Supporting charities to do good

Charity Finance Group

General Election 2015

Introduction

The last five years have been tough for charities across the country. Demand for services and support has increased, whilst income has been tight. The operating environment for charities has been volatile. Charities have had to cope with cuts in the public sector, significant policy changes, the long shadow of the financial crisis and variable national economic performance as well as geopolitical instability.

Despite all of this, charities have continued to focus on their mission to help others at home and around the world. Millions of people have continued to volunteer in their communities. Voluntary donations from the public have held firm, despite the significant squeeze on household income. Whether large or small, charities have showed resilience in building a better society.

However, as we now look forward to the next five years, charities still face significant headwinds.

The global economy is fragile, and this could have an impact on the UK and the work of charities. The deficit remains and all major parties have proposed continued cuts to public spending in order to balance the books. Households are still recovering from the recession and there is pressure for increased levels of transparency from all institutions.

Despite these challenges, Charity Finance Group is optimistic about the future of the sector.

Charities have always responded to difficult times with passion, innovation and dedication. We believe that if the right environment is created that charities can deliver an even bigger impact in the next five years.

At the core of this will be ensuring strong financial leadership in the sector, so that charities are able to marshal their resources effectively to deliver change. This is what Charity Finance Group seeks to do, giving our 2,300 members the support they need to do their work in managing around half of the sector’s annual income.

This document outlines our key policy recommendations for the next government and is based on the challenges that charities have encountered over the past five years.

But at its heart, we believe the overarching objective for the next government should be simple: **support charities to do good.**

Supporting charities to do good

Charity Finance Group has been consulting with our members about priorities for the General Election over the past year.

From this, we have identified **five** policies that we will be asking the next government to work with us to implement over the coming five years.

1) **Invest in a sector-led campaign to improve public awareness and understanding of Gift Aid.**

2) **Create a mechanism for charities to claim irrecoverable VAT so that more resources can be freed up to achieve charitable objectives.**

3) **Pass legislation to enable charities to avoid triggering section 75 debt if they close their pension scheme to future accruals by members.**

4) **Increase and put on a long term footing the budget of Charity Commission so that the regulator is able to fully carry out its investigations and compliance work without compromising the provision of essential guidance and support for charities and trustees in meeting charity law requirements.**

5) **Build financial capacity in the sector by ensuring that funding to improve financial management skills in charities is included in future government spending programmes for the sector.**

We believe that these policies will help to make our sector more financially sustainable, ensure that charities can direct more resources to helping their beneficiaries and reinforce public confidence in the sector.

Getting the most out of Gift Aid

Gift Aid is one of the most important tax reliefs for charities. According to HMRC, charities received just under £1.1bn in tax repayments through Gift Aid in 2013-14, with this due to increase to £1.2bn in 2014-15. This is valuable income for the sector that enables charities, large and small, to boost the impact of donations.

However, the National Audit Office estimates that around £2.3bn worth of donations are not currently being claimed for Gift Aid. Although not all unclaimed donations are eligible, donors and the sector is still losing out on hundreds of millions of pounds of tax relief every year.

Research on behalf of HMRC indicates that donors are more likely to give if they understand what Gift Aid is and how valuable it is to charities. HMRC research also indicates that investing in improving public understanding of the Gift Aid scheme would help to reduce error in claims, reducing the tax gap and saving public money.

Boosting uptake is important not only because it embodies the principle that money given for public benefit should not be taxed. It will also support charities that are seeking to generate more income through fundraising, in the midst of significant cuts in government spending with the sector.

Whilst simplification of the Gift Aid Declaration is welcome, the declaration is only one piece of the puzzle.

To have maximum impact, the government should **invest in a sector-led campaign to improve public awareness and understanding of Gift Aid.**

By the time of the election, it would have been fifteen years since the creation of the modern Gift Aid scheme. Now is the right time to promote and refresh the scheme. Government should work with the sector to update its visual identity, train trusted messengers such as volunteers and supporters to promote the scheme as well as improve understanding of Gift Aid through new social media.

This campaign should link with other existing projects such as #GivingTuesday to ensure that a new generation of donors are introduced to this important tax relief and encouraged to give.

Ending the unfairness of irrecoverable VAT

It is estimated that irrecoverable VAT costs charities up to £1.5bn a year – a figure that could rise if the next government decides to increase VAT.

The burden of irrecoverable VAT reduces the resources that charities can spend on their beneficiaries and creates an uneven playing field for charities that wish to engage in public service delivery.

The tax system should be fair to charities and resources should not be diverted from their core purpose due to complexities within a VAT system that was not designed with the unique position of charities in mind.

In Autumn Statement 2014 and Budget 2015, the government set up a refund scheme for hospices, blood bikes and search and rescue charities, proving reform is possible. This should be the start of a process to develop a sector wide rebate scheme.

The European Commission has made clear that resolving anomalies for charities is within the power of the UK Government, so despite VAT being a European issue, Westminster has the power to act.

At a time when our latest survey shows charities are facing increasing demand for their services and all politicians want charities to continue to be part of the delivery of high quality public services, we believe that the next government should begin discussions on a **refund scheme for all charities to be able to reclaim irrecoverable VAT.**

This mechanism should be created in consultation with the sector so that it takes into account the needs of all charities and is designed in a way which is simple and easy for organisations to access. The mechanism could also have a phased introduction to ensure that it does not put unreasonable pressure on the public finances.

Reforming section 75 pension debt

The financial crisis and its after effects have had a big impact on the charity sector's pension liabilities. According to the latest available data, the sector's net pension liabilities stand at around £1.5bn. However, this aggregate data masks significant liabilities for individual charities.

One of the ways that we can tackle this issue is through helping charities to take steps to reduce their long term liabilities by enabling them to close down pension schemes without crystallising remaining debt – the so called section 75 debt.

In *Navigating the Pensions Maze 2014,* over 75% of respondents to our survey said that they would consider closing their multi-employer schemes if they could avoid triggering section 75 debt.

Employers need to honour their obligations to their employees, however, the current system does not effectively achieve this and puts the long term sustainability of many employers, including charities, at risk. This is particularly true where stronger employers buy themselves out of schemes, leaving weaker organisations behind. This increases the risk that whole schemes can fail.

Moreover, unless the sector is able to get on top of its pension liabilities more income will be diverted from delivering social change towards paying off debts. This will not only have an impact on the sustainability of charities but also, potentially, the reputation of the charitable sector.

The government has begun a consultation on reforming section 75 and we shall recommend next government **pass legislation to reform section 75 so that charities can get on top of their liabilities.** This should include removing the trigger for section 75 debt when the last active member leaves a scheme and flexibility on the calculation of section 75 debts.

While legislation should not enable charities, or any other employers, to avoid meeting their pension obligations, we believe this change could prevent many charities falling into an unsustainable pensions trap.

Investing in an effective regulator

Public confidence in the charity sector is critical to its work. Our members value effective regulation and this requires an effective regulator, but over the past few years a number of incidents have raised concerns about the sector's regulation. While these are unrepresentative of the sector as a whole, we need to have a regulator that is able to prevent these incidents from occurring again.

The Charity Commission has put in place a transition plan which according to the latest NAO report has begun to deliver results. Legislation has also been introduced to give the Commission more powers to maintain public confidence.

However, it is clear that without additional resources, the Commission will struggle to monitor the sector. Moreover, as the Commission carries out more investigations, more resources will be diverted from other vital functions such as providing support and guidance for charities, which are particularly important for small organisations.

We welcome the decision by the government to provide an additional £8m to the Charity Commission over the next three years. However, the Commission's budget has been cut by over 50% since 2007/08. Whilst we accept savings are required across government, we believe that there is a clear case for reviewing the Charity Commission's budget.

In 2011/12, charities raised nearly £10bn in voluntary income from the public and businesses. This has been spent on delivering services and support to communities across the country, in many cases underpinning the work of other public services or delivering preventative interventions which save public money.

We believe that the government's spending on the Commission should be seen, therefore, as a small investment for a substantial return created through the public good delivered by charities.

We urge the next government to **increase and put on a long term footing the funding of the Charity Commission with a view to enabling it to fully carry out its investigations and compliance work without comprising important guidance and support functions for charities and trustees in meeting charity law requirements.**

A properly resourced regulator will help to maintain public confidence in the sector and ensure that charities can continue to generate income to deliver social change across our communities.

Improving the financial capabilities of charities

Questions about how the sector will generate income over the next five years are important. However, equally important is how that money is managed. This requires strong financial leadership and charities that are confident in managing their finances as well as identifying risks and challenges to their organisation.

In order to do this, charities need to have the right skills.

With squeezes in income over the past few years many charities, particularly small charities, have cut back on training and development. This threatens the long term sustainability of charities and risks income not being effectively utilised. In addition support for the smallest organisations in the form of infrastructure and community based accounting services have been undermined by local government spending cuts.

One of the most effective ways that government can support the sustainability of the sector is through improving the financial capabilities of charities, focusing on small and medium sized organisations that need the most support.

The last government created a number of programmes to support the sector such as The Transition Fund, Transforming Local Infrastructure fund and currently there is a proposed Local Sustainability Fund. However these funds have not included building up the financial skills of organisations enabling charities to better manage their resources for the future.

In Budget 2015, we welcomed the decision by the government to fund subsidised fundraising training for small charities. While raising money is important, it is also important that charities are able to manage their finances effectively.

At a time when charities need to be able to make every penny count, the next government should ensure that **building financial capacity in the sector, particularly for small and medium sized charities is included in all future government spending programmes with the sector.**

We hope that other funders will follow this lead by including funding for financial capacity building in their programmes, helping to create a virtuous circle of better financial management and a more sustainable sector.

If you would like to find out more information about these policies or Charity Finance Group's policy and public affairs work please contact Andrew O'Brien, Head of Policy & Public Affairs:

policy@cfg.org.uk
0207 871 5477