



Unleashing charities to build a better society

**Charity Finance Group
General Election 2017**

Charities must recognise their strengths in this campaign

It has only been two years since the last General Election but already the environment for charities has changed substantially. A new government has been put in place and the Brexit referendum has put Britain on a course to leave the European Union.

Charities enter this election knowing that they are not likely to feature heavily in the thoughts of most of the politicians that are campaigning for votes. However, if politicians want to deliver on their promises to heal a divided nation, reduce inequality and build a better society they will need to have a strong charity sector.

Charities are still in a fundamentally strong position.

In terms of trust and confidence, charities are still more trusted than most politicians. So on the campaign trail, and particularly locally, politicians will want to listen to charities and their supporters. This gives charities an opportunity to advocate on behalf of their beneficiaries.

On the policy agenda, politicians will want to demonstrate a strong grasp of domestic issues. Although people will talk a lot about Brexit, it is only really important to the extent that it can be used to change people's lives for the better. Charities are working across all the key areas including health and social care, international aid, employment support and education. Politicians will need to work with the sector if they want to be able to effectively deliver their agenda.

There is a risk that charities will ignore this strong position, and this election will become a traditional conversation between the sector and the government where the sector offers ideas and support for various policy agendas, but receives little in return.

However in this election charities must negotiate the support that they need in order to do their work effectively. Charities have seen their costs increase steadily over recent years with increases in the National Living Wage, Business Rates, Apprenticeships Levy and Insurance Premium Tax as well as the continuing burden of irrecoverable VAT.

We have seen in a number of areas policies announced which have not properly taken into account the impact on the sector, whether proposals to charge probate fees on estates or asking charity trading subsidiaries to file quarterly accounts. These proposals risked costing millions of pounds and drawing charitable resources away from the frontline.

It is important that charity finance professionals make their policy colleagues understand these pressures and ask politicians to address them during the campaign.

CFG will be making the case to all political parties that they need to put forward plans that will reduce the cost burdens on charities and ensure that they can devote more of their income towards helping their beneficiaries. **Strong charities are just as important to beneficiaries as wider policy change.** Charities must make the most of this election to push these issues further up the agenda.

We will be regularly communicating with members to let you know what you can do to help make the operating environment for charities better.

The aim of this briefing is to help members understand the proposals CFG will be putting forward and the arguments that we will be making to politicians over the coming weeks.

We ask members to share this with their colleagues in policy, campaigns and communications teams.

Three ways that parties should think about charities

Charity policy can be complex and politicians are unlikely to know the ins and outs of how charities work. This is why CFG will be using three simple messages to put the needs of charities across to them over the course of the coming weeks. You can read more detail about our proposals, below.

Charities won't ask, but they do need it support

Charities are focused on their beneficiaries and rightly so, but they also need help if they are going to do their work effectively. In the same way that all parties recognise the need to help businesses so that they can deliver jobs and prosperity, so charities need help if they are going to be able to effectively serve their beneficiaries.

Every survey of charities shows that there is growing demand for their services as state provision has reduced.

A supportive tax system which maximises money given to good causes; better use of public funds through grants; a well-funded regulator and a Brexit which doesn't hamper charities' work are the best ways for politicians to help charities to meet increasing demand.

Charities won't ask for help, because they want politicians to focus on the need of their beneficiaries, but that doesn't mean that they don't need it.

Think business, think charity

Politicians often think about businesses and many policies are put forward to stimulate growth and jobs. But all too often, policies are put forward which disadvantage charities because they do not take account of their needs or opportunities are missed because they are not considered in the opening stages of policies being developed.

This can lead to poor policy decisions (such as the Apprenticeships Levy which will see millions leave the sector to subsidise training in private businesses) ; more red tape (such as charity trading subsidiaries being asked to report quarterly for tax purposes even though they don't pay tax) and increased costs.

Charities are subject to government rules and regulations, just like businesses, politicians need to think about the impact of their decisions on charities just as they would any other business.

Brexit is an opportunity to build a stronger society

Britain is leaving the European Union, but there are opportunities for the government to use Brexit to help communities across the country through supporting the charity sector.

Reforming VAT rules, making State Aid work properly rather than stifle innovation and strengthening the Social Value Act so that we make the most out of public money for service delivery could unlock billions to help Britain make a success of Brexit.

Brexit shouldn't just be about trade, it should be using newly regained powers to help charities build a better society.

How can the next government improve the operating environment for charities?

During the last election, we consulted with members about their priorities. Since then, we have regularly engaged with members to understand the pressures facing them and how policy makers could make these organisations more effective.

We believe that these measures fall into four overall categories:

- Tax reform
- Better use of grants
- Increasing funding for the Charity Commission
- Ensuring Brexit does not make it harder for charities to help their beneficiaries

Tax reform

In 2016, CFG published its [tax plan](#) ahead of the Autumn Statement to give the government a range of reforms that they could undertake which would free up more resources to support good causes.

These measures were costed, with clear rationales and assessments made of their potential impact. Overall, if all these measures were introduced, we estimate that charities would have £2bn more per year to spend on supporting their beneficiaries by 2020.

Key proposals include:

- Increasing mandatory business rate relief to 100%;
- Introducing sector-wider rebates for irrecoverable VAT and replacing existing VAT exemptions with zero-rates;
- Giving higher rate taxpayers the opportunity to give all their Gift Aid to the charity;
- Radical reform to the Gift Aid Small Donations Scheme;
- Exempt charities from the Insurance Premium Tax.

Reforming charity taxes is the quickest and most effective way to unlock billions to support communities across the country.

Better use of grants

For charities with an income of under £1m, grants remain one of the most effective ways to fund their work. This has been recently recognised in the House of Lords Select Committee on Charities [report](#).

CFG is part of the Grants for Good campaign, which brings together membership bodies, foundations and charity infrastructure to advocate for better grant making in the public sector.

Grants are effective because:

- They are more adaptable than other forms of funding;
- They support innovation because they are less prescriptive than contracts;
- They save time, effort and resources compared to contract tendering;
- They help to sustain services and support communities;
- They empower people because they are open to smaller groups.

Unless trends change, there is a very real possibility that grants will disappear as a method of public funding by the 2020s. They are likely to be replaced by more expensive and less effective methods such as Payment by Results. If governments want to support a diverse and effective sector, they need to make sure that grants are a part of the mix.

This isn't about more funding, it is about better funding.

Increasing funding for the Charity Commission

Charities have come under increased public scrutiny, but many members are concerned about the ability of the Charity Commission to deliver its remit given the significant budget cuts that it faces.

CFG [commissioned research](#) by the University of Kent indicates that one of the drivers of public trust and confidence in charities is an understanding that the charity sector is effectively regulated. Yet cuts have put at risk the Charity Commission's core functions, particularly its ability to provide advice and support to trustees. There is certainly no resource to publicise the system that regulates charities to the public and improve trust and confidence in the sector.

Although charging charities has been put on the table, this carries significant risks and will add to the cost pressures facing the sector at a time when it is being asked to do more.

All governments say that they value the work of charities, it is time for them to put their money with their mouth is and properly fund the charity regulator.

Ensuring Brexit does not make it harder for charities to do their work

Britain has voted to leave the European Union, but it has not voted to make it harder for charities to do their work. Brexit has opportunities for charities, but it also carries risks if governments do not take the needs of the sector seriously. CFG has been working with members and the government to make sure that they are aware of these risks, but with Brexit likely to be a big topic of debate, politicians need to commit to making sure that Brexit does not make it harder for charities to do their work.

The next government can ensure a 'charity-friendly' Brexit by:

- Reforming VAT rules to reduce the burden of irrecoverable VAT and not trading these powers away for trade access;
- Replacing lost EU funds with new funds so that charities are able to keep helping those in need;
- Reforming State Aid rules so that they stop unfair competition, not tying up charities with red tape;
- Keeping public service regulations (such as the Social Value Act) which put environmental, social and economic factors as part of the bidding process;
- Building an immigration system that does not prevent charities from accessing the talent that they need to do their work effectively.

Brexit means Brexit, but it doesn't mean making it harder for charities to do their work. All politicians should agree to a Brexit which does not disadvantage the charity sector.