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10 September 2021

The Rt. Hon. Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

This Budget and Spending Review comes at a central time for the UK. There are tough decisions which must be made this autumn to secure a sustainable recovery and manage the public finances prudently. This will significantly impact the UK's social sector, which has a critical role to play in almost every item on the government's agenda.

The social sector makes a huge contribution to the UK economy. As an employer of over 900,000 people, it disproportionately provides opportunities to those furthest from the labour market such as young and disabled people. As the coordinator of the efforts of 20 million volunteers, it provides crucial skills and training, as well as advice and support services to get people into work. As the provider of significant services across the country, it saves the public purse tens of billions of pounds each year, promotes employment and generates stronger, fairer growth. Official figures put the value of the social sector at around 1% of UK GDP. But data from other advanced economies suggest the total is likely to be at least 5%, while work by Andy Haldane estimates that the UK total may be as high as 10% of GDP.

Throughout the pandemic, the people who work and volunteer in this sector have proven just how vital it is for a nation to have a thriving civil society ready to act in a crisis, and to deliver government initiatives like the vaccination campaign in a rapid and cost-effective manner. Social sector organisations have responded to the challenges of Covid with resilience, agility and determination.

The Law Family Commission on Civil Society is an ongoing endeavour to consider the most effective ways in which the potential of the UK's civil society can be unleashed to deliver more on every front. The Commission has been made possible by the generosity of Andrew Law. It is chaired by Lord Gus O'Donnell and led by experts including Stephan Shakespeare of YouGov, Sir Harvey McGrath of Big Society Capital and Dame Nancy Rothwell of the University of Manchester.

Given the importance of this fiscal event, I am writing on behalf of the Commission to share five of our emerging priorities – areas in which we believe government action could strengthen the social sector's foundations. The initial recommendations in this submission require only very modest amounts of spending to support the social sector to create more jobs, provide better opportunities and deliver greater outcomes in our communities.

1. Boosting sector productivity.
2. Increasing the level of UK philanthropic giving.
3. Investing in better data for better outcomes.
4. Incorporating wellbeing measurement into levelling up to focus action on what makes the most difference to people's lives.
5. Building a stronger relationship between government and the sector to improve policy, delivery and value for money.

More details on each of these areas for action are provided in the annex to this letter. Throughout the next year, the Commission on Civil Society will continue to work in close collaboration with government to ensure this important sector contributes even more effectively and efficiently to growth, health outcomes, employment, sustainability and more. We look forward to working with you and your team at the Treasury on these areas over the course of 2021, as the Commission builds towards its final report in late 2022.

Sincerely,

Matt Whittaker

CEO, Pro Bono Economics
Commissioner, Law Family Commission on Civil Society

1. Boosting sector productivity

The social sector generates enormous value, yet it is not operating as effectively or as innovatively as it could be. It has significant room to improve on digital adoption, on leadership and management skills, on processes and on collaboration. These challenges are long-lasting, systemic and widespread, and require policy action to improve. There is a clear incentive to do so: when productivity drags in the social sector, both economic and social output suffers.

Investment in local social sector infrastructure is part of the solution. As the government recognised through its support of the Voluntary and Community Sector Emergencies Partnership, the organisations and networks that provide support, advice, connections, and practical services to help other social sector organisations achieve more are vital. But organisations like Councils for Voluntary Services, while important, have a very broad remit which doesn't solve the key issue of productivity. Building on already successful models such as the Catapult Network, a national Civil Society Catapult Centre could identify key problems that pervade social sector organisational productivity and develop practical solutions. For example, the Civil Society Catapult Centre could design models for running shared back office functions for the small and micro charities that make up the vast majority of the sector; or co-ordinate and disseminate innovations to improve the digitisation of charitable service delivery. Similarly, the social sector would also benefit from inclusion in other national schemes aimed at boosting productivity such as Help to Grow.

But investing in national level hubs alone will not address local inequalities in the strength of civil society. Almost half of the areas that have been identified as levelling up priorities are also civil society 'voids', with lower levels of community group membership and participation. A pilot scheme investing in civil society infrastructure in a small number of levelling up priority areas could test both what works in terms developing innovative, future-facing local civil society infrastructure, while also tracking the impact and value for money of these investments. These pilots should be locally led, establishing the conditions needed to develop a healthy and active local civil society. And they should build on learning and insights from the most effective existing social sector infrastructure organisations, as well as successful national programmes like Big Local. If pilots successfully demonstrated positive value of stronger local civil society infrastructure to both the local community and the local economy, they could also provide the springboard for the development of cross-sector funding models, supported by local businesses and the local authority.

Commission recommendation	Annual exchequer cost
Create a funding pot to run three to five local civil society infrastructure pilots in levelling up priority areas with weak civil society.	£5-8 million (one off funding pot)
Create a 'Civil Society Catapult Centre' to promote productivity and innovation	£2-10 million
Expand the eligibility criteria of the Help to Grow: Digital scheme to include charities, and explore a strand of Help to Grow: Management to include the social sector	Negligible

2. Increasing the level of UK philanthropic giving

The UK is a generous nation and private philanthropy is the source of approaching £20 billion of donations each year, financing a range of activities that serve the public good. But with the right support, the UK could do even more. Donating commensurate to the USA would nearly double the UK's current giving, while catching up with New Zealand or Canada would raise an additional £5 billion each year.

Three fifths of Britons think charities and community groups will play an important role in the country's recovery from Covid. But many charities are still struggling to make up fundraising opportunities lost over the past 18 months, while also dealing with increasing demand for their services due to the economic and social impacts of the pandemic. But we believe only 0.2%-0.5% of the £250 billion excess households savings built up through the pandemic due to asset price rises and lower spending is likely to find its way to charities. Meanwhile, the UK's Gift Aid system does a relatively good job of ensuring individuals do not pay tax on money that is given away. But HMRC estimate that 25% of eligible donations do not add Gift Aid, meaning charities miss out on net £380 million of eligible Gift Aid payments each year. A failure to correctly add Gift Aid reflects the complexity of the current system, lack of understanding among donors and inconsistent opportunities to add Gift Aid.

Taking forward the policies below would communicate an intention on the part of government to support philanthropic endeavour in the UK, while sending a clear signal that the government values the contribution philanthropy will make to the UK's social and economic recovery from Covid.

Commission recommendation	Annual exchequer cost
Increase philanthropy policy capacity within government by appointing a 'Philanthropy Commissioner' with cross-departmental responsibility for co-ordinating and driving forward government policy on philanthropy, as recommended by Beacon Collaborative, and a Philanthropy Lead civil service role within HM Treasury or the Cabinet Office	£100,000-£200,000
Commit to a review of Gift Aid with an objective to reduce the value of unclaimed Gift Aid by increasing take-up among eligible donors.	Negligible

3. Investing in better data for better outcomes

At the heart of good decision-making is good data. But data about the social sector is poor. Official statistics are thin, and what does exist is hard to access, fragmented and not available in real time. That creates genuine challenges. During the pandemic, it was impossible to accurately estimate how many employees in the social sector were on furlough or being made redundant, or how many charitable organisations had paused their services and where the pressures were most acute.

The Commission has heard from civil servants across Whitehall who say that they are concerned that, even in less difficult times, their departments operate less effectively than they could due to their inability to answer relatively straightforward questions – such as how many procurement contracts their department has with non-profits vs private businesses, and which are most effective, how many charities are working on social care, or how many people are employed by the social sector in a constituency. Nations like the US, Canada, Japan and Australia are ahead of the UK in tackling this challenge for their governments, introducing satellite accounts to track the contribution of the social sector and volunteering to the economy.

Filling in the social sector's data gaps requires action from statistical organisations and the sector itself, but government also has a key role to play in coordinating, leading and funding better data so all actors can benefit. This government clearly recognises the importance of good quality, joined up data as embodied in the objectives of the National Data Strategy. The same objectives should be extended to data about the social sector. The Commission has a number of recommendations that can make a substantive difference to data on the demography, capacity, health and contribution of the sector and of volunteering.

Commission recommendation	Annual exchequer cost
Introduce a social sector and volunteering satellite account through the ONS, enabling the regular publication of statistics on the sector.	Under £250,000
Establish a social sector data standards and coordination group with sector representatives, with the development of a National Social Sector Data Strategy as part of its remit, to integrate with the government's National Data Strategy.	Negligible
Allocate budget for the Charity Commission for England and Wales to introduce digital filing of annual accounts in a machine-readable format. This could include the ability for small organisations to populate template annual reports with their data.	£1-2 million

4. Incorporating wellbeing measurement into levelling up to focus action on what makes the most difference to people's lives

The recent expansion of HMT's Green Book to include wellbeing measurement provides an opportunity for more effective government procurement. Adopting this proven methodology as an assessment criteria and measure of success for levelling up would allow government to meet both economic and social priorities of voters in local areas in its most high-profile area of policy.

The challenge of tackling the UK's engrained regional inequalities through levelling up is enormous, and it is vital that the government succeeds. Tackling differences in incomes and productivity is key to this, but the evidence is clear that these are far from the only drivers of life satisfaction among citizens. Indeed, the ONS wellbeing metrics introduced in 2010 suggest that GDP per capita is a poor predictor of life satisfaction rates at the local authority level. A better one – though still far from perfect – is the presence of social infrastructure.

The government's levelling up proposals are necessarily nuanced and varied, addressing a range of needs and local priorities. But if they are to be met with approval by voters, they need to allow for priorities beyond physical infrastructure and local GDP. To ground levelling up in what truly improves people's lives and is recognised by voters to do so, the government should make increases in wellbeing its key measure of levelling up success. The assessment criteria for existing funds which have yet to be fully rolled out – such as the Levelling Up Fund, UK Infrastructure Bank and the UK Shared Prosperity Fund – could be simply adapted to achieve this. This proven methodology is already being introduced to government procurement through the Green Book. Adopting it as an assessment criteria and measure of success for levelling up would allow government to meet both economic and social priorities of voters in local areas.

Commission recommendation	Annual exchequer cost
Integrate wellbeing measures into the assessment criteria for the Levelling Up Fund, UK Infrastructure Bank and the UK Shared Prosperity Fund, as well as any future pots for levelling up spend.	Negligible

5. Building a stronger relationship between government and the sector to improve policy, delivery and value for money

Working in partnership has been at the heart of many of the government's policy successes throughout the pandemic. Its close consultation with industry was key to the creation of the Job Retention Scheme. Its collaboration with the public sector was vital to scale up the NHS's response. Its links with all three sectors was essential to deliver the vaccine rollout. But, at present, opportunities to work in close partnership with the social sector are being missed. Very few formal mechanisms exist where government and the social sector meet to collaborate on their many shared goals.

A closer partnership between the social sector would support stronger policymaking, by allowing government to access both expertise and the communities it is working to improve the lives of, particularly those which are hard to reach. A stronger relationship also has the potential to generate better outcomes, creating greater alignment between government and the social sector, opportunities for collaboration and efficiencies. Particularly as the social sector delivers around £10 billion of public services, this is vital

The Commission has a number of recommendations that would enable the government to better harness the potential of the social sector to fulfil its goals, particularly to raise living standards, spread opportunity and restore people's pride in their communities. The most pertinent and urgent of these relate to levelling up and the allocation of departmental spending. In his speech on levelling up this summer, the Prime Minister invited input into the government's strategy but this will be important through the delivery phase of levelling up too. A committee consisting of social sector organisations, meeting regularly, would allow ministers to benefit from the sector's insights into the communities whose lives ministers are looking to improve. In a similar vein, as departments reprioritise resourcing, each one should consider allocating a civil servant to be responsible for engagement with the social sector – following the model of business engagement leads. This would ensure the social sector's insight is shared on a wide array of policy priorities.

Commission recommendation	Annual exchequer cost
Ensure each department employs a named civil servant responsible for social sector engagement.	£1-1.5 million
Invite the social sector to facilitate an advisory group to support the rollout of levelling up.	Negligible