is little-known and is itself underused. Local councils may attempt to hold on to assets that could be put to better use by the third sector. Therefore an incoming Government should work to establish a system that enables TSOs to take the initiative in transferring assets and which gives them a fair chance to acquire them, even where there is local authority opposition.

Before legislation is drafted, it would be instructive for an incoming Government to study the strengths, weaknesses and impact of the 2003 Scottish Land Reform Act, which introduced Community Right to Buy. This gives community groups (in rural areas only) the right to register interest in an asset which thereafter they have first refusal to buy should it come up for sale.

Although the law has been too bureaucratic and burdensome to be used often, it has helped produce an important change in culture. Expectations and behaviour among local authorities and landowners have altered as community ownership is now considered a worthwhile and legitimate aspiration.

Legislation should ensure that TSOs have the right to bid to transfer assets owned by the whole range of public bodies including the Ministry of Defence and development corporations, not just local authorities as at present.

3.3.10 Community Growth Trusts

An incoming Government should explore the potential of allowing smaller TSOs with significant growth potential to apply for a proposed 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.

To maximise the third sector's potential to fight poverty, it is essential that there are opportunities for TSOs of all sizes to deliver publicly funded services. Government has a responsibility to help ensure the best smaller and medium sized TSOs expand their work as they demonstrate increasing success. This is currently being inhibited by a funding regime that exacerbates the polarisation between large and small groups. To nurture diversity and innovation in tackling our most acute social problems, it is vital that there are opportunities for local TSOs to grow into significant providers of services in their communities. The work of development trusts and individual projects such as the Bromley by Bow Centre give an exciting glimpse of what could be achieved. However the lack of replication of the Bromley by Bow model, in spite of the widespread acclaim it has received, proves that Government needs to do more to facilitate the creation of similar centres around the country.

Community Growth Trusts have the potential to enable such a flourishing. After winning CGT status, there would be a clear progression from receiving public funding to hosting small-scale services, possibly a surgery with one or

two GPs, to much larger projects, such as starting a Pioneer School.¹²³ As CGTs succeed in their early projects they would earn the right to expert assistance to

Bromley by Bow Centre

The Bromley by Bow Centre is a community-led voluntary organisation that has pioneered an integrated and innovative approach to regenerating what was a very deprived corner of east London. Working in partnership with the local community, the Centre offers over a hundred activities each week, serving over 4,000 local people. There is a GP health practice on site, local families benefit from a community day nursery, whilst older teenagers who have dropped out of mainstream education can enrol on learning programmes offering NVQs and a range of further education qualifications. For the unemployed the Centre's welfare and employment advice service provides friendly and approachable help on the path back to work.

help them graduate to a broader range of work serving more clients. CGTs would also earn increasing financial autonomy, for example in borrowing to fund expansion.

When planning services, statutory commissioning bodies would have to consult with - and invite tenders from - local CGTs. This status would also allow 'passporting' through many regulatory procedures and

checks. Statutory providers of investment capital, such as Futurebuilders, would be expected to presume in favour of applications from CGTs wherever possible. CGT status would also expedite the transfer of under-used community assets.

Creating a new legal form of third sector organisation is not to be undertaken lightly. The exact form CGTs would assume and the details of how they could avail of multiple central and local funding streams would require further work. However, the potential dividends of creating more integrated, personalised services delivered in the heart of communities by locally-led groups are enormous. Vulnerable people, who are most dependent on public services but least able to negotiate the system, could benefit hugely.

3.3.11 Tax relief

The Group has already outlined proposals above to amend the tax system so that it encourages greater charitable giving to TSOs, providing a much needed boost to vital voluntary income. Reform to Gift Aid administration so that a set percentage of individual donations are assumed to come from taxpayers will end the need for burdensome opt-in declarations to be collected, thereby reducing bureaucratic costs as well as increasing total Gift Aid revenue as TSOs will receive more of what they are entitled to. The introduction of charitable remainder trusts will prove a more tax efficient way for larger sums to be given to TSOs with relatively little cost to the Treasury. Meanwhile, an expansion to corporate social bonds, possibly with some tax relief on interest payments, could help UK businesses to increase their charitable giving through more tax efficient means. As previously stated, all these proposals will be funded by pro-

123 See Volume 3 (Education), Section 4.1.5 - Parental Empowerment

jected year-on-year increases in third sector funding and do not constitute additional spending commitments.

MORE EFFECTIVE USE OF NATIONAL LOTTERY FUNDS

The distribution of National Lottery funding to good causes should be reformed to ensure more funding reaches the third sector, particularly to smaller community TSOs and those fighting poverty. The Group is acutely aware of the dearth of lightly prescribed grant funding available for such groups tackling poverty.

NAVCA (the National Association for Voluntary and Community Action) notes that there are only two demand-led Big Lottery Fund (BIG) funding streams – Awards for All and Reaching Communities – through which smaller TSOs can apply for funding. However the £100 million available through Reaching Communities constitutes only 15% of BIG’s English programmes budget for the current year. NACVA estimates that funding applications for Reaching Communities have totalled £1.2 billion this year, exceeding the funds available by a factor of twelve.

BIG is currently committed to ensuring that ‘*no less than one-third of funding going to lightly prescribed, demand-led funding.*’¹²⁴ To help ensure a sustainable level of small grant funding for smaller TSOs, the Group believes that the proportion of demand-led BIG funding in England should increase to at least 50%. This would facilitate a significant increase in the amount of grant-funding available through Reaching Communities-type funding streams to, on 2006-7 levels, £339 million (although Reaching Communities itself is due to wind-up in 2008).

3.3.12 Fair Share Plus

Of the balance of BIG funds that would remain allocated for strategic programmes, significant resources should be made available for a new grassroots BIG funding stream, *Fair Share Plus*, modelled on the Fund’s current *Fair Share* scheme. (Individual programmes are the responsibility of BIG’s board rather than the Secretary of State.) Launched in 2002, *Fair Share* targeted 51 disadvantaged local authority areas that had not received their ‘fair share’ of lottery funding. Local communities were given expendable endowments worth £37 million. These would be invested over a ten year period by panels comprising local people and voluntary organisations to address disadvantage and improve local environments. The national network of community foundations has been used to manage the programme.

Fair Share Plus would be a £100 million programme invested in the areas identified as suffering most acutely from the five forms of poverty at the

124 Big Lottery Fund, *Strategic Plan 2006-2009*, p60

centre of the Group's work. Each area would have an expendable endowment of around £1 million to be invested over ten years in grassroots initiatives to tackle these problems. Applications from local third sector groups would be preferred. Social pathologies such as educational failure and drug abuse would be reduced and the capacity of hard-pressed communities to improve their areas significantly improved.

Funding for the significant increases in Reaching Communities-type funding and for *Fair Share Plus* would mean a re-allocation of funding within BIG after the current funding streams terminate. The creation and management of particular programmes is a matter for the Big Lottery Fund's Board. However, with a new focus on alleviating poverty from a new government, some current top-down BIG funding on community infrastructure streams might be re-allocated towards giving communities and vulnerable people more say in their future. For example, the £234 million used currently for a top-down BIG funding stream – Changing Spaces – could be reallocated, once it concludes in 2009, to provide resources for the community-led proposals made above.

All the money generated for good causes from the Lottery should be channelled through TSOs to ensure its best use and to protect the principle of additionality. Legislative measures should be implemented to this effect, to ensure that once the raid on Lottery funding for the Olympics ends in 2012, money for good causes can never be pilfered from the third sector again.

3.3.13 Further recommendations

Partnerships between big and small TSOs

The increasing trend for large and small TSOs to build strong partnerships should be championed by an incoming Government.

This should include finding various ways of incentivising partnerships between small and large TSOs. Whilst many small TSOs are cautious about entering into contracts with statutory agencies, part of the solution may lie in developing other types of relationships between large and small TSOs. As the Group's research has already shown,¹²⁵ many larger charities have built up a detailed knowledge of the strengths and weaknesses of TSOs in a local area and developed useful partnerships. This has sometimes led to sub-contracting elements of a contract to smaller, specialised partners. Those large TSOs that have built up a reputation as an 'effective commissioner' can partner with smaller voluntary agencies to provide the required service – often providing for the statutory funder an overall winning combination of financial strength, good

¹²⁵ *Breakdown Britain* interim report, Volume 6, Chapter 9, paras 29-30

management, good brand, innovation, and closeness to the communities they need to help.

Such a model has been effectively pioneered by NCH in Leicester, where it managed the Children's Fund programme. NCH received the contract from the DfES on the condition that it sub-contracted many services to smaller TSOs. This model has enabled small organisations to receive relatively small amounts of funding for work many of them would be undertaking anyway.

An incoming Government should look at ways to actively promote and support such partnerships.¹²⁶ Not only should existing effective partnerships be highlighted and congratulated, but additional funding might be provided to support the larger TSO in their capacity building role, and in the development of relationships with small, local TSOs to deliver projects. The award of more central government contracts could be made conditional on the larger TSO partnering with smaller TSOs, and in certain appropriate circumstances, the recycling and transfer of

excessive reserves in larger partners could perhaps be directed to support longer-term capacity building of their smaller partners in such arrangements.¹²⁷

Greater incentives and support for large and small TSOs to work together with a greater range of contract sizes being made available should give TSOs of all sizes a fairer chance to receive government funding (should they wish to).

3.4 Capacity building

Third sector organisations, like those in any other sector, require support to fulfil their potential. In recent years the Government has launched a series of initiatives to increase the capacity of the third sector.

“ It is often voluntary organisations who are best placed to deliver preventative work and who are able to produce the innovative ideas. Sometimes this means a local voluntary organisation such as the local Bangladeshi association, sometimes a large national charity. Crime Concern delivers our junior youth inclusion project, and Barnardos run a young carer's project. ”

NCH in Leicester

“ Your Money Matters, a money management advice programme for older people provided by local organisations in partnership with volunteers from local Barclays bank branches and Help the Aged, was launched in January 2007. This successful project illustrates the way in which large and small organisations can become partners, supported by a corporate volunteering scheme, can provide support to help some of society's most vulnerable people. ”

Daniel Pearson, Director of Community Services, Help the Aged

126 Other examples of which may be found in *Breakdown Britain* interim report, Volume 6, Chapter 9
127 See Section 3.1.6 - Further recommendations: Recycling excessive reserves

3.4.1 ChangeUp / Capacitybuilders

The ChangeUp programme was launched in 2004 with the aim of ensuring that by 2014: *'The needs of frontline voluntary and community organisations will be met by support which is available nationwide, structured for maximum efficiency, offering excellent provision which is accessible to all.'*¹²⁸

ChangeUp was to be delivered through six 'national hubs of expertise' and 130 local and regional consortia. £150 million has been committed to funding ChangeUp from 2004-8. The quango Capacitybuilders was established in April 2006 to manage ChangeUp.



Running for the Heart of Purley, supported by Croydon Voluntary Action, an excellent local third sector infrastructure organisation [Photo: Croydon Voluntary Action]

The Government's handling of ChangeUp (especially its national hubs) has been inept. The slow start of the programme was partly caused by the two year delay between launching the initiative and establishing the quango to administer it. As the independent Durning review found, the hubs were established in such a way that built-in potential conflicts of interest with their joint commissioning and delivery powers. These semi-autonomous bodies duplicated work and found it difficult to co-operate and co-ordinate. Although sector leaders and others recognise that some good work has been done through the hubs, this has been in

spite of the structure the Government created.

ChangeUp is at a critical point. The Group welcomes Capacitybuilders' decision to take a much stronger strategic leadership role across the whole ChangeUp programme, including the four new national support services that will replace the hubs (and will not have a commissioning role).

ChangeUp urgently needs to demonstrate that it is delivering value for money. A recent survey of support services for TSOs in London found that:

*'As for ChangeUp, most of those [TSOs] we asked had not even heard of its existence, still less had a view on what it might ultimately do for them. Second-tier organisations which are engaged in ChangeUp point out that...the funding made available is very small once it gets down to the level of individual boroughs.'*¹²⁹

The huge investment in ChangeUp thus far appears not to have produced significant improvements in the capacity of frontline groups. It is recommended that any incoming Government reviews the effectiveness of ChangeUp soon after taking office. The four new national support services which begin operating from April 2008 are likely to have had at least a year to prove their worth by then. It is the Group's hope that they, along with the local consortia, will have done enough to strengthen the sector by then to justify continued funding to 2014.

128 Home Office Active Communities Unit, *ChangeUp: Capacity Building and Infrastructure Framework for the Voluntary and Community Sector*, 2004, p3

129 Alison Harker and Steven Burkeman, *Building Blocks: Developing Second-Tier Support for Frontline Groups*, City Parochial Foundation, 2007, p9

3.4.2 Futurebuilders

Futurebuilders England is a government-backed fund offering support and investment to TSOs to deliver public services, created in 2004 following the Treasury's Cross Cutting Review. A combination of loans, grants and professional support are offered to build the capacity of TSOs who want to deliver public services, often for the first time. So far Futurebuilders has invested £89 million in over 209 organisations.

The Group believes Futurebuilders is fulfilling an important role, particularly for smaller and medium-sized TSOs who would not otherwise have been able to receive the capital and support to scale-up for public service delivery. Smaller groups looking to deliver correctional services under NOMS are being equipped to be ready (often frustratingly long before any funding for TSOs comes on-stream). Large TSOs have also received valuable support to innovate, such as the help RNID received to develop a new residential mental health service for deaf people. The recent broadening of Futurebuilders' remit to support TSOs aspiring to deliver all public services is welcomed. Progress will continue to be carefully monitored, especially the proportion of loan finance it is able to recoup and reinvest, as this will be a key measure of its success.

3.4.3 Local infrastructure

Traditionally second-tier support services for the third sector have been delivered through Councils for Voluntary Service (CVSs) which have generally aspired to provide universal coverage in each local authority area. The remit of CVSs has been very broad as they have undertaken core services such as payroll facilities for TSOs, liaison and representation with statutory bodies and forging strategic partnerships.

The City Parochial Foundation recently published an important report illustrating the problems associated with the CVS model and current patchy provision: *'They are burdened with high expectations and heavy demands. As generalist bodies with an all-encompassing brief they can quickly become overloaded.'*¹³⁰ Other difficulties identified include the problems of recruiting and retraining high calibre staff with first-hand knowledge of the problems TSOs need help with.

However there are still many examples of CVSs doing superb work. Croydon Voluntary Action provides excellent support services for TSOs and its partnership with the local authority has helped Croydon Council win Beacon Authority status for increasing service delivery by the sector. Similarly, Hackney CVS was found by the City Parochial Foundation to provide invaluable support to small groups in areas such as applying for funding and budgeting, as well as top-class training.

130 Ibid, p17

NAVCA (the umbrella body for local voluntary and community sector infrastructure in England) has introduced an externally audited Quality Award to ensure consistent high standards among its members. This is a very welcome development that has great potential to drive-up standards. Local authorities and other funders would be well advised to provide incentives for the adoption of this standard to second-tier organisations (STOs) in their area.

To ensure the future viability of CVSs and other STOs, the City Parochial Foundation proposes – and the Group agrees – that they should be supported to earn income through the selling of many of their services to frontline groups. This would have to be accompanied by a gradual shift towards capacity-building funding being directed to frontline groups rather than STOs. Frontline groups could then increasingly purchase the help they need from whatever organisations are best able to provide it. Although STOs would still always need some grant income for advocacy and other work, their reliance on it would reduce, allowing them more security and freedom. Another significant advantage is that it would reduce conflicts of interest whereby STOs often currently compete for the same funding as the frontline groups they exist to support.

3.5 Faith based organisations

Many of the most effective poverty-fighting TSOs are motivated by their religious beliefs, yet there is increasing evidence that statutory commissioners today have an institutional bias against funding faith based organisations to care for the vulnerable.

Value of faith based organisations

The Christian roots of most social action and reform in Britain are well known. However in an increasingly secular nation it is worth being reminded of them: Wilberforce's crucial role in the abolition of the slave trade and the 'reformation of society'; Elizabeth Fry's pioneering of prison reform; Florence Nightingale's establishment of effective nursing systems in hospitals; Dr Barnardo's Children's Homes; the Earl of Shaftesbury's Factory Reform and Children's Employment reforms; and Dame Cicely Saunders' pioneering of the hospice movement are all examples of religious faith in action.

Today, many of the poverty-fighting charities that were originally religious have been secularised: Barnardo's and the Children's Society are two examples. However faith groups still undertake a vast and disproportionate amount of poverty-fighting and caring for the most vulnerable. The Group has been inspired by the first-class work of numerous faith based organisations (FBOs) around the country.

Examples include young evangelicals who have committed to living and working in some of the most disadvantaged parts of Bristol, London and Manchester, often producing sustained reductions in crime through their

youth work. Jewish charities such as Norwood and the Langdon Foundation help young people with learning disabilities to fulfil their potential with excellent supported accommodation and opportunities to work. Charities such as Mushkil Aasaan in London are one of many Muslim agencies providing vital services to the disabled and other groups in our major cities. Many of the most renowned homelessness agencies are rooted in the Roman Catholic Church.

There are 22,000 FBOs working across England and Wales.¹³¹ People of faith are much more likely to volunteer than the general population. Government figures show that 57% of people practicing a religion participate in formal volunteering compared to 38% of others.¹³² Another study estimates that there are 45,000 'faith volunteers' in the north-west of England alone.¹³³

However, the value of FBOs' work goes far beyond its sheer scale. As Simon Edwards, Chief Executive of Believe, a (secular) charity working with prolific young adult offenders, comments:

'What many of the most vulnerable need above all else is a community of supportive people. This is what faith-based groups are so good at providing.'

Many of the most damaged people find love, acceptance and a belief in their capacity to change. For example, the Group is aware of Christian hostels that, motivated by their belief in the dignity of every person and the possibility of miraculous change, work with homeless people that other agencies have given up on as hopeless cases.

Faith based groups immense contribution to the war on poverty should not be taken for granted. Yet there are increasing signs that this is exactly what is happening.

Discrimination against faith based organisations

There are numerous examples of unreasonable discrimination against FBOs serving the vulnerable. For instance:

- A charity providing holiday activities for single mothers recently had its statutory funding pulled because their grant officer noticed from their website that their work involved *'extending Christian comfort and offering prayer.'*¹³⁴
- A faith based homeless shelter was warned by Norfolk County Council that it would lose £150,000 of funding unless it stopped saying grace before meals.¹³⁵

131 HM Treasury & Cabinet Office, *The Future Role of the Third Sector in Social and Economic Regeneration: Interim Report*, 2006, p13

132 Home Office, *2003 Citizenship Survey*, 2004, p199

133 Northwest Regional Development Agency, *Faith In England's Northwest: Economic Impact Assessment*, 2005, p2

134 *The Daily Telegraph*, God help needy Christian charities, 10th February 2007

135 *The Daily Mail*, 3rd May 2005

- A voluntary Prison Fellowship programme in Dartmoor Prison, which received no government funding, was terminated by the authorities in case it offended those of other faiths. The programme had received no complaints and had been praised by prison officers as having transformed the behaviour and attitude of some previously difficult prisoners.¹³⁶
- Haringey Council told a Polish Christian Centre that they *'would have to stop singing songs about Jesus'* or have its funding cut.

Earlier this year the Church Urban Fund (CUF) was commissioned by the Cabinet Office to survey the views and concerns of FBOs around the country. Unsurprisingly, CUF found that to the groups they consulted, their basis of faith *'is important to them, and to a large degree is what drives them to do what they do. A sense of increased hostility, ignorance and fear of religion by the secular world often leave faith-based organisations feeling they should disguise or hide their distinctive faith perspective.'*¹³⁷

FBOs consulted experienced prejudice from local authorities, Local Strategic Partnerships and CVSs, the local infrastructure bodies. Key concerns of the statutory bodies included suspicions that proselytising was FBOs' overriding motivation and that they did not take equality legislation seriously.¹³⁸

These findings back-up the consultations that the Group has had with many FBOs. Increasing numbers feel that their work is not respected or valued by the state. There are particular concerns that this could lead to a decline in the relatively high rates of volunteering among people of faith, which would obviously compromise FBOs' poverty-fighting work.

3.5.1 General policy approach

The Group believes that statutory bodies must focus on effectiveness and results when deciding whether and how to fund TSOs. In doing so, effective poverty-fighting services should not be closed or curtailed simply because they are provided by FBOs. Equally, no vulnerable person should ever be compelled to receive care from an FBO. As such, the government should not discriminate either for or against faith based TSOs, but ensure a level playing field for all TSOs in the competition for public funds.

The Group proposes four steps for an incoming government to ensure a level playing field for FBOs:

3.5.2 Legislation

The Group proposes that an incoming Government helps create a level playing field nationally and locally by placing a general legislative prohibition on com-

136 *The Daily Mail*, Religious help for prisoners scrapped, 20th July 2006

137 CUF Xchange, *Xchange Summary Report*, 2007

138 *Ibid*, p8

missioning authorities discriminating for or against TSOs on the basis of their religious character, affiliation or absence of such religious character or affiliation.

The Group's common sense view is endorsed by the British public.¹³⁹ 70% agree that charities should be given funding purely on the basis of how well they help people regardless of whether they have a religious ethos. Similarly, 60% agree that problems such as drug addiction and homelessness are so serious that government should be willing to fund any group that gets good results, irrespective of any religious ethos.

This contrasts with the 36% that agree that Britain is a secular country in which taxpayers' money should not be used to fund religious organisations, and the smaller 31% that believe that religious groups cannot be trusted to give equal treatment to gay people and should consequently not receive government funding.

Discriminatory regulation

Many FBOs have contacted the Group to express their concerns about what would happen to them in the aftermath of the adoption of the Sexual Orientation Regulations (SORs). They fear that this legislation may be used to withhold funding from effective poverty-fighting projects. To ensure that Britain's vulnerable can continue to be served by FBOs that get good results, the Group recommends that an incoming Government reviews their position in the light of this and other legislation, and takes decisive action to address any systematic discrimination against them that might be unearthed.

3.5.3 Funding

The Group believes that organisations should receive direct state funds, even if they conduct religious activities, as long as such activities are optional.

Concerning indirect state funds (such as voucher systems proposed elsewhere¹⁴⁰), the Group proposes that FBOs which require user participation in religious activities be entitled to receive them, as long as there is adequate non-religious user choice in the relevant locality. No-one should ever be required to receive help from an FBO if they do not wish to.

3.5.4 Faith Standard

To bridge the gulf in understanding that exists at local level between commissioning authorities and FBOs (over issues as diverse as administrative governance to religious content), and in line with the Group's recommendations elsewhere in this report, it is recommended that FBOs wishing to access public funds seek to adopt a common minimum standard of governance. This would provide a baseline to enable FBOs to uphold the highest standards in serving clients from all backgrounds. Clear and effective guidance on how FBOs can maintain their distinctive religious ethos in a reasonable and relevant way would also be included.

139 YouGov survey for Social Justice Policy Group, April-May 2007

140 See Section 3.3.7 - Vouchers in third sector funding

To this end, government should support the current informal standard proposed by Faithworks. A joint working party should be set up between FBOs and the Local Government Association to examine appropriate minimum standards and how these could be best implemented by local statutory funders.

3.6 Strengthening the independence and vibrancy of the third sector

Problem

There is a growing consensus that the independence and vibrancy of the third sector is threatened by the nature and extent of government funding.¹⁴¹ Real terms increases in statutory funding for the sector may have been relatively modest since 2001, following massive increases in the 1990s.¹⁴² However the trend towards more controlling and inhibiting state funding continues apace, especially with fewer, larger, micro-managed public service delivery contracts.

Of course, such worries are not new – indeed Victorian philanthropists often bemoaned voluntary agencies taking state funding – but the fact that the government has recently become the sector’s biggest single funder causes specific concerns across the whole third sector. This has been charted in a number of studies and surveys,¹⁴³ culminating a recent Charity Commission survey. The new Charity Commission research¹⁴⁴ found that only 26% of charities that deliver a public service agreed that they are free to make decisions without pressure to conform to the wishes of funders. The Commission came to the worrying conclusion that *‘public service delivery is having an impact upon the independence and governance of charities.’*¹⁴⁵ The NCVO, meanwhile, has warned against a third sector that *‘may be perceived as little more than an agent of the state’*.¹⁴⁶

The reasons for concern are clear. The Charity Commission found that 67% of the largest charities (those with income over £10 million) obtain 80% or more of their income from the state. Some are known to obtain well over 90% of their income from statutory sources. Most of this will come from fee income for contracted services, but the tightly controlled way in which contracts are managed means that TSOs often find themselves doing the government’s work in the government’s way. Although government commissioning is conducted by a large number of different entities at central and local levels (mitigating the worst effects of such high dependency), the Charity Commission and others in the sector consulted by the Group must surely be right to be concerned about the dangers of growing mission creep, and a loss of diversity and innovation.¹⁴⁷ The British public appear to share this view, with 58% believing that if charities receive too much money there is a danger they will become more like government agencies.¹⁴⁸

141 *Breakdown Britain* interim report, Volume 6, Chapter 12

142 NCVO, UK *Voluntary Sector Almanac 2004*, p65

143 Julia Unwin, *Speaking Truth to Power*, The Baring Foundation, 2000; BASSAC Survey 2005

144 Charity Commission, *Stand and Deliver: The future for charities providing public services*, 2007

145 *Ibid*, p20

146 NCVO, *The future of public services: a briefing and discussion paper*, 2003, para 5.5

147 See also *Allies Not Servants*, Baring Foundation Working Paper No 1, 2006

148 YouGov survey for Social Justice Policy Group, April-May 2007

Proposals

Many of the proposals already made in this report are geared towards ensuring the independence of the sector over the long-term. These are mentioned again below:

- Increasing voluntary income for the sector through the stimulation of private charitable giving. This will be achieved through Gift Aid reform, Enhanced Gift Aid through the trustmarking website, Charitable Remainder Trusts, Corporate Social Bonds, and educational campaigns;
- Ensuring that government funding is provided in a less prescriptive and bureaucratic way;
- Giving service users and local people a greater say in which TSOs are funded, through methods such as vouchers and community asset transfer; and
- Strengthening the Compact to ensure fairer and more secure statutory funding.

“ Any public service contracts put into the hands of third sector organisations should not be micro-managed otherwise transformation cannot take place .”

A charity worker's response to the Group

Additional proposals

In addition, the Group proposes specific measures to protect the independence of the sector: a review of the effect of government funding on the independence of the sector; a greater voice for the sector within government; and support for establishing a dedicated research institute for the sector.

3.6.1 Evaluating the effect of government funding on the independence of the sector

The Group proposes that an incoming Government establishes a review to evaluate the effect of government funding on the independence of the sector, particularly in circumstances where there is growing concern amongst TSOs, and the public at large, on this issue – and where government funding of the sector will be increasing rather than decreasing. Amongst other issues, the Group recommends that the review considers whether there is merit in introducing targets to limit the overall percentage of statutory funding of individual TSOs by the state; or whether there should be instead a different type of incentives system to reduce such over-reliance; or whether, in an era of multiple state agency funding, the dangers of dominant state funding are more perceived than real.

3.6.2 Enhancing the third sector's voice in Cabinet and Parliament

The Group's interim report welcomed the Government's decision to accept Conservative Party proposals to create an Office of the Third Sector.¹⁴⁹ The Group proposes two further measures to increase support for the sector in Westminster.

149 Conservative Party, *Sixty Million Citizens: Unlocking Britain's social capital*, 2003, p21

First, as originally called for by the Conservative Party in 2003, the Group proposes that an incoming Government promotes the Minister for the Third Sector to have permanent Cabinet ranking. This would ensure a dedicated voice for the sector at the top table at a time when it will be central to the Prime Minister's vision for strengthening the country, and when its independence will need to be zealously protected.

Second, the Group proposes that the Government asks Parliament to create a new House of Commons Third Sector Select Committee. The Public Accounts Committee among others has done important work in holding the Government to account over its treatment of the third sector. However, considering the increased importance of the sector over recent years, a parliamentary committee dedicated to third sector policy, and the promotion of its values, seems long overdue.

The Group believes there is a strong argument for a Third Sector Select Committee to scrutinise the work of the Office of the Third Sector in line with other departmental select committees. However this committee will be most

effective not simply in its work as an individual select committee but especially in its liaison with other departmental select committees. A defining feature of the third sector is its work across a vast range of fields and policy areas, which are covered by other departments and departmental select committees; therefore it is most likely that a Third Sector Select Committee will spend its most productive time in 'joined-up' committees.

For example, proposals in the Mental Health Act currently before Parliament suggest that the third sector plays a more active role in the provision of mental health care. Therefore, when examining this policy and the practicalities of its

implementation the Health Select Committee would benefit from joint meetings with a Third Sector Select Committee. A joint report on this area would be much more useful than two separate reports where information might be duplicated or inadvertently omitted. Joined-up and comprehensive scrutiny is clearly a valuable and achievable goal.

3.6.3 Establishing a dedicated third sector institute

Despite the third sector's rapidly increasing profile and importance in public policy, a sufficient evidence-base for policy-making on many third sector issues is still lacking. There are many high-quality evaluations of individual TSOs' work, and the NCVO stands out for its exceptional contribution in assessing the state of the sector through its annual Almanac and other publications. Nonetheless, the NCVO is of course unable to do all the work it and others consider necessary on matters such as the impact of increased public service delivery on the sector.

For these reasons, the Group fully endorses and supports the call from NCVO and New Philanthropy Capital (NPC) to establish a third sector equivalent of the Institute for Fiscal Studies.



Service users at Amber, a residential centre in Devon helping recovering addicts and ex-homeless people.

Among the research the institute should prioritise is an extensive mapping exercise to establish a detailed picture of state funding of the sector.¹⁵⁰ How much funding is provided by central government departments, local authorities and other public bodies? How many arms of the state do TSOs working in different fields typically have to deal with? Could application, monitoring and reporting procedures be simplified and streamlined?

Government should support the new institute with funding (again from projected increases in statutory support for the sector). However the Group believes that to help protect the independence of the new body, a maximum of half its funding should come from statutory sources. Support for the initiative by NPC and the wealthy givers it serves is encouraging and demonstrates that the institute's work should be enormously helpful to both private and public funders.

3.7 Social enterprise zones

The Group believes that social enterprise has a vital and increasing role to play in the fight against poverty in the UK, and the building of broader social capital. A social enterprise is, to quote the Department of Trade and Industry, 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.'

Britain's social enterprises include famous examples such as The Big Issue and Jamie Oliver's Fifteen restaurants, as well as around 55,000 other businesses committed to effective social change. Such organisations have a crucial role to play in alleviating economic dependency and many of the other social problems identified by the Social Justice Policy Group.

The Group warmly welcomes David Cameron's commitment to the social enterprise, and specifically his intention to establish Social Enterprise Zones. To this end, the Group also welcomes the separate and detailed proposals on Social Enterprise Zones that the Conservative Party are to publish in due course. The Group anticipates these proposals being taken forward by an incoming Government to enhance and embed strong social enterprises in the fight against poverty.

¹⁵⁰ Despite the Group's call for such an exercise in its interim report, the Office of the Third Sector has made no moves in this direction. See *Breakdown Britain* interim report, Volume 6, Chapter 12, Para 18.

Section 4

Specific third sector programmes in the Social Justice Policy Group's five key areas

In addition to the measures outlined above, the Social Justice Policy Group has developed other proposals that will strengthen the work of the third sector in tackling specific social problems in its five key areas, and has detailed policies to this effect in each of its other volumes. These are summarised below:

4.1 Family breakdown

Relationship education invitation scheme

The third sector plays a crucial role both in preventing family breakdown and mitigating its damaging effects. Several measures involving the third sector are proposed by the Group to strengthen families and prevent breakdown. The creation of a new Marriage and Relationship Institute (MRI) will champion TSOs working in this field, and they will be central to the proposed relationship education invitation scheme. This initiative will equip a broad range of relationships and families: parents and newlyweds; parents at key life stages; lone parents; prisoners and their families; military families; and families with disabled children or children in care. An estimated £166 million will be invested annually in the third sector through the scheme, supporting 800,000 families. It is anticipated that annual savings in reduced family breakdown worth £500 million a year will be achieved.

Relationship education in schools

It is also proposed that TSOs working in this field are offered greater encouragement to get involved with relationship education in schools during PHSE classes. Family and relationship issues are difficult areas for teachers to deal with, so both schools and pupils will benefit from specialist TSO input here.

4.2 Economic dependency

Local employment consortia

For people affected by economic dependency and worklessness, the third sector's tailored approach in this area can provide routes out. The Group envisions the third sector playing a key role in local consortia, delivering welfare-to-work programmes that build on its proven success in enabling people to secure – and hold down – jobs. To ensure that TSOs (as well as private sector organisations) are able to fulfil their potential to help people, there must be a level playing field for all, so that the procurement process allows TSOs to compete fairly against private and statutory providers. Contracts should be for a minimum of three years – it is vital for the sustainability of TSOs' work that this key Compact principle is entrenched as currently contracts are typically much shorter in this field.

Local commissioning

The Group proposes that Government should pilot the devolution of decision-making and contracting to employment consortia in a cross-section of areas, so that services can be tailored to particular local needs. Such a model would curtail centralised decision-making by the Department for Work and Pensions in order to ensure better co-ordination of local spending and services. These local commissioning bodies should offer some payment in advance so that risk factors do not prevent smaller TSOs competing for contracts. The Group also anticipates that commissioning bodies will work with the local third sector to develop a framework for community projects.

4.3 Educational failure

Home-school support

The important and unique role that TSOs can play in alleviating many of the troubles afflicting failing schools should be recognised. The Group believes that there should be full-time home-school support champions in disadvantaged schools, who would build a link between parents and schools and encourage parents to support their child's educational development. These champions would be provided by the third sector. One such TSO that provides a model of good practice is the School Home Support Service, which charges schools a fee for a trained school home support worker to liaise with pupils, parents and the school. Funding for qualifying schools should include a ring-fenced five-year grant to facilitate the expansion of home-school support.

'Be a credit to your child' course

Offering parents tailored help to equip them in supporting their child's education has great value. The Group notes various models of good practice across the third sector and recommends they be integrated into school-home support links. The cultivation of relationships between TSOs and schools is

vital, and will allow the commissioning of programme delivery to TSOs where appropriate.

Parental choice

It is proposed to pilot a credit scheme that will enable disadvantaged students (and some of those who are struggling at school) to access a discretionary fund to procure educationally enhancing services. This will be developed through a dialogue of parent, child and teacher who will choose between a portfolio of services available, provided in part by trustmarked TSOs.

Pupil Referral Units

Some Local Education Authority funding allocated for educating permanently excluded pupils should henceforth be controlled by headteachers who may be able to engage TSOs in early intervention for pupils on the verge of exclusion. TSO-run remedial units should be able to tender for alternative education provision for excluded pupils.

4.4 Addictions

'Second Chance' Unit

In helping people with drug and alcohol addictions, TSOs have pioneered effective treatment methods, whilst government has consistently fallen short. The Group calls for a central role for TSOs in directing policy in a 'Second Chance' unit, based in the Cabinet Office. This will ensure that the responsibility for funding and treatment lies outside of the unhelpful remit and targets of the Home Office, which focus not on the recovery of the addict but rather the reduction of drug related crime.

Smaller TSOs' abstinence based work

The Group further highlights the necessity of quality assured small TSOs providing abstinence based treatment. The trustmarking of such TSOs by the proposed website will greatly help facilitate such an increase. Furthermore the Group recommends incentives for larger TSOs to expand their provision of abstinence based programme beds. The block booking of beds within facilities should be encouraged to ensure resources are fully maximised.

It is clear that many of the larger TSOs receive the overwhelming majority of their funding from government sources, putting their independence in jeopardy. Not only does this stifle smaller organisations, but it can inhibit effectiveness. If the focus is on numbers 'in treatment' rather than properly defined outcomes, the addict loses out. The Group believes this should be addressed partly through greater support for the many smaller TSOs which receive no government funding yet often produce the most positive outcomes for clients.

TSOs in prisons

The Group calls for an enhanced role for TSOs helping prisoners with addic-

tions. Particular recommendations include an overall monitoring of the desperate state of treatment provision throughout the prison estate, the expansion of therapeutic wings, and more prison based alcohol and crack treatment provision.

4.5 Serious personal debt

Strengthening credit unions

Credit unions provide many of society's most vulnerable and excluded people with excellent saving and borrowing services. Other third sector work is done by providing low cost credit to low income borrowers through CDFIs and Community Banking Partnerships. However, the growth of credit unions has the strongest potential to help significantly alleviate levels of serious personal debt among the most vulnerable. Government could do a lot more to help credit unions by following the excellent model provided by legislation recently passed in New Zealand.

Greater and more equal funding

Funding from central and local government to TSOs providing debt advice should be distributed more equitably between a variety of advice organisations, according to the contribution they make in an area. The Group is aware that often it is the small, community focused TSOs that make the biggest impact in their community. Therefore, the funding regime should be reformed to direct available funding more effectively to a range of service providers.

Maintaining low level regulation

Smaller TSOs can often offer more personal, community based services, which are vital to people at crisis point and especially those who are socially and financially excluded. Nevertheless, it is often these groups which suffer most at the hands of excessive regulation. The Group believes that unnecessary regulatory demands should not be placed on debt advice agencies and in particular the smaller ones must be protected from any attempts to impose additional bureaucratic burdens on them.

TSO provision of financial education

The Group believes that effective and practical financial education is vital to help empower the next generation to manage their finances sustainably. The Group therefore recommends that money education forms part of the core post-14 curriculum. However, in order for financial education to be effective it must be provided in an inventive and engaging way. Thus an increase in TSO involvement in money education is to be encouraged both inside schools and in the wider community.

Section 5

Conclusion

In the course of researching and writing this report, the Third Sector Working Group has met with numerous individuals and organisations successfully tackling Britain's most intractable social problems. From FARE, a small community group serving the vulnerable in Glasgow's Easterhouse estate, to Leonard Cheshire, a national charity providing support and assistance to disabled people across the country, we have been struck by the expertise, dedication and effectiveness of Britain's third sector poverty-fighters. Their work is truly life-changing: preventing families from breaking apart; helping people overcome drug and alcohol addictions; assisting the long-term unemployed; reversing failed education; working to avoid crippling personal debt; and much more. In short, they effectively tackle both the causes and consequences of poverty.

Inspired by these poverty-fighters, the Group has presented policies that will strengthen both the third sector as a whole, and poverty-fighting groups in particular.

It is now time for a renaissance of the third sector, in which its values of innovation, commitment, flexibility and independence are allowed to thrive in order to provide the greatest help for Britain's vulnerable. A thriving third sector, built on a platform of growing social responsibility and social capital across the nation, will ensure that Britain's poverty-fighters flourish, and that Britain truly becomes a nation of second chances for its most disadvantaged citizens.

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